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

2018 Annual Report

We are here Just for you

Contents

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 40th meeting of the Tenth Session of the Board of Directors of the Company was held at its Shekou Training Center on 22 March 2019.The meeting was presided by Li Jianhong, Chairman of the Board of Directors. 16 out of 16 eligible Directors attended the meeting in person. 8 Supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the "Company Law of the People's Republic of China" and the "Articles of Association of China Merchants Bank Co., Ltd.".

3. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu (both being auditors of the Company) have separately reviewed the 2018 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Accounting 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 2018 of RMB75.232 billion, equivalent to RMB7.523 billion, will be allocated to the statutory surplus reserve, while 1.5% of the total amount of the risk assets, equivalent to RMB6.028 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 RMB0.94 (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 2018, 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 2018 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

CBIRC:
China Banking and Insurance Regulatory Commission

CSRC:
China Securities 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

CMB Wing Lung Bank:
CMB Wing Lung Bank Limited

CMB Wing Lung Group:
CMB 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

The year 2018 marked the 40th anniversary of China's reform and opening up. CMB was a brainchild of the reform and opening-up policy and has emerged strong in the historical development trend. Amid the changes and challenges in the internal and external business environment, CMB has maintained its strategic resolve, laid solid foundation and achieved outstanding results with its excellent business performance in regaining its past glory.

Both the customer base and profits reached a new level. As at the end of 2018, the number of retail customers of CMB reached 125 million. The total number of monthly active users (MAU) of CMB APP and CMB Life APP exceeded 81 million and the number of corporate customers exceeded 1.8 million. With the expansion of customer base, CMB continued to build a customer service ecosystem, enhanced customer experience, and realised "double-digit growth" in net operating income and net profit, with net profit exceeding RMB80 billion. The average return on equity (ROAE) attributable to ordinary shareholders of the Bank continued to increase, while assets and liabilities maintained a steady growth. At the same time, CMB actively optimised the customer structure and asset structure, strengthened risk management, and continued to realise the decrease in both non-performing loan ratio and balance of non-performing loans.

The innovation-driven development strategy was further promoted. In 2018, the Board of Directors decided to increase the allocation to our new Financial Technology Innovation Project Fund from "1% of the pre-tax profit of the previous year" to "1% of the operating income of the previous year", and enhanced the efforts in promoting the strategic plan for "building the best commercial bank in China with innovation-driven development, leading retail banking and distinguished features". Adhering to the mindset of "error tolerance and win-win", CMB promoted business agility by means of technology agility and quickened its pace of innovation. CMB established a technology-empowered Fintech innovation incubation platform, put in place an independent teamwork operation system and supported various innovation projects. It also drove forward staff composition change, and increased the talent bench in technology and data science, thereby making various breakthroughs in infrastructure and capacity building of Fintech such as artificial intelligence, big data, blockchain and cloud computing. The atmosphere of innovation in CMB became more zealous; the efficiency of innovation continued to increase; the layout of scenarios and ecology was further enriched; the perception of the technological innovation frontier became more acute.

We actively fulfilled social responsibilities and created values for various sectors of the society. In 2018, PB ratio of A Shares and H Shares of CMB continued to rank first among the major listed banks in mainland China, and continued to create value for shareholders and investors through steady growth in profits and dividends. At the same time, CMB fully supported people's needs for a better life and actively supported the national strategic emerging industries and the real economy. By fully leveraging the advantages of Fintech, CMB offered more intelligent and more inclusive financial services with more scenarios for customers and users. CMB adhered to the "people-oriented" concept, safeguarded the legitimate rights and interests of employees, and provided diversified channels for their professional development. Through enhancing their capability and quality and setting a stage to showcase their talents, we helped employees to develop and excel themselves, so as to realise mutual growth for both employees and CMB. In this regard, CMB was selected as one of the top 30 employers of the year in China by Zhaopin Limited. CMB adhered to the notion of "helping the poor heartily and helping the really poor", invested a large amount of our resources in the poverty alleviation campaign, and approved financial targeted poverty alleviation loans totalling RMB20.85 billion in 2018. In addition, CMB has been actively advocating and exploring poverty alleviation through industrial development so that poverty-stricken counties would be in a better position to lift themselves out of poverty and generate income. It can be seen that CMB has deployed both physical and mental resources for the fight against poverty.

Good corporate governance provides important backing for CMB to achieve the above performances. Facing the complicated changes in the internal and external situation, the Board of Directors has always upheld the prudent operation principles of "ensuring assets quality, efficiency first, putting risks under control and maintaining proper scale", and abided by the market-oriented systems and mechanisms. Through such forward-looking measures as strategic directing, assessment and guidance as well as resource allocation incentives, CMB took initiative to regulate business expansion, fully exposed non-performing assets, removed the blind spots and flaws in risk management, promoted the innovation-driven development strategy, and continued to increase investment in Fintech at the same time. All members of the Board of Directors have been fully dedicated to their jobs, leveraged their professional expertise and rich experience to predict the market and industry development trend, carried out specialised researches, effectively performed the duties of Directors, and effectively ensured the efficient operation and scientific decision-making process of the Board of Directors.

Li Jianhong
Chairman

"Change" is the keynote of the modern era. Looking into the future, the scope, speed and intensity of the major changes we face are unprecedented. Firstly, there have been changes in economic situation. We saw changes in what was a generally stable economic performance, some of which caused concern. Downward pressure on the economy has continued to mount; the growth of household consumption has slowed down; the growth of effective investment has been weakened; the trade friction between China and the United States has brought great uncertainties; macro risks have intensified. Secondly, there have been changes in the financial market. Long accumulated financial risks keep emerging; the financial supply side structural reform has commenced; the strict regulatory control has placed higher demand on compliance management of banks. Thirdly, there have been changes in customer needs. With the substantial penetration of mobile Internet, customers have been requesting better service efficiency and experience, and competition among financial institutions and non-financial institutions has increasingly intensified.

How to respond to the changes? By adhering to long-term strategies, seizing present opportunities, focusing on technology-driven development and embracing changes, we will stay sensitive in identifying changes, do our best to adapt to changes, and proactively pursue changes. Particularly, we will grasp the great opportunities associated with the ever-expanding application of Fintech, and focus on science and technology-driven development in order to reconstruct the operating model of CMB. Technology-driven development is not only to improve efficiency and reduce costs through the application of technology, but more importantly, to reshape the business model of the Bank through Fintech, so as to enable CMB to develop into a Fintech bank offering the best customer experience.

CMB will continue to increase investment in Fintech as a long-term strategy. Through constant investment in Fintech, we will continue to foster enthusiasm for innovation, drive breakthroughs in technological innovation, promote business model innovation through technological innovation, and promote a shift from a business model with capital as its core asset to one with technology and talent as its core asset, so as to pursue incessant improvement in the level of financial services and customer experience.

CMB will continue to improve the supporting system driven by science and technology. In terms of strategy, we will further assert the leading role of science and technology; in terms of organisation, we will further build a fittingly agile organisation; in terms of capabilities, we will further strengthen the infrastructure and capabilities of Fintech; in terms of system, we will further improve our systems and mechanisms to satisfy the needs of scientific and technological innovation; in terms of culture, we will further develop an open culture that promotes technological innovation.

CMB will always keep to the market-based incentive mechanism. To achieve technology-driven development, we must have sufficient talents for scientific and technological innovation. The competition for talents rests on the competitiveness of mechanisms. CMB will draw on the advantages of market-oriented talent management mechanism in a market-based approach, maximise the attraction and incentive for best talents, continuously optimise remuneration incentives and ensure the adequacy of incentives, so as to secure adequate talent supply for CMB to develop into a Fintech bank offering the best customer experience.

Facing the era of change, CMB has constantly made changes in tandem with variation of time and situation, whereas the only thing remained unchanged is "we are here just for you". The well-known brand slogan of "we are here just for you" reflects the original "customer-centric" mindset and philosophy of CMB. In 2019, with the strong support from varies sectors of the society, CMB will continue to forge ahead in regaining its past glory, use technology to drive the transformation of business model to make new breakthroughs for the cause of reform and opening up, so as to honour the 70th anniversary of the founding of the nation with remarkable achievements.

China Merchants Bank Co., Ltd.
Chairman

22 March 2019

President's Statement

In 2018, despite the tough market conditions, CMB overcame the effects of cyclical factors and achieved remarkable results. During the year, the Bank realised net operating income and net profit attributable to shareholders of the Bank of RMB248.444 billion and RMB80.560 billion, a year-on-year increase of 12.40% and 14.84%, respectively. Our asset quality was stable and continued to improve, while the balance of non-performing loans and the non-performing loan ratio, as well as the amount and ratio of non-performing loan formation all declined.

The driving forces behind the business performance are our continuous dedication to customer service, our belief in the Fintech transformation, and our commitment to fulfilling our social responsibilities.

In 2018, the retail business broke the three "100 million" marks, i.e. the total number of depositors and retail customers reached 100 million and 125 million, up by 17% and 18% respectively as compared with the previous year, and the total number of CMB APP and CMB Life APP users reached 148 million, representing an increase of 43%, of which monthly active users (MAU) exceeded 81 million, representing an increase of 47%[1]. The number of corporate customers exceeded 1.80 million, representing an increase of 18%. The number of newly acquired corporate depositors exceeded 400,000. The accelerated expansion of customer base is our greatest source of confidence to keep abreast with time.

As many a little makes a mickle, in 2018, the digital banking transformation moved forward in a progressive manner, from products to systems, and from businesses to organisational culture. We firmly adhered to the strategy of "mobile priority", and significantly improved the capabilities of platform empowerment, digital operation and providing digital services; we expedited the internal establishment and outward expansion of scenarios, and stepped up the construction of an ecological customer service system; we increased investment in technology infrastructure so as to promote business agility by means of technology agility. In addition, we accelerated the application of Fintech so that every part and parcel benefits from the power of technology; and we promoted the penetration of Internet culture so that the Internet mindset and values oriented by customer experience are tacitly cultivated across the whole Bank. Accelerating the digital transformation is our mighty stronghold in finding our True North.

The achievements of CMB are made possible by people from all walks of life. We are extremely grateful for this new era and remember the social responsibilities that we have committed to all the time. We sincerely developed inclusive finance, capitalised on the power of science and technology to serve the well-being of people, and benefitted more people with more affordable financial services. We carried out in-depth targeted poverty alleviation to support the development of two state-level poverty-stricken counties, namely Yongren County and Wuding County in Yunnan through education, industrial development and cultural development for the past two decades.

2018 was a year of tribute to the reform and opening up. Inheriting our innate "Shekou Gene", we reviewed the original mindset of "creating a real commercial bank for China" proposed by Mr. Yuan Geng, the founding Chairman. To commemorate the past is for the commencement of a new history. As the first commercial bank in China to promote financial reform from outside the system, at the new starting point of the new era, it is our inevitable historical mission to continue to explore the paths for the transformation of Chinese banking industry, promote supply-side financial reform with our own high-quality development, and better serve the needs of the real economy and improve the well-being of people.

At present, the world is confronted with the "most significant changes of the century". The global economic and trade patterns as well as production specialisation of industry value chains are undergoing restructuring. The relations among major countries and the international competitive landscape are being reshuffled, bringing extensive and profound effects to the market environment. As a player in a pro-cyclical industry, commercial banks have to face the very real challenges and impacts in operation and development.

Nevertheless, we are not afraid, as we believe that no matter what challenges are brought by these great changes, remaining unchanged are the nature of the banking industry as a service industry, tenet that customer is the trigger point of business activities, and the primary purpose of financial services to serve the real economy and improve people's well-being. Throughout the global history, it is not surprising that fallen or disappeared companies were often indulged in commercial opportunism, whereas those humble enterprises that stayed focused and embraced the customer-centric principle could become more competitive and stay ahead despite adversities.

Today, we are profoundly aware that the determinant of the changing industry comes from technology. With the rapid development of technologies such as mobile Internet and artificial intelligence, the new possibilities are opened up by cutting-edge technologies such as quantum communication and biotechnology. The Fourth Industrial Revolution has been commenced. Following the age of steam, the age of electricity and the age of information, mankind has entered into the age of intelligence.

1 Starting from 2018, for statistics purpose, the count of MAU makes reference to the number of users who open the Company's CMB APP instead of log in the APP and the figure of the same period of the previous year has been adjusted accordingly.

President's Statement

Whether we like it or not, technological revolution will lead to exponential growth in productivity outright, and subsequently reshape production methods and business models. The banking industry is itself a heritage of a few hundred years and has experienced many times of changes, economic cycles, trade conflicts and regulatory policies, but its business model remained unchanged. The age of electricity and the age of information have only provided banks with more efficient channels and tools. However, the new round of technological revolution may fundamentally revamp the business model of banks.

Changes have tacitly occurred. In the past decade, traditional financial institutions have witnessed the whole process of how Fintech redefined retail business. From payment to deposit, loan and wealth management, the capital market intermediary and information intermediary functions of traditional banks were significantly impacted, and a bank's role as credit intermediary is also under threat. As social development deepens from the consumer Internet to the industrial Internet, it also urged Fintech to redefine corporate finance and asset management.

In the era of significant changes, what is the future direction for the banking industry? Looking back at the history, we realised that the Chinese banking industry has experienced two stages of development. First, there was stage 1.0 of winning by size: in the golden age of rapid economic growth, deposits determined assets and size, and size in turn determined income and profit. Banks used to be highly dependent on the power of capital which led to the uncoordinated expansion of both balance sheet and sources of finance. Business models back then had low variety and were extensively managed, and the profitability and market competitions were highly homogenised. After the economy entered the "new normal" phase, the Chinese banking industry has entered into development stage 2.0 of winning by structure and quality: the profitability and market values of banks have since no longer entirely depended on asset size, whereas asset quality and income structure played more important roles. Customer and asset structure determined the quality of bank assets, and further affected profits. Internal capital generation capacity was gradually formed. Development of banks was gradually driven by the professional competence in customer service, thereby embarking on a path of intensive development and internal quality building, and commencing differentiated competitions.

Fortunately, CMB has not forgotten its initial intention of reform and has always adhered to its forward-looking strategies, allowing it to stay ahead of its peers in the banking reform. We took the lead to initiate the transformation of retail banking more than a decade ago. Since 2014, we have vigorously implemented the strategies of "Light-operation Bank" and "One Body with Two Wings". We have discarded the emphasis on asset scale, and unswervingly promoted structural adjustment. The Company has basically built up a professional customer service system and decisively switched the focus of competition from scale to quality and structure, hence, allowing it to benefit from business transformation. The transformation of CMB was essentially a reform and service upgrade driven by the needs of customers and supply side.

The history will eventually become the past, and we must charge ahead fast towards the future. The trend of technological change is pushing the Chinese banking industry into development stage 3.0 of winning by a new business model. Since 2017, based on our previous exploration, we have further promoted the supply-side financial reform and duly formulated the goal of transformation to build the best customer experience bank with Fintech as the driving engine, and started the journey to explore the new business model.

As the exploration furthered, our understandings also became clearer. In the new era, science and technology is the fundamental driving force of the supply-side financial reform. In the foreseeable future, Fintech can carry out digital transformation, intelligent upgrade and modular splitting for all businesses, operations and management of traditional banks. The stage 3.0 of banks with features of digitalisation, intelligence and openness is coming. It will completely change the existing models in service, marketing, risk control, and operation of commercial banks, expand the service boundaries, and ultimately change the growth curves of banks.

The general trend of change is irreversible. We have to switch our track without hesitation, and move towards "the 3.0 mode" at full speed. Customers and technologies are our two core themes for the future. We are well aware that in the era of mobile Internet, technology dominates business models; big data determines customer service capabilities; business logic has changed from "small and beautiful" to "big and beautiful." We can only bear the high cost of investment and high risk of technology and form a sufficient amount of valuable data with a large enough number of customers. Therefore, we will re-examine all aspects of the operation and management of the bank by focusing on customer experience and leveraging on Fintech, and fully commence the digital transformation.

Transforming from customers to users, we will redefine the objects of banking services and business mindset. We will expand our service boundaries, jump out of the customer base system with bank accounts as the core, extend our customer base system to class II and III accounts as well as APP users who do not bind their bank accounts, and make efforts to build the Internet funnel-shaped user system. Guided by user experience, we will continue to enhance the operating concept with MAU (monthly active users) as the North Star Metric, so as to drive the digital transformation of the whole Bank in all aspects, from business development to organisational system, management methods, service models, and further to mindsets, concepts, culture and values.


Tian Huiyu
President

Transforming from bank cards to APPs, we will redefine the boundaries of banking services. With the shift of customer behaviors and habits, APPs have become the main platforms for banks to interact with customers. 24 years ago, in responding to the needs of customers, CMB innovatively launched "All-in-one Card", and took the lead in eliminating bankbooks; in 2018, we once again led the trend, took the lead in realising comprehensive card-free operation in the outlets, and launched the "eliminating bank cards" campaign. Under the macro environment of the era, only by changing with our users, can we keep abreast with time, even if it means painful reforms and self-revolution. We are fully aware that a bank card is just a product, but APP is a platform that integrates the whole ecological system. Currently, 27% and 44% of the traffic of CMB APP and CMB Life APP come from non-financial services respectively. Both internal and external scenarios have achieved initial results. Our two major APPs have 15 internal scenarios, each of which has more than 10 million MAUs, and we have initially set up a user ecosystem covering subways, buses, parking lots and other convenience travel scenarios. It's just the beginning.

Transforming from trading mindset to customer journey, we will redefine banking service logic and customer experience. Trading mindset is from the business perception, whereas service journey is from the customer's perception. To become a bank offering the best customer experience, we must think from the customer's perspective, understanding and changing the product logics, service methods and interaction designs of the Bank in all processes. As such, we have attached great importance to user experience, established user experience monitoring system for both retail finance and corporate finance, perceived the customer experience in real time, given feedback and made improvement in a timely manner. We will build a powerful digital business center, and strive to empower the online customer service platform and front-line customer managers in an intelligent way to fundamentally enhance customer experience.

Transforming from centralisation to openness, we will redefine the technology base and corporate culture of the Bank. Technology provides the fundamental support for commercial banks. We are benchmarking Fintech companies to establish an open IT architecture and comprehensively enhance the research, development and application of technology-based capabilities. The foundation of Fintech is culture. We will build a fault-tolerant mechanism, support creative innovation, encourage young people to take charge, tolerate non-mainstream ideas, and strive to change the traditional bureaucracy culture in banks, so that CMB will have a lighter and simpler organisational structure.

No product is appropriate for both bullish and bearish markets, but services can. We are here just for you, and we will provide uninterrupted customised services for you at all time. 32 years ago, CMB was established because of China's reform and opening up. Today, the best way to pay tribute to the great cause of reform and opening up is to promote the supply-side financial reform and initiate the business model transformation with the self-revolution spirit and a more open attitude. Let us take the lead in exploring the stage 3.0 of the banking industry and continue the legend of CMB.

China Merchants Bank Co., Ltd.
President

22 March 2019

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: Huo Jianjun

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
Hotline for complaints on customer service: 95555-7
Hotline for consumer rights protection: +86 755 8307 7333

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: Zhao Yin You 1 (招銀優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 Offshore Preference Shares:
The Bank of New York Mellon SA/NV, Luxembourg Branch

1.1.10 Newspapers and Websites 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 for 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 Representatives: Liu Wencheng, Luo Yong
China Merchants Securities Co., Ltd.
Office Address: No. 111, Fuhua 1st Road, Futian Street Committee, Futian District, Shenzhen
Sponsor Representatives: 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 sections headed "Distribution Channels" and "Branches and Representative Offices". As at the end of the reporting period, the Company has 1,783 domestic and overseas correspondent banks in 106 countries (including China) and regions.The Company was listed on 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, CMB Corporate APP, transaction banking services and offshore business services, 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 2018, the Company took the initiative to adapt to the changes in the external and internal environment, used Fintech as the locomotive to provide "nuclear power", and endeavored to develop itself into the bank that offers the best customer experience. Over the past year, the Company has made remarkable results in business development, further consolidated its customer base and steadily improved its customer service capabilities. In 2019, the Company will closely center on the two critical points of customers and technologies to deepen the strategic transformation and promote the formation of new business models. For 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 distinguished 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 wholesale business with distinctive features, and enhancing the coordination among 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 active response to the challenge from the deceleration of economic growth. Thirdly, the Company will promote digitalisation in a comprehensive manner to build a digitalised CMB and achieve sustainable 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 operation and management level.

Build a strong strategic supporting system. Firstly, the Company will gradually adopt the lean and agile development models to realise the "dual-model developments" of IT projects, and vigorously enhance its technology-based capability. Secondly, the Company will put emphasis on both management and services, 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 and address both symptomatic and fundamental problems, 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 complete flattened, intensive and professional organisational structure for the future. Seventhly, the Company will promote the reform of operation system and process restructuring, 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.

Accelerating innovation and changes in corporate culture. With the "Shekou gene" inherited from the reform and opening up, the Company formulated a business philosophy of "we are here just for you", held onto its core values of "service, innovation and prudence", adhered to the distinct corporate culture that strived for excellence and accelerated innovation and changes in the course of its business development.

Fully empowered Fintech. The Company endeavoured to build itself into a "Digital Bank", and used Fintech as the locomotive to provide "nuclear power" for its transformation and development, so as to fully empower its business development. Through benchmarking with Fintech companies, the Company will build up the overall infrastructure for the Company's financial science and technology, establish an ecological system for the business of the Company 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.

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.

Advantageous retail finance. The retail business of the Company set an early lead in the industry and formed an 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 the proportion of net operating income, profit contribution and the proportion of high-end customers are among the best in the industry. The Company enjoys a leading advantage in its retail finance.

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 affirmed and 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, 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 for the Company to attract customers and expand market.

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 Honors and Awards

In 2018, the Company received a number of honors and awards from organisations both at home and abroad, including:

- The "Report on the Survey of Preferred Brand Names of Chinese Multimillionaires of 2018" was officially released by Hurun Rich List in January 2018 and the credit card business of the Company received the "Most Favoured Credit Card by Multimillionaires" in Hurun Rich List for 14 consecutive years.
- In the "Top 500 World Banks" released by The Banker, a UK magazine in February 2018, the Company ranked 11th worldwide with a brand value of USD16.673 billion, up by 1 place from the previous year. In July, in The Banker's list of "Top 1,000 World Banks 2018", the Company ranked 20th, up by 3 places from the previous year.
- In February 2018, in the "2018 Global Best Private Banking and Wealth Management Institutions Awards Ceremony" staged by Euromoney, the Company received the "Best Private Bank in China" for the eighth time.
- In March 2018, in the "2018 International Excellence in Retail Financial Services Awards Ceremony" organised by The Asian Banker, the Company was named the "Best Retail Bank in the Asia Pacific Region". In May, in the "2018 Future Finance Summit & Industry Achievement Awards Ceremony" organised by The Asian Banker, the Company was named the "Best Innovation Center for Financial Institutions in China" and the "Best Custodian Bank in China".
- In June 2018, in the selection campaign for the "2018 Finance Innovation Award in China" organised by The Banker in China, the Company won the "Best Financial Innovation Award". The corporate wealth management business of the Company was awarded "Top 10 Wealth Management Innovation Award", and its private banking business won the "Top 10 Family Trust Management Innovation Award". "Zhao Ying Tong (招赢通)" Internet Transaction Platform for Industry Peers" products won the "Top 10 Financial Technology Product Innovation Award" and "CMB APP 6.0" products won the "Top 10 Financial Product Innovation Award", respectively.
- In July 2018, The Company was awarded the "2017 Best Socially Responsible Financial Institution in China's Banking Industry" at the "Conference for Publication of the Corporate Social Responsibility Reports of the PRC Banking Industry for 2017 and Commendation on Social Responsibility Practices" by China Banking Association.
- In July 2018, the list of Fortune China 500 was released, with the Company ranking 38th. The Company was included in the list of Fortune Global 500 for 7 consecutive years, ranking 213th, up by 3 places from the previous year.
- In September 2018, in the "Awards of Excellence in Corporate and Investment Banking in China 2018" organised by Asiamoney, the Company won the "Best Finance Institutions and Investment Banking Business in China" award. In December, the Company was awarded "China's Leaders in Fintech: Best National Commercial Bank" in 2018 by Asiamoney.
- In November 2018, in the "2018 China Human Capital International Management Forum and China's Best Employer Awards Ceremony" hosted by Zhilian Zhaopin, the Company received two awards, namely the "2018 Best Employer of China" and "2018 Employer with the Most Female Attention of China".
- In November 2018, the Company was once again included in Component of SynTao Green Finance-Caixin ESG (Environmental, Social and Corporate Governance) 50 Index by Caixin Magazine.

Summary of Accounting Data and Financial Indicators

2.1 Key accounting data and financial indicators

Operating Results

(in millions of RMB, excluding percentages)	2018	2017	Changes +/(-)%
Net operating income[1]	248,444	221,037	12.40
Profit before tax	106,497	90,680	17.44
Net profit attributable to shareholders of the Bank	80,560	70,150	14.84

Per Share (RMB)

	2018	2017	Changes +/(-)%
Basic earnings attributable to ordinary shareholders of the Bank[2]	3.13	2.78	12.59
Diluted earnings attributable to ordinary shareholders of the Bank	3.13	2.78	12.59
Year-end net assets attributable to ordinary shareholders of the Bank	20.07	17.69	13.45

Volume Indicators

(in millions of RMB, excluding percentages)	31 December 2018	31 December 2017	Changes +/(-)%
Total assets	6,745,729	6,297,638	7.12
of which: total loans and advances to customers[3]	3,933,034	3,565,044	10.32
Total liabilities	6,202,124	5,814,246	6.67
of which: total deposits from customers[3]	4,400,674	4,064,345	8.28
Total equity attributable to shareholders of the Bank	540,118	480,210	12.48

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 in 2017, and paid dividends on the preference shares during the year. Therefore, when calculating basic earnings per share, return on average equity and net assets per share, dividends on the preference shares were 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".

(3) In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (Cai Kuai [2018] No. 36) (《關於修訂印發2018年度金融企業財務報表格式的通知》(財會〔2018〕36號)) issued by the Ministry of Finance, the interest on financial instruments accrued based on the effective interest rate method shall be included in the balance of the relevant financial instruments, and shall be reflected in the relevant items of the financial reports, and the "interest receivable" or "interest payable" item shall no longer be listed separately. The balance of "interest receivable" or "interest payable" listed in the "other assets" or "other liabilities" item is only the interest receivable or payable where the relevant financial instruments have expired but the interest has not yet been received or paid at the balance sheet date. The comparable figures for the corresponding period of 2017 may not be adjusted. Since the 2018 annual report, the Group has adjusted the financial statements and its accompanying notes in accordance with the above requirements. Unless otherwise stated, the balances of the relevant items herein and set out below do not include the above interest on financial instruments accrued based on the effective interest method.

2.2 Financial ratios

(%)	**2018**	2017	Changes
Profitability indicators			
Return on average assets attributable to shareholders of the Bank	**1.24**	1.15	Increased by 0.09 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	**16.57**	16.54	Increased by 0.03 percentage point
Net interest spread	**2.44**	2.29	Increased by 0.15 percentage point
Net interest margin	**2.57**	2.43	Increased by 0.14 percentage point
As percentage of net operating income			
– Net interest income	**64.56**	65.53	Decreased by 0.97 percentage point
– Net non-interest income	**35.44**	34.47	Increased by 0.97 percentage point
Cost-to-income ratio(1)	**31.04**	30.21	Increased by 0.83 percentage point

(%)	**31 December 2018**	31 December 2017	Changes over 2017 year-end
Capital adequacy indicators under the advanced approach			
Core Tier 1 capital adequacy ratio	**11.78**	12.06	Decreased by 0.28 percentage point
Tier 1 capital adequacy ratio	**12.62**	13.02	Decreased by 0.40 percentage point
Capital adequacy ratio(2)	**15.68**	15.48	Increased by 0.20 percentage point
Equity to total assets	**8.06**	7.68	Increased by 0.38 percentage point
Asset quality indicators			
Non-performing loan ratio	**1.36**	1.61	Decreased by 0.25 percentage point
Allowance coverage ratio of non-performing loans(3)	**358.18**	262.11	Increased by 96.07 percentage points
Allowance ratio of loans(4)	**4.88**	4.22	Increased by 0.66 percentage point

Notes: (1) Cost-to-income ratio = operating expenses/net operating income. The numerator does not include taxes and surcharges, provisions for insurance claims and the depreciation charges on fixed assets under operating lease and investment properties.

(2) As at the end of the reporting period, the Group's capital adequacy ratio, Tier 1 capital adequacy ratio and Core Tier 1 capital adequacy ratio under the weighted approach were 13.06%, 11.04% and 10.31% 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)	2018	2017	2016	2015	2014
Results for the year					
Net operating income	**248,444**	221,037	210,270	202,302	166,525
Operating expenses	**81,110**	70,431	65,148	67,957	61,413
Impairment losses	**60,837**	59,926	66,159	59,266	31,681
Profit before tax	**106,497**	90,680	78,963	75,079	73,431
Net profit attributable to shareholders of the Bank	**80,560**	70,150	62,081	57,696	55,911
(RMB)					
Per Share					
Dividend (tax inclusive)	**0.94**	0.84	0.74	0.69	0.67
Basic earnings attributable to ordinary shareholders of the Bank	**3.13**	2.78	2.46	2.29	2.22
Diluted earnings attributable to ordinary shareholders of the Bank	**3.13**	2.78	2.46	2.29	2.22
Year-end net assets attributable to ordinary shareholders of the Bank	**20.07**	17.69	15.95	14.31	12.47
(in millions of RMB)					
Year end					
Share capital	**25,220**	25,220	25,220	25,220	25,220
Total shareholders' equity	**543,605**	483,392	403,362	361,758	315,060
Total liabilities	**6,202,124**	5,814,246	5,538,949	5,113,220	4,416,769
Deposits from customers	**4,400,674**	4,064,345	3,802,049	3,571,698	3,304,438
Total assets	**6,745,729**	6,297,638	5,942,311	5,474,978	4,731,829
Total loans and advances to customers	**3,933,034**	3,565,044	3,261,681	2,824,286	2,513,919
(%)					
Key Financial Ratios					
Return on average assets attributable to shareholders of the Bank	**1.24**	1.15	1.09	1.13	1.28
Return on average equity attributable to ordinary shareholders of the Bank	**16.57**	16.54	16.27	17.09	19.28
Cost-to-income ratio	**31.04**	30.21	27.60	27.55	30.42
Non-performing loan ratio	**1.36**	1.61	1.87	1.68	1.11
Core Tier 1 capital adequacy ratio under the advanced approach	**11.78**	12.06	11.54	10.83	10.44
Tier 1 capital adequacy ratio under the advanced approach	**12.62**	13.02	11.54	10.83	10.44
Capital adequacy ratio under the advanced approach	**15.68**	15.48	13.33	12.57	12.38

Report of the Board of Directors

3.1 Analysis of overall operation

In 2018, the Group continued to implement its strategic direction of "Light-operation Bank" and the strategic positioning of "One Body with Two Wings" by carrying out various businesses in a proactive and sound manner. Our overall operation continued to improve and the dynamic and balanced development of "Quality, Efficiency and Scale" was achieved, which were reflected mainly in the following aspects:

Earnings increased steadily. In 2018, the Group realised a net profit attributable to shareholders of the Bank of RMB80.560 billion, representing a year-on-year increase of 14.84%; the net interest income was RMB160.384 billion, representing a year-on-year increase of 10.72%; the net non-interest income was RMB88.060 billion, representing a year-on-year increase of 15.59%, up by 3.67% year-on-year after eliminating the impact of implementing the new financial instrument standard[2]. The return on average asset (ROAA) and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.24% and 16.57%, up by 0.09 percentage point and 0.03 percentage point from the previous year, respectively.

The scale of assets and liabilities expanded steadily. As at the end of the reporting period, the Group's total assets amounted to RMB6,745.729 billion, representing an increase of 7.12% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB3,933.034 billion, representing an increase of 10.32% as compared with the end of the previous year. Total liabilities amounted to RMB6,202.124 billion, representing an increase of 6.67% as compared with the end of the previous year. Total deposits from customers amounted to RMB4,400.674 billion, representing an increase of 8.28% as compared with the end of the previous year.

The non-performing loans decreased and the allowance coverage ratio remained solid. As at the end of the reporting period, the Group had total non-performing loans of RMB53.605 billion, representing a decrease of RMB3.788 billion as compared with the end of the previous year. The non-performing loan ratio was 1.36%, down by 0.25 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 358.18%, representing an increase of 96.07 percentage points as compared with the end of the previous year.

3.2 Analysis of income statement

3.2.1 Financial highlights

In 2018, the Group realised a profit before tax of RMB106.497 billion, representing a year-on-year increase of 17.44%. The effective income tax rate was 24.11%, representing a year-on-year increase of 2.01 percentage points. The following table sets out the changes in major income/loss items of the Group in 2018.

(in millions of RMB)	2018	2017	Changes
Net interest income	160,384	144,852	15,532
Net fee and commission income	66,480	64,018	2,462
Other net income	20,271	11,169	9,102
Operating expenses	(81,110)	(70,431)	(10,679)
Share of profits of associates and joint ventures	1,309	998	311
Expected credit losses	(60,829)	(59,922)	(907)
Impairment losses on other assets	(8)	(4)	(4)
Profit before tax	106,497	90,680	15,817
Income tax	(25,678)	(20,042)	(5,636)
Net profit	80,819	70,638	10,181
Net profit attributable to shareholders of the Bank	80,560	70,150	10,410

2 The new financial instrument standard refer to IFRS 9 "Financial Instruments". Before the implementation of the standard, some of the financial instruments were measured at amortised cost or measured at fair value through other comprehensive income. After the implementation, the measurement attributes and accounting methods are adjusted to be measured at fair value through profit or loss. The impact on the data of revenue will be: fair value changes of the current period will affect the net non-interest income and the net operating income; the presentation of investment income will be changed from the interest income to the non-interest income, affecting the net interest income and net non-interest income structure, but will not affect the total net operating income.

3.2.2 Net operating income

In 2018, the net operating income of the Group was RMB248.444 billion, representing an increase of 12.40% as compared with the previous year. The net interest income accounted for 64.56% of the net operating income, the net non-interest income accounted for 35.44% of the net operating income, representing a year-on-year increase of 0.97 percentage point.

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

(%)	2018	2017	2016	2015	2014
Net interest income	64.56	65.53	64.01	68.01	70.38
Net fee and commission income	26.76	28.96	28.95	26.20	23.72
Other net income	8.16	5.05	6.89	5.72	5.81
Share of profits of associates and joint ventures	0.52	0.46	0.15	0.07	0.09
Total	100.00	100.00	100.00	100.00	100.00

3.2.3 Interest income

In 2018, the Group recorded an interest income of RMB270.911 billion, representing a year-on-year increase of 11.94%, or 14.57% after eliminating the impact of implementing the new financial instrument standard, mainly due to the increase in interest-earning 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 to customers continued to be the biggest component of the interest income of the Group.

Interest income from loans and advances to customers

In 2018, the interest income from loans and advances to customers of the Group was RMB196.370 billion, representing a year-on-year increase of 16.29%.

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

	2018			2017		
(in millions of RMB, except for percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,743,614	73,954	4.24	1,650,406	65,864	3.99
Retail loans	1,886,389	113,698	6.03	1,694,059	98,386	5.81
Discounted bills	195,120	8,718	4.47	164,005	4,608	2.81
Loans and advances to customers	3,825,123	196,370	5.13	3,508,470	168,858	4.81

In 2018, from the perspective of the maturity structure of loans and advances to customers of the Company, the average balance of short-term loans was RMB1,602.721 billion with the interest income amounting to RMB95.849 billion, and the average yield reached 5.98%; the average balance of medium-to-long term loans was RMB1,944.671 billion with the interest income amounting to RMB89.575 billion, and the average yield reached 4.61%. 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 2018, the interest income from investments of the Group was RMB48.267 billion, representing a year-on-year decrease of 7.25%, which was mainly attributable to the impact of implementing the new financial instrument standard. The accounting measurement of certain financial assets was adjusted to be measured at fair value through profit or loss, and the presentation of relevant income was changed from the interest income to the non-interest income. The average yield of investments was 3.77%, up by 0.14 percentage point as compared with the previous year.

Interest income from balances and placements with banks and other financial institutions

In 2018, the interest income of the Group from balances and placements with banks and other financial institutions was RMB18.313 billion, representing a year-on-year increase of 47.38%, and the average yield of balances and placements with banks and other financial institutions was 2.91%, representing a year-on-year increase of 0.20 percentage point, which was primarily attributable to the significant improvement in liquidity. The Group moderately increased the allocation of assets with banks and other financial institutions, and enhanced the structure of assets to improve the yields on placements with banks and other financial institutions.

3.2.4 Interest expense

In 2018, the interest expense of the Group was RMB110.527 billion, representing a year-on-year increase of 13.77%, which was primarily attributable to the increase in the scale of interest-bearing liabilities and the rigid increase in the cost ratio of liabilities from customers that have pushed up the interest expense of the Group.

Interest expense on deposits from customers

In 2018, the Group's interest expense on deposits from customers was RMB61.987 billion, up by 23.16% as compared with the previous year. In addition to various impacts including the increase in the scale of deposits, it was also affected by intensified interbank competition and the demand for higher return on deposits from customers, resulting in an increase in the cost ratio of deposits.

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

	2018			2017		
(in millions of RMB, except for percentages)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Deposits from corporate customers						
Demand	1,559,171	12,641	0.81	1,483,512	10,794	0.73
Time	1,242,061	34,166	2.75	1,182,334	29,089	2.46
Subtotal	2,801,232	46,807	1.67	2,665,846	39,883	1.50
Deposits from retail customers						
Demand	1,029,918	3,409	0.33	968,069	3,600	0.37
Time	438,373	11,771	2.69	331,547	6,846	2.06
Subtotal	1,468,291	15,180	1.03	1,299,616	10,446	0.80
Total	4,269,523	61,987	1.45	3,965,462	50,329	1.27

Interest expense on deposits and placements from banks and other financial institutions

In 2018, the interest expense of the Group on deposits and placements from banks and other financial institutions amounted to RMB23.028 billion, representing a year-on-year decrease of 4.60%, which was primarily due to the fact that the Group continued to optimise the liability structure, and the proportion of high cost liabilities was maintained at a reasonably controllable level.

Interest expense on debt securities issued

In 2018, the interest expense on debt securities issued of the Group amounted to RMB14.530 billion, representing a year-on-year increase of 8.14%, which was primarily attributable to the higher cost ratio of debt securities issued.

3.2.5 Net interest income

In 2018, the Group's net interest income amounted to RMB160.384 billion, representing a year-on-year increase of 10.72%, or 15.10% after eliminating the impact of implementing the new financial instrument standard.

The following table sets out the average balances of assets and liabilities, interest income/interest expense, and average yield/cost ratio 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.

	2018			2017		
(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 to customers	3,825,123	196,370	5.13	3,508,470	168,858	4.81
Investments	1,278,915	48,267	3.77	1,432,408	52,042	3.63
Balances with the central bank	510,760	7,961	1.56	566,594	8,679	1.53
Balances and placements with banks and other financial institutions	630,169	18,313	2.91	459,129	12,426	2.71
Total	6,244,967	270,911	4.34	5,966,601	242,005	4.06

(in millions of RMB, except for percentages)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	4,269,523	61,987	1.45	3,965,462	50,329	1.27
Deposits and placements from banks and other financial institutions	863,041	23,028	2.67	880,787	24,138	2.74
Debt securities issued	340,151	14,530	4.27	339,320	13,436	3.96
Borrowings from the central bank	348,093	10,982	3.15	305,886	9,250	3.02
Total	5,820,808	110,527	1.90	5,491,455	97,153	1.77
Net interest income	/	160,384	/	/	144,852	/
Net interest spread	/	/	2.44	/	/	2.29
Net interest margin	/	/	2.57	/	/	2.43

In 2018, the average yield of the interest-earning assets of the Group was 4.34%, while the average cost ratio of interest-bearing liabilities was 1.90%, representing a year-on-year increase of 28 basis points and 13 basis points respectively. The net interest spread was 2.44%, while the net interest margin was 2.57%, representing a year-on-year increase of 15 basis points and 14 basis points respectively.

The following table sets forth, for the periods indicated, the breakdown of changes in interest income and interest expense 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 rate; the changes in interest income and interest expense due to changes in both volume and interest rate have been included in the amount of changes in interest income and interest expense due to changes in volume.

	2018 compared with 2017		
	Increase (decrease) due to		Net increase
(in millions of RMB)	Volume	Interest rate	(decrease)
Interest-earning assets			
Loans and advances to customers	16,256	11,256	27,512
Investments	(5,793)	2,018	(3,775)
Balances with the central bank	(870)	152	(718)
Balances and placements with banks and other financial institutions	4,971	916	5,887
Changes in interest income	**14,564**	**14,342**	**28,906**
Interest-bearing liabilities			
Deposits from customers	4,415	7,243	11,658
Deposits and placements from banks and other financial institutions	(474)	(636)	(1,110)
Debt securities issued	35	1,059	1,094
Borrowings from the central bank	1,332	400	1,732
Changes in interest expense	**5,308**	**8,066**	**13,374**
Changes in net interest income	**9,256**	**6,276**	**15,532**

The following table sets out the average balances of assets and liabilities, interest income/interest expense and annualised average yield/cost ratio 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 2018			October to December 2018		
(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 to customers	3,910,859	50,603	5.13	3,920,319	51,661	5.23
Investments	1,280,918	12,165	3.77	1,275,105	12,004	3.73
Balances with the central bank	512,102	2,009	1.56	487,473	1,925	1.57
Balances and placements with banks and other financial institutions	690,285	4,392	2.52	654,649	4,977	3.02
Total	**6,394,164**	**69,169**	**4.29**	**6,337,546**	**70,567**	**4.42**

	July to September 2018			October to December 2018		
(in millions of RMB, except for percentages)	Average balance	Interest expense	Annualised average cost ratio (%)	Average balance	Interest expense	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	4,319,201	16,081	1.48	4,360,202	16,239	1.48
Deposits and placements from banks and other financial institutions	899,692	5,549	2.45	797,923	5,041	2.51
Debt securities issued	351,024	3,810	4.31	388,434	4,109	4.20
Borrowings from the central bank	345,820	2,769	3.18	344,161	2,766	3.19
Total	**5,915,737**	**28,209**	**1.89**	**5,890,720**	**28,155**	**1.90**
Net interest income	/	40,960	/	/	42,412	/
Net interest spread	/	/	2.40	/	/	2.52
Net interest margin	/	/	2.54	/	/	2.66

Facing the rising pressure on debt costs, the Group continued to optimise its asset and liability structure and improve its risk pricing management level. In the fourth quarter of 2018, the net interest margin of the Group was 2.66%, up by 12 basis points as compared with the third quarter of 2018, and its net interest spread was 2.52%, up by 12 basis points as compared with the third quarter of 2018. The annualised average yield of the interest-earning assets was 4.42%, up by 13 basis points as compared with the third quarter of 2018 while the annualised average cost ratio of interest-bearing liabilities was 1.90%, up by 1 basis point as compared with the third quarter of 2018.

3.2.6 Net non-interest income

In 2018, the Group recorded a net non-interest income of RMB88.060 billion, up by 15.59% from the previous year, or up by 3.67% year-on-year after eliminating the impact of implementing the new financial instrument standard. The components are as follows:

Net fee and commission income amounted to RMB66.480 billion, representing an increase of 3.85% as compared with the previous year. Among the fee and commission income, income from bank card fees increased by RMB2.716 billion or 19.38% as compared with the previous year, which was primarily attributable to the increase in intermediary business income from credit cards; income from settlement and clearing fees[3] increased by RMB1.058 billion or 11.49% as compared with the previous year calculated on the same statistical calibre, which was primarily attributable to the increase in income from e-payment; income from agency services fees increased by RMB436 million or 3.55% as compared with the previous year calculated on the same statistical calibre, which was primarily attributable to the increase in income from agency distribution of funds. The commissions from credit commitment and loan business increased by RMB435 million or 6.83% as compared with the previous year calculated on the same statistical calibre, which was mainly attributable to the increase in the fee income from financial leasing and the fee income from the domestic factoring business; commissions on trust and fiduciary activities decreased by RMB1.894 billion or 7.50% as compared with the previous year calculated on the same statistical calibre, which were mainly affected by factors such as the New Regulation on Asset Management, the decline in social financing demand and the lowered interest rate. The high-yield assets of wealth management investment decreased while the liability-side interest rates were less flexible. The asset management VAT policy was implemented, resulting a decrease in the fee income from entrusted wealth management services.

Other net non-interest income amounted to RMB21.580 billion, representing an increase of 77.37% as compared with the previous year. Among which, net investment income[4] amounted to RMB11.327 billion, representing an increase of RMB6.416 billion or 130.65% as compared with the previous year calculated on the same statistical calibre, and net gains from fair value changes amounted to RMB1.091 billion, representing an increase of RMB420 million or 62.59% as compared with the previous year calculated on the same statistical calibre. Both increases were primarily attributable to the impact of implementing the new financial instrument standard. Other net income amounted to RMB4.315 billion, representing an increase of RMB662 million or 18.12% as compared with the previous year, which was primarily attributable to the increase in the income from operating leasing business.

Among the business segments, the net non-interest income from retail finance amounted to RMB43.225 billion, representing an increase of 15.50% as compared with the previous year and accounting for 49.09% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB32.276 billion, representing an increase of 5.86% as compared with the previous year and accounting for 36.65% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB12.559 billion, representing an increase of 51.86% as compared with the previous year and accounting for 14.26% 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)	2018	2017
Fee and commission income	**73,046**	69,908
– Bank card fees	**16,727**	14,011
– Settlement and clearing fees	**10,267**	9,209
– Agency service fees	**12,723**	12,287
– Commissions from credit commitment and loan business	**6,807**	6,372
– Commissions on trust and fiduciary activities	**23,351**	25,245
– Others	**3,171**	2,784
Less: fees and commission expense	**(6,566)**	(5,890)
Net fee and commission income	**66,480**	64,018
Other net non-interest income	**21,580**	12,167
– Other net income	**20,271**	11,169
– Net gains from fair value changes	**1,091**	671
– Net investment income	**11,327**	4,911
– Exchange gain	**3,538**	1,934
– Other net operating income	**4,315**	3,653
– Share of profits of associates and joint ventures	**1,309**	998
Total net non-interest income	**88,060**	76,185

3 During the period, the Group adjusted the statistical calibre of the breakdown items of the fee and commission income, the fee related to financial leasing was adjusted from "others" to "commissions from credit commitment and loan business"; part of the fee related to cross-border financing business was adjusted from "settlement and clearing fees" to "commissions from credit commitment and loan business"; the fund management fee income of the subsidiaries was adjusted from "agency service fees" and "others" to "commissions on trust and fiduciary activities", and corresponding adjustments were made to the comparative figures of the previous year.

4 Since the beginning of the period, the Group has included the profit and loss of the precious metals transaction as a whole under the "net gains from fair value changes". The "net gains from fair value changes" and "net investment income" of the Income Statement were adjusted for the corresponding period of 2017.

3.2.7 Operating expenses

In 2018, the Group's operating expenses amounted to RMB81.110 billion, representing an increase of 15.16% as compared with the previous year. Among which, staff costs of the Group increased by 16.48% as compared with the previous year. Other general and administrative expenses increased by 19.62% as compared with the previous year. The cost-to-income ratio was 31.04%, representing an increase of 0.83 percentage point as compared with the previous year. The increase in operating expenses was primarily attributable to the following reasons. The Group increased its efforts to further support financial technology innovation, enhanced technology-based capability, and increased the investment of IT infrastructure and human resources for research and development. At the same time, in order to improve the brand image and service level of outlets, the Group focused on upgrading the hardware and software of digital outlets. In addition, by focusing on the strategic development direction of monthly active users (MAU), the Company increased the resources invested in online customer acquisition and operation. The Company's cost-to-income ratio was 31.23%, up by 0.95 percentage point as compared with the previous year.

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

(in millions of RMB)	2018	2017
Staff costs	46,025	39,512
Taxes and surcharges	2,132	2,152
Depreciation of fixed assets and investment properties	5,270	5,062
Amortisation of intangible assets	983	714
Rental expenses	4,242	4,189
Other general and administrative expenses	22,214	18,570
Allowances for insurance claims	244	232
Total	**81,110**	70,431

3.2.8 Expected credit losses

In 2018, the expected credit losses of the Group were RMB60.829 billion, representing a year-on-year increase of 1.51%.

The following table sets forth, for the periods indicated, the principal components of expected credit losses of the Group.

(in millions of RMB)	2018	2017
Loans and advances to customers	59,252	60,052
Investments	1,176	(933)
Amounts due from banks and other financial institutions	(368)	121
Expected credit losses relating to financial guarantees and loan commitments	374	N/A
Other assets	395	682
Total expected credit losses	**60,829**	59,922

Expected credit losses of loans and advances to customers were the largest component of expected credit losses. In 2018, expected credit losses of loans and advances to customers of the Group were RMB59.252 billion, representing a year-on-year decrease of 1.33%. For details of the allowances 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 the end of the reporting period, the total assets of the Group amounted to RMB6,745.729 billion, up by 7.12% from the end of the previous year, which was mainly attributable to the increase in loans and advances to customers and bond investments of the Group.

To maintain the figures comparable, the financial instruments in section "3.3.1 Assets" were still analysed on the statistical calibre excluding interest receivable, except for the table "components of the total assets of the Group", in which interest receivable calculated using the effective interest method was included as required by the Ministry of Finance.

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

	31 December 2018		31 December 2017	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	3,941,844	58.43	3,565,044	56.61
Allowances for impairment losses on loans[1]	(191,895)	(2.84)	(150,432)	(2.39)
Net loans and advances to customers	3,749,949	55.59	3,414,612	54.22
Investment securities and other financial assets[2]	1,714,490	25.42	1,602,475	25.45
Cash, precious metals and balances with the central bank	500,020	7.41	625,728	9.94
Balances with banks and other financial institutions	100,160	1.48	76,918	1.22
Placements with banks and other financial institutions and amounts held under resale agreements	512,797	7.60	407,178	6.47
Goodwill	9,954	0.15	9,954	0.16
Other assets[3]	158,359	2.35	160,773	2.54
Total assets	6,745,729	100.00	6,297,638	100.00

Notes: (1) The "allowances for impairment losses on loans" as at the end of the year include the allowances for impairment losses on loans and advances to customers measured at amortised cost and the allowances for impairment losses on interest receivable from loans and advances to customers measured at amortised cost. The allowances for impairment losses of RMB228 million were not deducted from the carrying values of the loans and advances to customers measured at fair value through other comprehensive income. For details, please refer to Note 22 to the financial statements.

(2) During the reporting period, the Group reclassified the joint venture, Hong Kong Life Insurance Limited, from "assets held for sale" under "Other assets" to "Investments in joint ventures" due to the termination of the sale transaction, and adjusted the comparative figures of the previous year accordingly. For details, please refer to Notes 26 and 67 to the financial statements.

(3) Including fixed assets, intangible assets, investment properties, deferred tax assets and other assets.

3.3.1.1 Loans and advances to customers

As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB3,933.034 billion, representing an increase of 10.32% as compared with the end of the previous year; total loans and advances to customers accounted for 58.30% of the total assets, representing an increase of 1.69 percentage points as compared with the end of the previous year. For details of the loans and advances to customers of the Group, please refer to the section headed "Analysis of Loan Quality" in this chapter.

3.3.1.2 Investment securities and other financial assets

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

The following table sets forth the components of investment securities and other financial assets of the Group by line items.

(in millions of RMB, except for percentages)	31 December 2018 Amount	31 December 2018 Percentage of the total (%)	31 December 2017 Amount	31 December 2017 Percentage of the total (%)
Investments at fair value through profit or loss	327,643	19.36	64,796	4.04
– Bond investments	132,849	7.85	64,152	4.00
– Non-standardised credit asset investments	173,988	10.28	–	–
– Others[(1)]	20,806	1.23	644	0.04
Derivative financial assets	34,220	2.02	18,916	1.18
Debt investments at fair value through other comprehensive income	414,691	24.50	N/A	N/A
Equity investments designated at fair value through other comprehensive income	4,015	0.24	N/A	N/A
Debt investments at amortised cost	903,268	53.36	N/A	N/A
– Bond investments	657,926	38.87	N/A	N/A
– Non-standardised credit asset investments	252,884	14.94	N/A	N/A
– Others	538	0.03	N/A	N/A
Less: allowances for impairment losses	(8,080)	(0.48)	N/A	N/A
Available-for-sale financial assets	N/A	N/A	383,101	23.91
Held-to-maturity investments	N/A	N/A	558,218	34.84
Investments classified as receivables	N/A	N/A	572,241	35.71
Investments in joint ventures and associates[(2)]	8,871	0.52	5,203	0.32
Total investment securities and other financial assets[(2)]	1,692,708	100.00	1,602,475	100.00

Note:

(1) Including equity investments, investments in funds, wealth management products, long position in precious metal contracts and others.

(2) During the year, the Group reclassified the joint-venture, Hong Kong Life Insurance Limited, from "assets held for sale" under "Other assets" to "Investments in joint ventures" due to the termination of the sale transaction, and adjusted the comparative figures of the previous year accordingly.

Investments at fair value through profit or loss

As at the end of the reporting period, the Group's investments at fair value through profit or loss amounted to RMB327.643 billion. The main categories were bond investments and non-standardised credit asset investments. Bond investments were made mainly to cater to the need of the Group to grasp the trading opportunities in the bond market to increase investment income. In 2018, affected by trade frictions between China and the United States, coupled with the slowdown in macro-economy growth, interest rates in the bond market fell notably, and the overall income of trading account increased substantially. By strengthening market research and adopting a radical trading strategy that matches the market situation, the Group has drastically and rapidly lengthened the duration of trading account and continuously increased the scale of investment while at the same time actively conducting range trading using long-term interest rate bonds and interest rate derivatives as well as further improving portfolio revenue. Non-standardised credit asset investments were mainly non-standardised bill investments. For details, please refer to Note 24(a) to the financial statements.

Derivative financial instruments

As at the end of the reporting period, the major categories and amount of derivative financial instruments held by the Group are indicated in the following table. For details, please refer to Note 61(f) to the financial statements.

(in millions of RMB)	31 December 2018			31 December 2017		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	4,382,713	16,150	(14,812)	2,073,724	2,249	(1,898)
Currency derivatives	1,605,849	17,630	(21,321)	1,305,784	16,345	(19,636)
Other derivatives	116,624	440	(437)	108,927	322	(323)
Total	**6,105,186**	**34,220**	**(36,570)**	3,488,435	18,916	(21,857)

In 2018, the RMB exchange rate was pegged to a basket of currencies, and its volatility was fully affected by the supply and demand of the foreign exchange market. At the same time, the bilateral volatility of the RMB exchange rate intensified, resulting in customers' higher willingness to use derivative products to avoid exchange rate risks. The Group continued to leverage on the professional advantages of derivative transactions in the financial market, vigorously expanded its derivative trading business, and actively used derivative instruments such as interest rate swaps to hedge risks. As a result, the number of customers served and the scale of transactions continued to rise.

The above table shows the nominal value and fair value of the Group's derivatives by their remaining maturity on each balance sheet date. The nominal value refers only to the amounts of the transactions that have not yet been due or completed on the balance sheet date, and does not represent the value at risk.

Debt investments at fair value through other comprehensive income

As at the end of the reporting period, the balance of debt investments at fair value through other comprehensive income of the Group amounted to RMB414.691 billion. Such investments were made mainly to cater to the need of the Group to improve business performance. During the reporting period, affected by changes in the market environment, the interest rate of the RMB bond market saw a general decline, and credit default events increased accordingly. The Group closely monitored market changes, grasped the opportunities arising from market trends, appropriately lengthened the duration of the RMB currency portfolio, timely adjusted the structure of the existing portfolio, focused on increasing treasury bonds, local bonds and other interest rate-related assets with a higher allocation value, optimised the asset allocation structure and effectively avoided credit risks. For details, please refer to Note 24(c) to the financial statements.

Equity investments designated at fair value through other comprehensive income

As at the end of the reporting period, the balance of equity investments designated at fair value through other comprehensive income of the Group amounted to RMB4.015 billion. Such investments were mainly non-trading equity investments held by the Group in the investees where the Group had no control, joint control or significant influence. For details, please refer to Note 24(d) to the financial statements.

Debt instrument investments measured at amortised cost

As at the end of the reporting period, the balance of the Group's debt investments measured at amortised cost amounted to RMB903.268 billion. Among them, the bond investments were made mainly in the bonds issued by the PRC government and policy banks. 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. For details, please refer to Note 24(b) to the financial statements.

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

(in millions of RMB)	31 December 2018	31 December 2017
Official authorities (note)	641,102	497,260
Policy banks	291,041	258,213
Commercial banks and other financial institutions	174,934	151,101
Others (note)	98,389	69,826
Total Bond investments	**1,205,466**	976,400

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

Investments in joint ventures and associates

As at the end of the reporting period, the net investments in joint ventures and associates of the Group were RMB8.871 billion, representing an increase of 70.50% as compared with the end of the previous year, which was mainly due to an increase in the investments in its joint ventures. As at the end of the reporting period, the balance of allowances for impairment losses on investments in joint ventures and associates of the Group was zero. For details, please refer to Notes 26 and 27 to the financial statements.

3.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of 2018, the Group conducted an impairment test on the goodwill arising from the acquisition of CMB WLB, China Merchants Fund and other companies and determined that provision for impairment was not necessary for the current year. As at the end of the reporting period, the Group had a balance of allowances for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

3.3.2 Liabilities

As at the end of the reporting period, the total liabilities of the Group amounted to RMB6,202.124 billion, representing an increase of 6.67% as compared with the end of the previous year, which was primarily attributable to the steady growth in deposits from customers.

To maintain the figures comparable, the financial instruments in section "3.3.2 Liabilities" were still analysed on the statistical calibre excluding interest payable, except for the table "components of the total liabilities of the Group" in which interest payable calculated using the effective interest method was included as required by the Ministry of Finance.

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

	31 December 2018		31 December 2017	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	4,427,566	71.39	4,064,345	69.90
Deposits from banks and other financial institutions	470,826	7.59	439,118	7.55
Borrowings from the central bank	405,314	6.54	414,838	7.13
Placements from banks and other financial institutions	203,950	3.29	272,734	4.69
Financial liabilities at fair value through profit or loss	44,144	0.71	26,619	0.46
Derivative financial liabilities	36,570	0.59	21,857	0.38
Amounts sold under repurchase agreements	78,141	1.26	125,620	2.16
Debt securities issued	424,926	6.85	296,477	5.10
Others (note)	110,687	1.78	152,638	2.63
Total liabilities	6,202,124	100.00	5,814,246	100.00

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

Deposits from customers

As at the end of the reporting period, total deposits from customers of the Group amounted to RMB4,400.674 billion, representing an increase of 8.28% as compared with the end of the previous year. Deposits from customers, accounting for 70.95% of the total liabilities of the Group, was 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 2018		31 December 2017	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	1,815,427	41.25	1,581,802	38.92
Time	1,022,294	23.23	1,144,021	28.15
Subtotal	2,837,721	64.48	2,725,823	67.07
Deposits from retail customers				
Demand	1,059,923	24.09	972,291	23.92
Time	503,030	11.43	366,231	9.01
Subtotal	1,562,953	35.52	1,338,522	32.93
Total deposits from customers	4,400,674	100.00	4,064,345	100.00

As at the end of the reporting period, the percentage of demand deposits to total deposits from customers of the Group was 65.34%, representing an increase of 2.50 percentage points as compared with the end of the previous year. Among which, the corporate demand deposits accounted for 63.97% of the corporate deposits, representing an increase of 5.94 percentage points as compared with the end of the previous year, and the retail demand deposits accounted for 67.82% of the retail deposits, representing a decrease of 4.82 percentage points as compared with the end of the previous year.

3.3.3 Shareholders' equity

As at the end of the reporting period, the shareholders' equity of the Group was RMB543.605 billion, representing an increase of 12.46% as compared with the end of the previous year. Among which, retained profits amounted to RMB274.361 billion, representing an increase of 13.81% as compared with the end of the previous year, which was due to the realisation of net profit and the factor of profit distribution in the year. Investment revaluation reserve amounted to RMB5.532 billion, representing an increase of RMB9.344 billion as compared with the end of the previous year, which was mainly due to an increase in the valuation of bonds.

3.4 Analysis of loan quality

During the reporting period, the Group saw a steady growth in the volume of credit assets, and a continued optimisation in asset quality with a decrease in both balance and proportion of non-performing loans. The allowance coverage ratio remained solid, and our risk loss endurance capability was further improved. As at the end of the reporting period, the balance of non-performing loans of the Group amounted to RMB53.605 billion, representing a decrease of RMB3.788 billion as compared with the end of the previous year; the non-performing loan ratio was 1.36%, down by 0.25 percentage point from the end of the previous year; the non-performing loan allowance coverage ratio was 358.18%, representing an increase of 96.07 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.88%, representing an increase of 0.66 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.

(in millions of RMB, except for percentages)	31 December 2018		31 December 2017	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Normal	3,820,100	97.13	3,450,450	96.79
Special mention	59,329	1.51	57,201	1.60
Substandard	13,526	0.34	17,100	0.48
Doubtful	25,041	0.64	21,577	0.61
Loss	15,038	0.38	18,716	0.52
Total loans and advances to customers	3,933,034	100.00	3,565,044	100.00
Total non-performing loans	53,605	1.36	57,393	1.61

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. During the reporting period, the 5-tier loan classification system of the Group was further optimised, the amount and ratio of non-performing loans both decreased. The proportion of special mention loans decreased, accounting for 1.51% of the total loans as at the end of the reporting period, and representing a decrease of 0.09 percentage point as compared with the end of the previous year. The proportion of substandard loans and loss loans both decreased by 0.14 percentage point, as compared with the end of the previous year.

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

(in millions of RMB, except for percentages)	31 December 2018				31 December 2017			
	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	1,773,929	45.10	37,758	2.13	1,663,861	46.67	41,522	2.50
Working capital loans	884,660	22.49	25,698	2.90	868,844	24.37	27,300	3.14
Fixed asset loans	470,521	11.97	5,067	1.08	397,807	11.16	5,770	1.45
Trade finance	157,093	3.99	2,465	1.57	159,090	4.46	1,516	0.95
Others(2)	261,655	6.65	4,528	1.73	238,120	6.68	6,936	2.91
Discounted bills(3)	149,766	3.81	–	–	115,888	3.25	–	–
Retail loans	2,009,339	51.09	15,847	0.79	1,785,295	50.08	15,871	0.89
Micro-finance loans	350,534	8.91	4,682	1.34	312,716	8.77	5,549	1.77
Residential mortgage loans	928,760	23.62	2,610	0.28	833,410	23.38	2,734	0.33
Credit card loans	575,490	14.63	6,392	1.11	491,383	13.78	5,470	1.11
Others(4)	154,555	3.93	2,163	1.40	147,786	4.15	2,118	1.43
Total loans and advances to customers	3,933,034	100.00	53,605	1.36	3,565,044	100.00	57,393	1.61

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 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 2018, the Group actively expanded its retail credit business. The proportion of retail loans increased; asset quality was optimised; the amount and ratio of non-performing loans both decreased. The Group steadily developed the businesses of residential mortgage loans for self-occupation housing and micro-finance loans in order to support private economy, and steadily granted credit card loans. As a result, the percentage of retail loans at the end of the period increased by 1.01 percentage points to 51.09%. As at the end of the reporting period, the non-performing retail loans amounted to RMB15.847 billion, down by RMB24.00 million as compared with the end of the previous year, and the non-performing retail loan ratio was 0.79%, down by 0.10 percentage point as compared with the end of the previous year. Among which, the non-performing credit card loan ratio was 1.11%, remaining at the same level as compared with the end of the previous year.

With respect to corporate loans, the Group more vigorously granted medium-to-long term fixed asset loans in 2018. As at the end of the reporting period, fixed asset loans accounted for 11.97%, up by 0.81 percentage point as compared with the end of the previous year. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.13%, representing a decrease of 0.37 percentage point as compared with the end of the previous year. Among them, the amount and ratio of non-performing working capital loans, fixed-asset loans and other corporate loans all decreased. Due to the decrease in the scale of trade financing and the non-performing loan formation of certain large customers, as at the end of the reporting period, the non-performing loan ratio of trade financing was 1.57%, representing an increase of 0.62 percentage point as compared with the end of the previous year.

3.4.3 Distribution of loans and non-performing loans by industry

(in millions of RMB, except for percentages)	31 December 2018				31 December 2017			
	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	1,773,929	45.10	37,758	2.13	1,663,861	46.67	41,522	2.50
Property development	316,490	8.05	3,263	1.03	252,031	7.07	3,211	1.27
Transportation, storage and postal services	287,027	7.30	1,674	0.58	229,935	6.45	2,241	0.97
Manufacturing	282,543	7.18	18,760	6.64	266,200	7.47	17,447	6.55
Wholesale and retail	170,489	4.33	6,867	4.03	219,818	6.17	9,101	4.14
Production and supply of electric power, heat, gas and water	146,662	3.73	827	0.56	128,965	3.62	925	0.72
Leasing and commercial services	126,095	3.21	576	0.46	137,212	3.85	196	0.14
Finance	114,137	2.90	3	0.00	93,474	2.62	1	0.00
Construction	90,110	2.29	1,080	1.20	76,741	2.15	1,452	1.89
Information transmission, software and IT service	70,012	1.78	710	1.01	79,335	2.23	1,391	1.75
Water conservancy, environment and public utilities	55,916	1.42	294	0.53	62,339	1.74	184	0.30
Mining	37,545	0.95	3,019	8.04	43,347	1.22	4,622	10.66
Others(2)	76,903	1.96	685	0.89	74,464	2.08	751	1.01
Discounted bills	149,766	3.81	–	–	115,888	3.25	–	–
Retail loans	2,009,339	51.09	15,847	0.79	1,785,295	50.08	15,871	0.89
Total loans and advances to customers	3,933,034	100.00	53,605	1.36	3,565,044	100.00	57,393	1.61

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.

(3) In 2018, the Group classified the industries and adjusted the figures at the beginning of the year on the same statistical calibre based on the revised National Standard of the Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardisation Administration of the PRC.

In 2018, the Group followed the key national strategic plans, continued to support the development of the real economy, constantly optimised its asset portfolio and actively invested resources in national pillar industries such as emerging technological industries, modern service industries and advanced manufacturing industries. The Group formulated the differentiated prevention and control strategy for key areas such as industries from which our loans should be reduced and recovered, the real estate industry and local government financing platforms. The Group focused on reducing and withdrawing loans granted to customers with high risks such as customers associated with overcapacity, high debt level and high leveraging level. The Group also continued to optimise the allocation of credit resources portfolio.

During the reporting period, due to the formation of non-performing loans in certain large-sized enterprises with overcapacity, the non-performing loan ratio related to leasing and commercial services, water conservancy, environment and public utilities and manufacturing industries increased by 0.32, 0.23 and 0.09 percentage point respectively, as compared with the beginning of the year, while there was a decrease in the non-performing loan ratio of all other industries as compared with the beginning of the year.

3.4.4 Distribution of loans and non-performing loans by region

	31 December 2018				31 December 2017			
(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	650,128	16.53	6,567	1.01	596,631	16.74	5,637	0.94
Yangtze River Delta	793,637	20.18	10,334	1.30	735,044	20.62	10,893	1.48
Bohai Rim	503,588	12.80	8,708	1.73	425,602	11.94	7,266	1.71
Pearl River Delta and West Side of Taiwan Strait	667,011	16.96	7,009	1.05	598,374	16.78	8,674	1.45
North-eastern China	146,198	3.72	5,583	3.82	145,204	4.07	4,260	2.93
Central China	384,094	9.77	5,005	1.30	343,343	9.63	6,394	1.86
Western China	380,675	9.68	7,975	2.09	350,991	9.85	12,012	3.42
Overseas	123,337	3.13	456	0.37	109,508	3.07	203	0.19
Subsidiaries	284,366	7.23	1,968	0.69	260,347	7.30	2,054	0.79
Total loans and advances to customers	3,933,034	100.00	53,605	1.36	3,565,044	100.00	57,393	1.61

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, the Group implemented differentiated risk 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 to the Bohai Rim by the Group showed a relatively fast increase, while the percentages of the balance of loans extended by the Head Office to the Yangtze River Delta, North-eastern China, Western China and subsidiaries recorded decreases. The regions where the Company incurred a large volume of non-performing loans were Yangtze River Delta, Bohai Rim and Western China, where the non-performing loan ratios of the Company decreased by 0.18 percentage point, increased by 0.02 percentage point and decreased by 1.33 percentage points, respectively as compared with the end of the previous year. Among which, the non-performing loan ratio of the Company in the Bohai Rim increased due to the impact of certain large customers.

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

(in millions of RMB, except for percentages)	31 December 2018				31 December 2017			
	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	1,320,545	33.57	9,752	0.74	1,089,261	30.55	7,844	0.72
Guaranteed loans	441,212	11.22	20,332	4.61	418,769	11.75	21,416	5.11
Collateralised loans	1,653,517	42.04	20,769	1.26	1,550,904	43.50	22,931	1.48
Pledged loans	367,994	9.36	2,752	0.75	390,222	10.95	5,202	1.33
Discounted bills	149,766	3.81	–	–	115,888	3.25	–	–
Total loans and advances to customers	3,933,034	100.00	53,605	1.36	3,565,044	100.00	57,393	1.61

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 4.14% as compared with the end of the previous year. Guaranteed loans increased by 5.36% as compared with the end of the previous year, and the credit loans increased by 21.23% as compared with the end of the previous year while there was an increase of 0.02 percentage point in the non-performing ratio of credit loans and decreases in the non-performing ratio of all other guaranteed loans as compared with the end of the previous year.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers (in millions of RMB)	Industry	Loan balance as at 31 December 2018	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
A	Transportation, storage and postal services	24,100	3.75	0.61
B	Manufacturing	14,650	2.28	0.37
C	Property development	12,150	1.89	0.31
D	Production and supply of electric power, heat, gas and water	8,664	1.35	0.22
E	Transportation, storage and postal services	8,649	1.35	0.22
F	Finance	8,316	1.30	0.21
G	Property development	6,873	1.07	0.18
H	Property development	6,669	1.04	0.17
I	Transportation, storage and postal services	5,993	0.93	0.15
J	Information transmission, software and IT service	5,680	0.89	0.15
Total		**101,744**	**15.85**	**2.59**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB24.100 billion, representing 3.75% of the Group's net capital under the advanced approach. The loan balance of the top ten single borrowers totalled RMB101.744 billion, representing 15.85% of the Group's net capital under the advanced approach, 16.65% of the Group's net capital under the weighted approach, and 2.59% 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 2018 Loan balance	31 December 2018 Percentage of total loans (%)	31 December 2017 Loan balance	31 December 2017 Percentage of total loans (%)
Overdue within 3 months	19,731	0.50	16,178	0.46
Overdue from 3 months up to 1 year	16,447	0.42	16,824	0.47
Overdue from 1 year up to 3 years	19,130	0.49	26,093	0.73
Overdue more than 3 years	6,695	0.17	2,762	0.08
Total overdue loans	62,003	1.58	61,857	1.74
Total loans and advances to customers	3,933,034	100.00	3,565,044	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB62.003 billion, up by RMB146 million from the end of the previous year and accounting for 1.58% of its total loans, representing a decrease of 0.16 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 42.23%; guaranteed loans accounted for 31.40%; credit loans accounted for 26.37% (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 1.27.

3.4.8 Restructured loans

(in millions of RMB, except for percentages)	31 December 2018 Loan balance	31 December 2018 Percentage of total loans (%)	31 December 2017 Loan balance	31 December 2017 Percentage of total loans (%)
Restructured loans(note)	22,766	0.58	18,009	0.51
Of which: restructured loans overdue more than 90 days	16,218	0.41	11,293	0.32

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 0.58%, up by 0.07 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and impairment allowances

As at the end of the reporting period, the balance of repossessed assets (other than financial instruments) of the Group amounted to RMB785 million. After deducting the impairment allowances of RMB188 million, the net carrying value amounted to RMB597 million. The balance of repossessed financial instruments amounted to RMB1,079 million.

3.4.10 Changes in the allowances for impairment losses on loans

The Group adopted the new financial instrument standard to make adequate allowances for credit risk losses by using the expected credit loss model and the risk quantification parameters such as the probability of customer defaults and the loss ratio of defaults, after taking into consideration the adjustments in macro perspectiveness.

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

(in millions of RMB)	2018	2017
Balance as at the end of the previous year	150,432	110,032
Adjustment at the beginning of the period under the new financial instrument standard	1,088	N/A
Balance as at the beginning of the year	151,520	110,032
Charge for the period	136,198	64,450
Release for the period	(76,946)	(4,398)
Transfer into/(out) for the period	–	22
Unwinding of discount on impaired loans and advances(note)	(307)	(561)
Recovery of loans and advances previously written off	7,453	5,519
Write-offs/disposal	(26,197)	(24,283)
Foreign exchange rate movements	279	(349)
Balance at the end of the period	192,000	150,432

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

The Group continued to adopt a stable and prudent policy in respect of making allowances. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Group amounted to RMB192.000 billion, representing an increase of RMB41.568 billion as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 358.18%, representing an increase of 96.07 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.88%, representing an increase of 0.66 percentage point as compared with the end of the previous year.

3.5 Analysis of capital adequacy ratio

As at the end of the reporting period, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group under the advanced approach were 15.68%, 12.62% and 11.78%, respectively, representing an increase of 2.62 percentage points, 1.58 percentage points and 1.47 percentage points respectively as compared with those under the weighted approach.

For details of the reasons for the decrease in the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio under the advanced approach, please refer to section 3.9.1 headed "Capital management".

(in millions of RMB, except for percentages)	**31 December 2018**	31 December 2017	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)			
Net core Tier 1 capital	**482,340**	425,689	13.31
Net Tier 1 capital	**516,433**	459,782	12.32
Net capital	**641,881**	546,534	17.45
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,530,424**	3,291,816	7.25
Of which: Credit risk weighted assets	**3,052,636**	2,848,064	7.18
Market risk weighted assets	**65,906**	57,560	14.50
Operational risk weighted assets	**411,882**	386,192	6.65
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**4,092,890**	3,530,745	15.92
Core Tier 1 capital adequacy ratio	**11.78%**	12.06%	Decreased by 0.28 percentage point
Tier 1 capital adequacy ratio	**12.62%**	13.02%	Decreased by 0.40 percentage point
Capital adequacy ratio	**15.68%**	15.48%	Increased by 0.20 percentage point
Information on leverage ratio(2)			
Adjusted balance of on- and off-balance sheet assets	**7,812,054**	7,309,756	6.87
Leverage ratio	**6.61%**	6.29%	Increased by 0.32 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 the 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 the end of the reporting period, the Group's subsidiaries for calculating its capital adequacy ratio included CMB Wing Lung Bank, CMB International Capital, CMB Financial Leasing and China Merchants Fund. During the parallel run period when the advanced approach for capital measurement is 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 required and reserve capital required, total amount of capital deductions and the allowances 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 parallel run period. 2018 is the fourth year since the implementation of the parallel run 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 the CBRC on 12 February 2015. The leverage ratio of the Group was 6.56%, 6.25% and 6.52% respectively as at the end of the third quarter of 2018, the end of the first half of 2018 and the end of the first quarter of 2018.

As at the end of the reporting period, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Company under the advanced approach were 15.52%, 12.25% and 11.39%, respectively, representing an increase of 2.86 percentage points, 1.70 percentage points and 1.57 percentage points respectively as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	31 December 2018	31 December 2017	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			
Net core Tier 1 capital	**420,996**	371,416	13.35
Net Tier 1 capital	**452,449**	402,869	12.31
Net capital	**573,466**	483,546	18.60
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,142,192**	2,945,175	6.69
Of which: Credit risk weighted assets	**2,698,166**	2,531,510	6.58
Market risk weighted assets	**60,272**	51,513	17.00
Operational risk weighted assets	**383,754**	362,152	5.96
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**3,694,893**	3,173,532	16.43
Core Tier 1 capital adequacy ratio	**11.39%**	11.70%	Decreased by 0.31 percentage point
Tier 1 capital adequacy ratio	**12.25%**	12.69%	Decreased by 0.44 percentage point
Capital adequacy ratio	**15.52%**	15.24%	Increased by 0.28 percentage point

As at the end of the reporting period, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group under the weighted approach were 13.06%, 11.04% and 10.31% respectively, representing an increase of 0.40 percentage point, 0.23 percentage point and 0.30 percentage point, respectively as compared with those at the end of the previous year.

(in millions of RMB, except for percentages)	31 December 2018	31 December 2017	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)			
Net core Tier 1 capital	**482,340**	425,689	13.31
Net Tier 1 capital	**516,433**	459,782	12.32
Net capital	**611,025**	538,761	13.41
Risk-weighted assets	**4,677,967**	4,254,180	9.96
Core Tier 1 capital adequacy ratio	**10.31%**	10.01%	Increased by 0.30 percentage point
Tier 1 capital adequacy ratio	**11.04%**	10.81%	Increased by 0.23 percentage point
Capital adequacy ratio	**13.06%**	12.66%	Increased by 0.40 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, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Company under the weighted approach were 12.66%, 10.55% and 9.82% respectively, representing an increase of 0.50 percentage point, 0.25 percentage point and 0.32 percentage point, respectively as compared with those at the end of the previous year.

(in millions of RMB, except for percentages)	31 December 2018	31 December 2017	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			
Net core Tier 1 capital	**420,996**	371,416	13.35
Net Tier 1 capital	**452,449**	402,869	12.31
Net capital	**542,610**	475,774	14.05
Risk-weighted assets	**4,286,653**	3,911,286	9.60
Core Tier 1 capital adequacy ratio	**9.82%**	9.50%	Increased by 0.32 percentage point
Tier 1 capital adequacy ratio	**10.55%**	10.30%	Increased by 0.25 percentage point
Capital adequacy ratio	**12.66%**	12.16%	Increased by 0.50 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:

(in millions of RMB)	Type of risk exposure	Legal person	Group
Portion covered by the IRB approach	Financial institution	1,322,393	1,322,393
	Corporate	1,863,316	1,863,316
	Retail	2,541,554	2,541,554
	Of which: Residential mortgage exposures	967,481	967,481
	Qualified revolving retail	1,144,335	1,144,335
	Other retail	429,738	429,738
Portion not covered by the IRB approach	On-balance sheet	2,062,279	2,489,129
	Off-balance sheet	94,872	106,485
	Counterparty	45,204	46,676

Measurement of market risk capital

The Group uses mixed approaches to calculate its market risk capital. Specifically, it uses the internal model approach to calculate the general market risk capital of the Company (excluding overseas branches), and uses the standardised approach to calculate the general market risk capital of overseas branches and affiliated companies of the Company as well as the specific market risk capital of the Company and its affiliated companies. As at the end of the reporting period, the market risk capital of the Group was RMB5.272 billion, and market risk-weighted assets were RMB65.906 billion. Of which, the general market risk capital calculated under the internal model approach was RMB3.805 billion, and the market risk capital calculated under the standardised approach was RMB1.467 billion.

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

(in millions of RMB)

No.	Item	Distressed risk value during the reporting period	General risk value during the reporting period
1	Average value	1,328	253
2	Maximum value	2,038	403
3	Minimum value	668	126
4	Value at the end of the period	889	165

3.6 Results of operating segments

Business segments

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

Items (in millions of RMB)	2018 Profit before tax by business segments	2018 Net operating income	2017 Profit before tax by business segments	2017 Net operating income
Retail finance	58,263	125,843	48,415	108,383
Wholesale finance	39,914	109,295	36,784	103,015
Other businesses	8,320	13,306	5,481	9,639
Total	106,497	248,444	90,680	221,037

During the reporting period, the percentage of profit from retail finance of the Group increased. Profit before tax amounted to RMB58.263 billion, up by 20.34% from the previous year, accounting for 59.34% of the profit before tax of the business line; net operating income amounted to RMB125.843 billion, up by 16.11% from the previous year, accounting for 50.65% of the net operating income of the Group, representing an increase of 1.62 percentage points from the previous year. At the same time, the cost-to-income ratio of retail finance business was 35.47%, representing a decrease of 0.55 percentage point as compared with the previous year.

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 2018		31 December 2018		2018	
(in millions of RMB, except for percentages)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	3,129,174	46	2,739,929	44	12,017	11
Yangtze River Delta	777,607	12	759,258	12	24,040	23
Bohai Rim	526,143	8	513,813	8	16,383	15
Pearl River Delta and West Side of Taiwan Strait	693,830	10	679,961	11	19,279	18
North-eastern China	144,367	2	146,060	2	(1,320)	(1)
Central China	389,081	6	380,025	6	11,930	11
Western China	380,152	6	371,913	6	10,790	10
Overseas	240,080	4	234,741	4	3,041	3
Subsidiaries	465,295	6	376,424	7	10,337	10
Total	6,745,729	100	6,202,124	100	106,497	100

(in millions of RMB, except for percentages)	Total assets		Total liabilities		Total profit before tax	
	31 December 2017		31 December 2017		2017	
	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

3.7 Other financial disclosures under the regulatory requirements

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

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. Among which, the credit commitment is the primary component. As at the end of the reporting period, the balance of credit commitments of the Group was RMB1,556.484 billion. For details of the contingent liabilities and commitments, please refer to Note 59 to the financial statements.

3.7.2 Outstanding overdue debts

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

The following content and data starting from Section 3.8 are analysed from the perspective of the Company.

3.8 Implementation of business development strategies

Continuous implementation of strategic transformation

In 2018, despite the complicated internal and external situations, the Company maintained its strategic concentration, further promoted the strategic transformation of "Light-operation Bank" and "One Body with Two Wings", determinedly used Fintech as the "nuclear power", and endeavored to develop itself into the bank that offers the best customer experience.

The "Light-operation Bank" strategy was implemented with remarkable results. Under the backdrop of stricter financial regulation, the general decline in income from the intermediary business and the concentrated investment of newly added assets in the on-balance sheet items, the Company unremittingly promoted the "Light-operation Bank" strategy, and the compound growth rate of the net profit of the Company was 4.69 percentage points higher than growth rate of risk-weighted assets under the weighted approach in the past two years. Leveraging on the application of Fintech, the Company will further promote the "Light-operation Bank" strategy, make the "Light Assets" even lighter, realise the operating model of "Light Management" and "Light Operation", and create a "Light Culture" environment with more Internet elements.

The "One Body with Two Wings" strategy was implemented on solid foundation. In 2018, the customer base of the Company expanded at a faster pace and its business foundation was further reinforced. For the customers of retail finance, known as the "One Body", the cumulative numbers of users of our two major APPs, namely "CMB APP" and "CMB Life APP", reached 148 million, and the total number of our retail customers reached 125 million, bringing the total number of customers to a new level. Among them, the number of new users of the"Sunflower and Gold Card Holder Customer Group" exceeded 1 million for the first time, making a record high. Diamond-class customer group and its AUM (assets under management) maintained a steady growth; credit card transaction amount reached RMB3.79 trillion. The Company ranked first in terms of private banking and credit card business, the advantage over its peers continued to expand. The business foundation of the "Two Wings" was further solidified. The total number of corporate customers exceeded 1.8 million. The number of newly acquired corporate depositors in the year exceeded 400,000 which contributed daily average deposits of RMB161.482 billion. Daily average balance of RMB deposits from institutional customers increased by RMB71.562 billion as compared with the previous year, representing a year-on-year increase of 10.22%, therefore becoming the primary stable source of low-cost liabilities. With its outstanding achievement of ranking first in both selections, the institutional business of the Company won the bid for the two qualifications of the direct payment agency bank of the central government and the authorised payment agency bank of the central government. The market share of full-process financial services for local governments' special bonds accounted for more than 50%. The balance of wealth management products and asset custody business remained stable, both ranking second in the industry. Meanwhile, financial markets, bills, bond underwriting and other businesses of the Company continued to enjoy a leading position in the industry.

Obvious achievements have been made in the construction of "Digital Bank".

The Company continued to increase its technology development expenses. During the reporting period, the information technology expenses amounted to RMB6.502 billion, representing a year-on-year increase of 35.17%, the proportion of information technology expenses to the Company's net operating income of the year was 2.78%, up by 0.46 percentage point as compared with the previous year. The number of Fintech project applications totalled 931, of which 304 projects have been launched and put in use, and obvious achievements have been made in the construction of "Digital Bank".

1. **The increase in retail MAU accelerated, and digital transformation entered into a new era.** During the reporting period, the number of monthly active users (MAU) of our two major APPs, namely "CMB APP" and "CMB Life APP", reached 81,046,700, representing an increase of 47.24%[5] as compared with the end of the previous year. These two major APPs had 27.11% and 44.21% of the traffic from non-financial services, respectively. The special areas in cities with branch operation had enthusiastic atmosphere, and 41 branches and 335 outlets have established online stores. The scenario expansion focused on vertical segments such as travel, meal ticket and movie ticket, mall, school and medical treatment, covering urban public transportation, subways, parking lots and other scenarios. The construction of the digital platform was gradually deepened. The two major APPs became the main platforms for customer operations. The percentage of debit card customers acquired through online channels reached 17.89%, while the percentage of credit card customers acquired through data reached 61.21%. In order to optimise internal organisational structure and improve service quality and efficiency, the Company has established a network operation service center at the Head Office to carry out customer digital operation. As at the end of the reporting period, the network operation service center directly operated 3.86 million online retail customers, with the AUM of the directly-operated customers increasing by 17.84% year on year, which is 7.49 percentage points higher than the growth rate of the AUM of the total retail customers. By generating 1,726 user portraits for retail customers, the Company increased the number of applications by marketed customers by 6.56 times, the successful marketing ratio reached 17.42%, and the personalised recommendation of "customised for different people" was initially commenced.

2. **The application of Fintech was accelerated in wholesale finance, and the ecological perspective of customer operations was actively explored.** With the forward-looking layout of the industry Internet, the Company explored industrial Internet in advance to carry out supply chain innovation and pilot application. The Company participated in the construction of the trade finance Blockchain platform of Guangdong-Hong Kong-Macao Greater Bay Area led by the central bank, and launched the first interbank multi-level accounts receivable transfer financing business. Being the only cooperation bank for the industrial Internet Phase I project of leading enterprises in petrochemical industry, the Company provided a comprehensive "Cloud Bill (雲賬單)" B2B account solution for its e-commerce platform. Working closely with leading enterprises in the construction industry, the Company has built a blockchain-based industrial Internet cooperation platform, focusing on the centralised procurement supply chain finance service for the member companies of a group. The corporate customer "aggregated collection" business was innovated, while the industrial scenarios were expanded in various fields such as highway, medical treatment, education and automobile. There was an increase of 28,300 corporate merchants with an annual transaction amount of RMB39.903 billion. The construction of a digital business platform was promoted, while CMB Enterprise APP was launched. In less than half a year, the number of customers and monthly active customers of CMB Enterprise APP reached 533,900 and 205,500, respectively; and the number of online corporate banking customers and monthly active customers reached 1,688,900 and 823,400, respectively, with the trend of digital service system for corporate customers becoming more significant. During the reporting period, the online bills discounted business amounted to RMB205.88 billion; the number of customers of online bills discounted business reached 9,110, of which small and medium-sized enterprises accounted for 88.44%, and the digitalised inclusive finance services capability continued to improve. The number of visits by the account manager to the mobile corporate customer relationship management system increased to 1.53 million times in a single month, representing an increase of 53% as compared with the end of the previous year, and the management efficiency and service capabilities for corporate customers increased significantly.

3. **Fintech has promoted the improvement of risk management.** Retail finance monitored more than 4,000 variables through multiple dimensions such as customer equipment, environment, and counterparty, achieving millisecond-level risk decision-making and billion-level data computing capabilities to prevent fraud risks. During the reporting period, approximately 2 billion retail financial transactions were covered. Wholesale finance built a risk big data platform, integrated 15 types of external data and customer transaction data of the Company within 3 years, and the Company has established a customer relationship map and an intelligent pre-warning system. Among them, the intelligent pre-warning system for corporate customers has been launched for 9 months, and the accuracy of pre-warning identification of risk-associated corporate customers was 73.05%. The online bond approval process was continuously optimised, 80% of the bond credit rating model of the Company was processed automatically online, and the timeliness of the approval process was 30% higher than the offline process.

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5 Since 2018, the statistical standards of the monthly active users of CMB APP of the Company have been changed from the number of users login the APP to the number of users open the APP, and the data for the previous year has been adjusted accordingly.

4. **We enjoy an industry-leading capability in basic technologies.** The Company preliminarily established a hybrid cloud-based infrastructure to accelerate the construction of cloud computing and a distributed trading platform, so that the total number of X86 servers installed was 2.71 times of that at the end of the previous year. One-third of the applications have been uploaded to cloud, and the process capacity of the distributed platform reached 32,000 per second, ranking top in the industry. Total capacity of data pool continued to expand. Data imported into the pool increased by 53.91% from the previous year. The Company has established a big data processing platform, strove to integrate all types of data and, by taking the customer-centric approach, integrated customer data through a nine-dimensional assessment to create 17,000 data items and establish the uniform customer profile on an ongoing basis. As a result, the Company has not only realised data intercommunication between credit cards and debit cards, but also connected the corporate customers and retail customers across different business lines. The Company has realised the integration and innovation of technology and businesses through agile development in 53 business areas, and the demand response speed has been greatly improved.

There was steady progress in the development of the Company into the bank that offers the best customer experience. The two major retail APPs have established a quantifiable user experience monitoring system and a rigorous feedback mechanism. A dedicated user experience team and a corporate Fintech experience center have been established for the wholesale business line. The new outlets 3.0 was debuted to present new digital experience for customers.

3.9 Changes in external environment and corresponding measures

3.9.1 Impacts of changes in operating environment and key business concerns

1. Net interest margin

In 2018, the Company's net interest margin was 2.64%, up by 14 basis points year-on-year, mainly due to the impact of monetary policies and the adjustment of its business strategy, including 1) the central bank lowered the deposit reserve ratio 4 times in 2018, resulting in a gradual decline in the proportion of the Company's deposits in the central bank to its interest-earning assets and an increase in the proportion of its proprietary loans and other assets with higher yield accordingly; 2) the Company continued to optimise its asset-liability structure. On the asset side, the Company prioritised its support to the investments in high-yield assets, and on the liability side, the Company actively promoted the growth of proprietary deposits, and replaced its high-cost liabilities at the right time which is in sync with market interest rate changes on the premise of liquidity safety; 3) the Company continued to improve its risk pricing capability.

In 2019, the economic operation will remain under pressure, and the effective financing demand, especially that of enterprises, will generally remain weak. At the same time, the central bank will maintain market liquidity at a reasonably adequate level, and the market interest rates will still have room to drop further. Commercial banks will still face some pressure to effectively increase its interest-earning assets and stabilise its yields, and the risk-free margins of enterprises and residents will remain high, resulting in further increase in deposit costs. Therefore, the net interest margin of the Company will also face some narrowing pressure. The Company will persistently adhere to the "Light-operation Bank" strategy, make pre-judgments over the situation and policies, strengthen the predictability and flexibility in assets and liabilities management, further optimise the asset and liability structure and improve the risk-pricing management capabilities, striving to maintain its net interest margin at an optimal level.

2. Net non-interest income

During the reporting period, the Company realised net non-interest income of RMB77.936 billion, up by 17.82% year-on-year, which accounted for 33.33% of the Company's net operating income, up by 1.40 percentage points year-on-year. The increase in net non-interest income was mainly due to: firstly, the impact of implementing the new financial instrument standard; secondly, benefiting from the growth in wealth of residents, the income from wealth management businesses such as agency funds and agency trust schemes increased gradually; thirdly, in line with the development trend of consumer finance, income from credit card business achieved steady growth; fourthly, the increase in bond valuations and exchange gains and losses driven by market yields and exchange rate fluctuations.

During the reporting period, confronting the tightened regulatory policies, transformation of asset management, and the returning of wealth management to the fundamentals of businesses, the Company proactively seized the opportunities in the capital market at the beginning of the year and leveraged on the channel advantages to achieve recovery in the growth of agency funds. Meanwhile, driven by the increase of commission income of credit cards and instalment income from merchants, the Company recorded fee and commission income of RMB67.53 billion, representing a year-on-year increase of 4.86%. For key projects, the Company's fee and commission income from wealth management amounted to RMB25.147 billion, representing a year-on-year decrease of 3.67% (of which: income from entrusted wealth management services amounted to RMB7.642 billion, down by 37.50% year-on-year. Income from agency distribution of funds amounted to RMB6.668 billion, up by 32.20% year-on-year, which was mainly due to the recovery in the demand for agency distribution of funds, and the sales of funds recording a substantial year-on-year increase during the reporting period thanks to the Company's advantages in customer groups, channels and services. Income from agency distribution of trust schemes amounted to RMB5.988 billion, up by 66.10% year-on-year. Income from agency distribution of insurance policies amounted to RMB4.746 billion, down by 6.59% year-on-year, mainly due to the impact of insurance regulatory policies and the significant shrinkage of major single premium products sold in the bancassurance market. Income from agency distribution of precious metals amounted to RMB103 million); income from bank card fees amounted to RMB16.624 billion, up by 19.48% year-on-year; income from settlement and clearing fees amounted to RMB10.241 billion, up by 11.56% year-on-year calculated on the same statistical calibre; custodian fee income amounted to RMB4.439 billion, down by 8.57% year-on-year. Please refer to section 3.2.6 for an analysis of the changes in the Group's net non-interest income.

In 2019, affected by various factors such as the continuing deceleration of the macro economy, the complicated and volatile international situation and the transformation of asset management, the growth of net non-interest income of the Company will face greater pressure. The Company will firmly adhere to the "Light-operation Bank" strategy, return to the origin of customer service, reinforce the basic management of the intermediary business, and actively explore potential customers and businesses to increase income, so as to promote the growth of non-interest business. Specific measures to be implemented include: firstly, the Company will consolidate its advantages in retail business, by adhering to the customer-centric concept and the mission of value creation for customers, the Company will enhance its investment management capabilities, and establish an intelligent product and service system with the concept of asset allocation, so as to promote the sustainable growth of wealth management business. By further promoting retail digital transformation, focusing on key areas, and strengthening scenario expansion, the Company will promote the rapid growth of MAU, strengthen its own customer acquisition capacity, and tamp solid foundation for the growth of retail non-interest income business. Secondly, the Company will improve the customer service system, achieve in-depth customer base operations through comprehensive financial services, and optimise the business structure. Starting from the basic settlement, the Company will realise the recovery in the growth of trade finance; and by seizing the market opportunities of the bill business and grasping the structural opportunities of the custody business, the Company will realise the steady growth of non-interest income from wholesale business. Thirdly, the Company will adhere to the compliance bottom line, strengthen its internal control and compliance management, regulate fee collections, and promote the Company's non-interest business to further return to its origin and standardise its operation.

3. Proprietary deposits

Since 2018, on the one hand, with the gradual slowdown in the general demand, the pressure on economic fundamentals has gradually emerged, and the growth rate of effective financing demand of enterprises and residents has declined. On the other hand, the financial deleveraging effect since 2017 still exists, and the deposit derivation channels of financial institutions have also showed a certain degree of contraction. Under the influence of the above factors, the growth rate of deposits of financial institutions was generally slower than that of loans, and the loan-to-deposit ratio showed an overall upward trend. As of the end of the reporting period, the Company's total loans and advances increased by 10.45% as compared with the end of the previous year, the deposits from customers increased by 8.26%, and the domestic time-point loan-to-deposit ratio was up by 1.3 percentage points as compared with the previous year. At the same time, however, the Company seized the opportunity of loosening market liquidity from the second quarter of 2018 to replace some high-cost liabilities with the active liabilities with relatively lower costs which, while supporting the growth of loans, also maintained the stable operation of liabilities, effectively relieving the upward pressure on the liability costs.

In 2019, the macroeconomy will continue to face the downward pressure, the growth of deposits in the financial system is expected not to be optimistic, and the competition for deposits will remain fierce. In addition, with an improvement in residents' investment awareness, the deposit costs will increase rigidly. Therefore, the increase in the proprietary deposits of the Company will also face some challenges. The Company will further improve the quality of liabilities in light of the macro operating environment. Firstly, the Company will actively promote the steady growth in general low-cost deposits, improve customers' cohesion through product innovation, and maintain a better deposit structure to keep deposit costs at a reasonable level. Secondly, the Company will constantly enrich the sources of liabilities and, while maintaining the steady growth of proprietary deposits, will flexibly make arrangements for active liabilities such as interbank certificates of deposits, so as to keep a "balance between quantity and price" of liabilities.

4. Investment of corporate loans

Since the second half of 2018, due to factors such as the downturn in general macroeconomic trend, the growth rate of corporate loans of the Company has slowed down. In 2019, the effective financing demand of enterprises will remain at low level, and the source of quality assets is expected to further decrease. At the same time, the monetary policy will continue to keep market liquidity at a reasonably sufficient level, and the overall market interest rate will remain at a low level. The effect of replacing corporate loans with corporate direct financing will also be more significant. It is expected that the growth rate of corporate loans of the Company will be slightly slower than that in 2018. In order to overcome the above challenges, the Company will further strengthen asset allocation and optimise asset structure. Firstly, the Company will set the reasonable growth rate of loans in light of the judgement over macro situation. It is expected that the overall loan growth will generally remain at the same level as in 2018. Meanwhile, by adhering to the strategic direction of "Light-operation Bank", the Company will constantly optimise the allocation of its asset portfolio, and moderately increase investment in retail credit resources. Secondly, the Company will strengthen the dynamic and flexible credit management mechanism, flexibly set the pace of credit supply based on its forward-looking judgments and the changes in situation, adjust the credit asset structure in a timely manner, and promote the steady growth of credit assets throughout the whole year. Thirdly, by focusing on the improvement of professional capabilities, enhancing industrial research capabilities, and strengthening specialised operation for different industries, the Company will seize the structural opportunities of shifting from old to new growth engines, and improve its comprehensive service capabilities towards customers, so as to make further breakthroughs in in-depth customer operations.

5. New policies on asset management business and countermeasures

During the reporting period, the People's Bank of China ("PBOC"), the CBIRC, the CSRC and the State Administration of Foreign Exchange issued the Guidance on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見) (hereinafter referred to as the "New Regulation on Asset Management"). Subsequently, the CBIRC issued the Administrative Measures for Wealth Management Business of Commercial Banks (商業銀行理財業務監督管理辦法) (hereinafter referred to as the "New Regulation on Wealth Management") and the Administrative Measures for Wealth Management Subsidiaries of Commercial Banks (商業銀行理財子公司管理辦法) (hereinafter referred to as the "Administrative Measures for Wealth Management Subsidiaries").

The Company highly recognises and firmly supports the New Regulation on Asset Management, the New Regulation on Wealth Management and the Administrative Measures for Wealth Management Subsidiaries. The Company believed that the duly implementation of the **New Regulation on Asset Management** will, on one hand, regulate the development of asset management business, and systematically address the issues in asset management industry accumulated during the process of rapid development. The New Regulation on Asset Management will play an important role in fostering the asset management business of banks to return to their business origin, mitigating the risk of the asset management business of banks, and contributing to the real economy in a better way, and will become a milestone for the standardised development of the asset management business across the industry. On the other hand, the asset management business of banks will gradually reduce the scale of non-qualified wealth management products during the transition period for implementation of the New Regulation on Asset Management, and cease to invest in non-qualified assets. Meanwhile, it also needs some time for customers to accept net-value products, which will pose great challenges to the transformation, development and income growth of the asset management business of various banks in the short term. **The New Regulation on Wealth Management**, as the supporting implementation rules for the New Regulation on Asset Management, has the same general requirements as the New Regulation on Asset Management, but appears more stringent in terms of the investment target of public funds, sales management, investment negative lists, non-standard credit investments, product grading and management of cooperative institutions. Meanwhile, it set forth the requirements on more stringent standards, richer contents and more specific operation in the aspects of centralised registration, related party transactions, staff management, sales management, stress test, custody of wealth management products, information disclosure, as well as supervision and management. Generally, the impact of the New Regulation on Wealth Management on the Company's wealth management business is expected to be limited. The main reasons are as follows: on the one hand, following the implementation of the New Regulation on Asset Management, the Company has been closely following its requirements and putting in place various countermeasures. Through continuous communication with the regulatory authorities, the Company has already obtained adequate knowledge of the main information of the New Regulation on Wealth Management. On the other hand, the arrangements for the transition period for implementation of the New Regulation on Wealth Management are in line with those for the New Regulation on Asset Management, and the Company may cease to apply the New Regulation on Wealth Management after the establishment of its wealth management subsidiaries, which also objectively helps to reduce or eliminate the impact of the New Regulation on Wealth Management on the business of the Company. **The Administrative Measures for Wealth Management Subsidiaries** is a supporting system of the New Regulation on Wealth Management, which is of great significance to put into practice the application for the establishment of the wealth management subsidiaries of banks. During the Reporting Period, the Board of Directors of the Company has reviewed and approved the proposal to establish its asset management subsidiary. With reference to the requirements of the Administrative Measures for Wealth Management Subsidiaries and the "Guidelines on Implementation of Administrative Approvals for Non-Bank Financial Institutions", the Company has formally submitted to the CBIRC a complete set of materials for the establishment of its wealth management subsidiaries, and is awaiting its approval. Meanwhile, the Company is also promoting various transformation works internally to ensure a smooth transition to the wealth management subsidiary.

For further details of the Company's asset management business, please refer to section 3.10.2 "Asset Management Business".

6. The formation and disposal of non-performing assets

As at the end of the reporting period, the non-performing loan ratio of the Company was 1.41%, representing a decrease of 0.26 percentage point as compared with the end of the previous year, while the proportion of special mention loans in total loans was 1.56%, down by 0.10 percentage point from the end of the previous year; the proportion of overdue loans in total loans was 1.65%, down by 0.12 percentage point from the end of the previous year. The loan allowance ratio was 5.14%, up by 0.70 percentage point from the end of the previous year. The allowance coverage ratio of non-performing loans was 363.21%, representing an increase of 98.17 percentage points as compared with the end of the previous year. The credit cost ratio was 1.68%, representing a decrease of 0.20 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

During the reporting period, both the ratio and amount of non-performing loan formation of the Company decreased. In general, the new formation of non-performing loans in 2018 amounted to RMB35.278 billion, representing a decrease of RMB1.259 billion or 3.45% as compared with the previous year, and the non-performing loan formation ratio was 1.01%, representing a decrease of 0.15 percentage point as compared with the previous year. Analysing by business segment, the amount and ratio of non-performing loan formation decreased in both corporate and retail loan businesses (excluding credit cards); analysing by geographic area, the amount and ratio of non-performing loan formation in the Yangtze River Delta, Western China and Central China continued to decline, while the non-performing loan formation in Northeastern Region increased; analysing by industry, both the amount and ratio of non-performing loan formation in the manufacturing, wholesale and retail industries declined as compared with the previous year; analysing by customer base, both the amount and ratio of non-performing loan formation in small and medium-sized enterprises also declined as compared with the previous year; the amount of non-performing loan formation in large-sized enterprises increased despite of a decrease in its non-performing loan formation ratio.

During the reporting period, the Company continued to strengthen the disposal of non-performing loans, and used a number of methods to manage risk assets. In 2018, the Company disposed of non-performing loans amounting to RMB39.064 billion, of which RMB20.202 billion was written off in a normal way, RMB11.072 billion was cleared and settled, RMB4.334 billion was securitised as non-performing assets, RMB1.349 billion was transferred at discount, and RMB2.107 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

In 2018, 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 RMB4.334 billion were disposed of, and the nominal value of securities issued amounted to RMB740 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 assets and liabilities structure, and 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 carefully selected qualified debt-to-equity conversion subjects, reasonably formulated debt-to-equity conversion plans, and actively and steadily promoted the implementation of the debt-to-equity conversion projects.

In 2019, there are still many uncertainties in the macro environment at home and abroad. The reduction and recovery of loans granted to the existing customers with high risks become increasingly difficult, and the downturn of asset prices has made the disposal of non-performing assets more difficult, therefore the asset quality control of the Company will face greater challenges. The Company will continue to promote the optimisation of industry and customer base structure, formulate more accurate credit access standards, apply Fintech to improve the risk pre-warning system, accelerate the disposal of risk assets through multi-channels, and strive to stabilise asset quality.

7. 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, by adhering to the basic principles of "controlling total amount, focusing on customers, focusing on regions, adjusting structure, and implementing strict management", the Company actively responded to national policies and dynamically adjusted its internal credit policy to allocate and invest its assets in the industrial development direction of house leasing, real estate asset securitisation and real estate equity investment according to the real estate control policies and the development status of the industry. The Company strengthened quota management of real estate industry, continuously optimised the classification management by cities and customers, and focused on the economically vibrant cities and strategic customers of the Head Office and branches. The Company strictly controlled the proportion of financing in the cities with constant record of high property price and high property inventory, strictly controlled the financing for the development of commercial properties, real estate projects with high leverage and high financing cost, strictly implemented the closed management requirements for real estate loans, and continuously optimised the asset 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)[6] amounted to RMB484.547 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 RMB38.080 billion as compared with the beginning of the year. Included therein was the balance of loans to domestic real estate enterprises which amounted to RMB245.121 billion, representing an increase of RMB60.565 billion as compared with the beginning of the year, and were mainly granted to the quality strategic customers while putting a strict curb on the grant of any incremental loans to those customers not in the strategic customer list. Balance of such loans accounted for 6.71% of the total loans and advances granted by the Company, up by 1.13 percentage points as compared with the beginning of the year. As at the end of the reporting period, the assets in the domestic real estate enterprises were of better quality with a non-performing loan ratio of 1.09%, down by 0.43 percentage point as compared with the beginning of the year. In 2019, it is expected that the risks associated with real estate industry are mainly concentrated in third- and fourth-tier cities with slow destocking, as well as some small and medium-sized real estate enterprises with high leverage. The Company has timely adjusted the credit management and control policies. It is expected that without significant changes in macro environment and industrial policies, the asset quality of the Company in the real estate sector will remain relatively stable.

In respect of local government financing platform business, the Company followed the State's policy requirements to standardise local government debts management, effectively strengthened the control and management of compliance risks and credit risks, followed the requirements of internal and external policies and systems, conducted related businesses in a legal and compliant manner. Through further strengthening quota management on full statistical calibres, the Company prioritised the allocation of its credit resources to local government financing platforms being operated under the market-based and commercial principles, with good cash flow and complying with relevant national policies, and strengthened post-lending management and monitoring. 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)[7] amounted to RMB280.985 billion (including businesses such as actual and contingent credit, bond investments, proprietary investments and fund investments of wealth management products), representing a decrease of RMB5.412 billion as compared with the beginning of the year. Included therein was the balance of loans on balance sheet which amounted to RMB102.386 billion, representing an increase of RMB3.651 billion as compared with the end of the previous year, and accounted for 2.80% of the total loans and advances granted by the Company, down by 0.19 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. Against the backdrop that the national fiscal and financial policies remains stable, it is expected that the quality of the Company's assets granted to local government financing platforms will remain stable in 2019.

6 In 2018, the Company implemented the newly revised National Economic Industry Classification (GB/T 4754-2017) standard issued by the General Administration of Quality Supervision, Inspection and Quarantine and the National Standards Committee to classify the industries and adjust the figures at the beginning of the year with the same statistical calibre. The broad statistical calibre of risk associated businesses has been changed, and the figures at the beginning of the year has been adjusted with the same calibre.

7 The broad statistical calibre of risk associated businesses has been changed, and the figures at the beginning of the year has been adjusted with the same calibre.

For the 16 industries[8] that we have reduced or withdrawn from such as coal, iron and steel, shipbuilding, photovoltaic and coal chemicals, the Company implemented the strategy of customer classification management, raised its entry threshold for customers, focused on supporting leading enterprises in industries and regional quality enterprises with core competitive advantages in the industry, prioritised the green credit financing needs related to energy conservation and emission reduction and technological upgrading of enterprises, devoted to reducing and withdrawing from customers associated with significant risks and low-end 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 financing quota management and control requirements for industries, and actively optimised and adjusted the asset structure and customer structure through total amount control, elimination of the inferior and selection of the superior. As at the end of the reporting period, the financial exposure of the industries that we have reduced or withdrawn from (calculated on the full statistical calibre) amounted to RMB130.004 billion, representing a decrease of RMB21.740 billion as compared with the beginning of the year. Among them, the exposure of nonferrous metal smelting and calendaring and glass increased slightly as compared with the beginning of the year, and the exposure of other industries were reduced. The non-performing loan ratio was 9.55%, down by 0.54 percentage point as compared with the beginning of the year. The non-performing loan ratio of 7 industries, namely iron and steel, steel trade, basic chemical, engineering machinery, nonferrous metal smelting and calendaring, shipbuilding and metal ore mining increased as compared with the beginning of the year, the non-performing ratio of other industries decreased as compared with the beginning of the year mainly due to the exposure of risk associated with certain large customers and decline in business balances. Thanks to the continuous risk control over the past few years, there saw a significant decline in the financial exposure of the industries that the Company has reduced or withdrawn from. It is expected that the risks in those areas will be generally controllable in 2019.

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 of the CBIRC. The capital buffer was sufficient.

As at the end of the reporting period, the percentage of the Company's risk-weighted assets under the weighted approach to total assets was 67.53%; the percentage of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period) under the advanced approach to total assets was 58.21%, lowered by 9.32 percentage points as compared to that under the weighted approach, indicating an effective saving in capital. The risk-adjusted return on capital (RAROC) before tax under the advanced approach was 27.56%, significantly higher than the cost of capital.

As at the end of the reporting period, the growth rate of risk-weighted assets (without taking into consideration the floor requirements during the parallel run period) under the advanced approach of the Company was only 6.69%, lower than the growth rate of risk-weighted assets under the weighted approach of 9.60%, which was mainly attributable to the Company's continuous promotion of the strategy of "Light Capital", resulting in further optimisation in the business structure. The growth rate of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period) under the advanced approach was 16.43%, significantly higher than the growth rate of the risk-weighted assets under the weighted approach, which was mainly due to the impact of regulatory measurement rules requiring more risk-weighted assets to be added back under the advanced approach. According to the regulatory minimum capital calculation rules, the risk-weighted assets added back from the minimum capital under the advanced approach are positively related to their over-allowances. As the Company has adhered to a more prudent and sound risk management strategy, the allowances in 2018 were more adequate and the over-allowances calculated into the Tier 2 capital under the advanced approach increased correspondingly. Therefore, the risk-weighted assets added back from the minimum capital increased by RMB324.3 billion as compared with the previous year, thereby accelerating the growth in the risk-weighted assets under the advanced approach (taking into consideration the floor requirements during the parallel run period). As at the end of the reporting period, the capital adequacy ratio of the Company under the advanced approach increased as compared with the end of the previous year while the Tier 1 capital adequacy ratio and core Tier 1 capital adequacy ratio declined as compared with the end of the previous year, mainly due to an increase in the over-allowances which may be included into the Tier 2 capital. The growth rate of net capital was higher than the growth rate of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period) while the increases in net Tier 1 capital and net core Tier 1 capital compared with the end of the previous year were lower than the growth rate of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period).

The Company adhered to the development strategies of marketisation, branding and internationalisation, and constantly promoted the innovation and development of assets securitisation business to provide extra capacity for capital saving. As at the end of the reporting period, the Company totally issued 32 phases of credit asset-backed securities, with the aggregate issuance volume of RMB179.206 billion, leading in the industry in terms of types of assets and market share.

8 The 16 industries refer to coal, coal chemical, coal trade, iron and steel, steel trade, basic chemical, commonly used metal ore mining, nonferrous metal smelting and calendaring, shipbuilding, glass, water transport, textile and chemical fiber, photovoltaic, fertiliser, engineering machinery and machine tool.

In 2018, by considering a series of factors such as macroeconomic trends, the capital planning objectives of the Company, business development, and redemption arrangement of existing Tier 2 capital instruments in a comprehensive manner, the Company completed the issuance of domestic Tier 2 capital bonds on 19 November 2018. The RMB20 billion capital raised effectively replenished Tier 2 capital and increased the capital adequacy ratio of the Company.

According to the Company's capital planning during the period from 2019 to 2021, 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. Despite the consecutive promulgation of the New Regulation on Asset Management and the "Guidelines on Improving the Supervision of Systemically Important Financial Institutions (《關於完善系統重要性金融機構監管的指導意見》)", the capital adequacy ratio of the Company is expected to achieve its goals. The Company will stick to the following principles in capital supplement: fund generation and accumulation are mainly from internal resources, with capital replenishment through external resources as additional assistance; fund-raising is achieved through various channels and ways. Currently, the Company does not have any share capital financing schemes. 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. By closely following 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 various capital tools in a comprehensive way.

9. Advancement in monthly active users (MAU)

In 2019, the Company will continue to use MAU as the North Star Metric and implement the "mobile priority" development strategy. By focusing on building the capability of acquiring mass customers at low cost and the capacity of digital operation, the Company will fully exploit the potential value of customers and technology, so as to forge the new growth engines for the future.

On the one hand, the Company will enhance its customer acquisition capability and user conversion capability, carry out traffic management by focusing on the construction of effective core scenarios, and establish the channel for user-to-customer conversion. Firstly, by adhering to the strategy of "promoting the two APPs at the same time", the Company will build an Internet customer acquisition system with large traffic, full customer base and high efficiency to promote a rapid traffic growth. Secondly, by focusing on the scenario construction to cater for basic daily needs of users, such as travel, medical care and education, the Company will offer its financial service capabilities through the "Cloud + API (application programming interface)" model, so as to strengthen customer loyalty and product penetration ratio. Thirdly, through constant improvement in wealth management scenarios and consumer finance scenarios, the Company will promote the connection between traffic growth and traffic conversion in an orderly manner, explore the new model for value realisation of closed-loop traffic management and fully exploit the potential value of customers.

On the other hand, the Company will strengthen the construction of a digital data platform at middle office, reinforce the digital operation capability for billion-level customers through more intelligent and efficient network management tools and methods, and improve the quality and efficiency of the whole process of customer operations. Firstly, by leveraging on the two major APPs, the Company will create a digital service platform to improve its digital operation by carrying out intelligent data application marketing, risk control, customer service and operation with the help of Fintech. Secondly, the Company will enhance Fintech infrastructure construction by focusing on "cloud + API + Blockchain" and "Data + AI", so as to establish an open and intelligent Internet business ecosystem and service system. Thirdly, the Company will carry out digital process reengineering based on "customer journey map" to examine and rebuild the entire process of the services of the Company from a customer's perspective, so as to realise the best balance of customer experience, business efficiency, risk control and operating costs.

3.9.2 Outlook and countermeasures for 2019

Looking into 2019, the global geopolitical risks will be accumulating amid the populist gloom. Global trade activities is slowing down, which will hinder the global economic growth. With the impact of the US fiscal stimulus gradually fading out, the global economy will slow down in a synchronised manner. Affected by this, the global liquidity contraction will tend to ease. Domestically, the economy will face greater downward pressure on its growth. The dual pressure of short-term decelerating growth and long-term structural contradiction has overlapped, and the adverse effect of trade friction may gradually emerge. On the one hand, traditional growth drivers such as infrastructure investment and property development are obviously weaker than their historical performance, and the trade surplus may be narrowed. On the other hand, the driving force for domestic consumption is weakening, the efforts in cultivating new industries appear inefficient, the improvement in total factor productivity is limited, and new economic growth drivers are still to be cultivated.

Notwithstanding the unfavorable factors, China's economic growth will remain resilient in 2019. The demand for infrastructure investment is expected to rebound from the bottom. With the completion of the investigation into local governments' hidden debts and the clarification of local governments' borrowing rules, financing channels such as local governments' special bonds and PPP are expected to be more efficient. In respect of the investment in the manufacturing sector, those high energy-consuming projects such as mining, metallurgy and petrochemical projects will undergo a much slower growth, while investment in those high-tech projects such as equipment and information are expected to increase much faster; the investment in household decoration and building materials will remain at a high level. Domestic consumption is expected to be boosted with further tax cuts. Benefiting from its complete production categories and industrial chain, China's export is expected to maintain its resilience, which gains time and space for the mitigation of trade friction. The Producer Price Index (PPI) of industrial producers may decline significantly due to the drop in bulk commodity prices, while the Consumer Price Index (CPI) is expected to maintain a mild inflation pattern. In 2019, the appreciation of the US dollar may be diminished, which will help ease the pressure on the depreciation of RMB. With the Chinese economy maintaining its stable growth, the pressure of depreciation of RMB in the long term is expected to be insignificant.

In 2019, China's macroeconomic regulation and control will focus more on policy coordination, emphasize more on counter-cyclical adjustment, and aim to stabilise the general demand. With the strength and effect of China's fiscal policy being increased, and the fiscal deficit rate being adjusted to 2.8%, the cuts in both inclusive taxes and structural taxes will be implemented simultaneously, aiming to reduce the tax burden of manufacturers and small- and micro-sized enterprises. Under the policy guidance of "legal compliance and risk prevention", new special bonds of local governments will reach RMB2.15 trillion, representing an increase of RMB800 billion as compared with the year of 2018. The monetary policy will be balanced with more emphasis on unblocking the credit facility transmission mechanism. The quantity and price approaches like deposit reserve ratio and interest rates will be applied in a timely manner to guide financial institutions to expand credit supply, reduce loan costs, and support the real economy in an accurate and effective manner. Market liquidity will remain reasonably abundant with a streamlined approach. On the whole, China's economy will maintain its resilient growth in 2019, and its macroeconomic policies will be more forward-looking, flexible, coordinated and effective. The economic and financial risks will be generally controllable.

In view of the current environment, the Company's (time-point) proprietary loans are expected to increase by approximately 10% in 2019, with its (daily average) proprietary deposits expected to increase by 6% to 7%, and its active liabilities will be flexibly allocated based on the actual operations of the Company. Facing the complicated internal and external environment, the Company will maintain its strategic stability, return to the origin of customer service, and adhere to the orientation of "Light-operation Bank" and the positioning of "One Body with Two Wings". Adhering to its two cores, namely customers and technologies, the Company will focus on transforming towards retail digitalisation, developing the service capacity for new growth drivers of wholesale business, building a system that can root out the risks, and developing its basic capacity, so as to expedite the formation of new business models.

Firstly, we will adhere to the target of transformation towards retail digitalisation to create a bank with the best customer experience. Our retail business will continue to be oriented by the monthly active users (MAU) in order to solve the two major problems of acquiring a large number of customers at low cost and developing our digitalised operational capabilities. We will focus on improving operational capabilities and promote the formation of a virtuous cycle of business operation and customer acquisition.

Secondly, we will focus on development of professional capacity and accelerate in cultivating the core competitiveness of our wholesale business. We will lay stress on the development of our own professional capabilities, and strive to achieve two major breakthroughs: quickly fitting in the rhythm of conversion from old growth engines to the new ones, and making breakthroughs in the professional service capabilities for the new growth engine; staying abreast of the transformation towards digitalised operation, and making breakthroughs in the industrial Internet.

Thirdly, we will solve both symptomatic and fundamental problems to create a risk management system that supports high-quality development. We will prevent risks through "improving weakness", closely monitor the risks in the key areas, carefully prevent compliance risks, and continue to strengthen basic management. We will consolidate our risk management capabilities by focusing on the major aspects of customers and technologies. On the one hand, we will accelerate customer structure adjustment based on industry research, build a risk management system that supports, adapts to and serves the customer group under the new growth engine; on the other hand, with the extensive use of financial technologies, we will constantly optimise the risk management model.

Fourthly, we will accelerate the pace of infrastructure construction to lay solid foundation for the sustainable development of CMB. We are committed to building a leading financial technology infrastructure, establishing a digitalised intelligent operating system, cultivating a team and culture that is compatible with the Digital Bank, and seeking to promote the systematic and continuous establishment of the Digital Bank.

3.10 Business operation

3.10.1 Retail finance

Business overview

During the reporting period, the profit of the retail finance business of the Company maintained its rapid growth, with the profit before tax amounting to RMB57.227 billion, representing an increase of 20.24% as compared with the previous year. It accounted for 57.22% of the total profit before tax of the whole business lines of the Company. The net operating income from the retail finance amounted to RMB123.253 billion, representing an increase of 16.03% as compared with previous year, and accounting for 52.71% of the net operating income of the Company. Among the income of retail finance, the net interest income amounted to RMB80.537 billion, representing an increase of 16.17% as compared with previous year, and accounting for 65.34% of the net operating income from retail finance; the net non-interest income amounted to RMB42.716 billion, representing an increase of 15.76% as compared with previous year and accounting for 34.66% of the net operating income from retail finance, and 54.81% of the net non-interest income of the Company. In 2018, the retail finance of the Company recorded a fee income of RMB16.515 billion from bank cards, representing an increase of 19.66% as compared with previous year; the fee and commission income from retail wealth management was RMB19.338 billion, accounting for 45.90% of the net fee and commission income from retail finance.

In order to adapt to the rapid development of technology-based finance, the Company took the initiative for its retail finance business to get out of the comfort zone of traditional business and formally moved towards the retail finance 3.0 Era, so as to embrace the evolution of service ecosystem through digital transformation of its operating organisations. In 2018, under the guidance of the "Mobile Priority (移動優先)" strategy and "MAU North Star Metric (北極星指標)", the Company constantly empowered the retail finance by enhancing the functions of the digital platforms, which optimised the platform system, product system and service system towards a coverage of "full-customer, full-product and full-channel", further improved the customer classification operation based on the existing segmentation-based customer management and continually consolidated its retail customer foundation. While maintaining the systemic competitive edges of core retail businesses such as wealth management, private banking, credit card, retail loan, consumer finance and e-banking, the Company has vigorously marched towards the "APP Era".

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 125.4144 million retail customers (including debit and credit card customers), representing an increase of 17.61% 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 2,362,600, representing an increase of 11.09% as compared with the end of the previous year. The balance of total assets under management from our retail customers amounted to RMB6,802.105 billion, representing an increase of 10.35% 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 RMB5,508.235 billion, representing an increase of 8.83% as compared with the end of the previous year, and accounting for 80.98% of the balance of total assets under management from retail customers of the Bank. As at the end of the reporting period, the balance of deposits from retail customers of the Company amounted to RMB1,436.675 billion, representing an increase of 16.68% as compared with the end of the previous year, of which the percentage of demand deposits accounted for 70.56%. 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. As at the end of the reporting period, a total of 132,276,700 All-in-one Cards in aggregate have been issued by the Company for retail customers, up by 14.24% as compared with the end of the previous year.

In 2018, the growth of M2 further slowed down. The leverage ratio of households gradually stabilised after 2017 and the accumulation of wealth decelerated as the households entered into the phase of repayment. The wealth growth among mid-to-high end customers of retail finance sector was in line with the changes in the macro environment, but the overall growth of assets under management (AUM) outperformed the market. Facing of multiple challenges, the Company actively adjusted its operation modes. On the basis of further consolidating the retail customer base, the Company expanded its customer availability of CMB APP and CMB Life APP and enhanced the customer experience. In this way, the Company strived to form its core competitive advantage at the later stage of the transformation to ensure steady increase in the retail customer base and AUM.

Wealth management

In 2018, the Company recorded RMB10,713.837 billion in sales of personal wealth management products, representing an increase of 16.73% as compared with the previous year; RMB767.858 billion in the agency distribution of listed open-ended funds (LOF), representing an increase of 8.84% as compared with the previous year; RMB322.306 billion in agency distribution of trust schemes, representing an increase of 43.35% as compared with the previous year; and RMB70.453 billion in premiums from agency distribution of insurance policies, representing a decrease of 17.18% as compared with the previous year. In 2018, the Company recorded a fee and commission income from retail wealth management business of RMB19.338 billion, among which, income from agency distribution of funds amounted to RMB6.650 billion, income from agency distribution of trust schemes amounted to RMB5.741 billion, income from agency distribution of insurance policies amounted to RMB4.744 billion, and income from entrusted wealth management amounted to RMB2.104 billion. For the reasons of changes in fee and commission income from wealth management, please refer to the analysis of net non-interest income under section 3.9.1 of this report.

During the reporting period, the Company enhanced the customer base operation, product design & development and refined management with deepened Fintech application. Through subdividing customer bases, the Company reconstructed the segmentation-based management service system in response to the changes in customers' demand for wealth management. The Company also upgraded frontline service expertise with "Human being + Intelligence", comprehensively solved the difficulty in selling complex products and expanded the differentiated and leading advantages of the Company in terms of wealth management business. As the leading smart investment advisory product in China, "Machine Gene Investment (摩羯智投)" has achieved a total sales volume of RMB12.233 billion, maintained its outstanding performance with "low volatility and steady growth" during the reporting period, and effectively evaded the risks in contrast to the poor performance of capital market. While striving to secure stable investment performance, the Company has been continuously upgrading and iterating the related functions of Machine Gene Investment, so as to further enhance the customer experience. The Company actively responded to the implementation of the New Regulation on Asset Management and supporting policies, and conveyed the financial planning concept featuring scientific asset allocation through investor education to maintain a stable amount of wealth management asset. In addition, the Company continued to improve its customer experience and service efficiency by such technological means as artificial intelligence, big data and cloud computing. During the reporting period, the Company launched the Sunflower Financial Planning Service System (金葵花財務規劃服務體系) to provide household customers with a wealth management plan covering the whole life-cycle and unified management of assets and liabilities. In light of application of Fintech and big data, the Company constantly optimised wealth check services and offered full-asset management service to customers through online-offline integration so as to cater to customers' need for comprehensive wealth management.

Private banking

As at the end of the reporting period, the Company had 72,938 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 8.19% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB2,039.290 billion, representing an increase of 7.03% as compared with the end of the previous year; total assets per account amounted to RMB27.9592 million. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 68 private banking centers and 64 wealth management centers in 63 domestic cities and 7 overseas cities.

The private banking business of the Company is based on the operating philosophy of "It's our job to build your everlasting family fortune". In order to "foster a private bank with best customer experience (打造最佳客戶體驗私人銀行)", the Company has been committed to meeting the various demands of high-net-value customers consisting of individuals, families and enterprises. The Company continued to make asset deployment among the major categories including fixed income, cash and currencies, equity, alternative investments and assets with guarantee purpose for its customers and offer them professional, comprehensive and private financial services in investment, taxation, legal affairs, M&A, financing and clearing, thus benefiting both customers and the Company. Since 2018, due to the international situation and market fluctuations, the risk appetite of customers of private banking of the Company has been reduced and equity asset allocation has decreased as compared with the end of the previous year. At the same time, with the entry into the transition period of handover from the first-generation entrepreneurs to the second generation of entrepreneurs in China, the demand for wealth protection and inheritance has become increasingly important, which has led to an increase in assets allocation with guarantee purposes as compared with the end of the previous year. Under the New Regulation on Asset Management, the advantage that the private banking business of the Company has been striving to build, which was comprised of a professional system focusing on investment advisory services, has been increasingly prominent. The Company made the forward-looking deployment from the construction of professional team, the design of operating system to actual implementation. At the same time, with regard to the internal management, the Company strongly supported process reconstruction, system transformation and rule optimisation with a customer-oriented perspective in order to comprehensively enhance the customer service experience. The Company continued to deepen the five-dimensional customer acquisition system and by virtue of Fintech, made meaningful attempts in accurate identification of customer needs, provision of professional financial solutions, the cultivation of professional skills of relationship managers, and the improvement of internal operational efficiency, which promoted efficient operation. The Company continuously enriched and consolidated the financial services and non-financial services in terms of content and scope, and improved customer service capabilities to provide comprehensive and effective integrated solutions to customers.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 84.3044 million active credit cards, representing an increase of 34.98% as compared with the end of the previous year, and there were 58.0293 million active credit-card users, representing an increase of 23.61% as compared with the end of the previous year. The Company continued to improve the efficiency of customer operation. The credit card transactions of the Company in 2018 amounted to RMB3,793.836 billion, representing an increase of 27.74% as compared with the previous year. The balance of credit card loans was RMB575.365 billion, representing an increase of 17.13% as compared with the previous year. The percentage of the revolving balances of credit cards was 23.42%. In 2018, interest income from credit cards amounted to RMB45.979 billion, representing an increase of 16.29% as compared with the previous year. Benefiting from the increased transaction volume, the non-interest income from credit cards amounted to RMB20.722 billion, representing an increase of 38.95% as compared with the previous year. As at the end of the reporting period, the non-performing loan ratio of the Company's credit cards was 1.11%, remaining at the same level as compared with the end of the previous year, the risk indicators were stable and controllable as a whole.

During the reporting period, the Company actively explored and put into practice various Fintech and improved the efficiency of customer acquisition and operation, including: constantly focusing on upgrading the service capability of its mobile services and successfully launching Version 7.0 of CMB Life APP with essence of "creating quality life". For further details, please refer to the section headed "Distribution Channels". The Company deepened its service modules, such as intelligent flow redirection, intelligent flow distribution, intelligent operation and intelligent audit, and managed to set up a customer acquisition channel connecting fans, traffic and APP users so as to push forward the efficacy of customer acquisition driven by technology application. The Company completed the deep learning of AI technology in respect of three intelligent channels including WeChat, QQ and CMB Life APP, in an attempt to explore the new service model featuring "Terminal + Cloud Service" on the Internet. The Company has also established a customer experience lab known as "VLab", so as to understand the real needs of our customers, and inspire our product innovation. The Company constantly advanced our cooperation with generally popular fields and the Internet enterprises in promoting our credit cards by launching a variety of co-branded credit cards, e.g. Hema Fresh (盒馬鮮生), Tmall Store (天貓營業廳), Today's Headline (今日頭條), etc.. The Company also actively explored the commercialisation system of the fan card products by launching collectible cards with themes like Hello Kitty and Teddy. The Company perfected the overall deployment of consumer financial products, completed the optimisation of the second iteration of "eLoan (e智貸)", accomplished the breakthrough and innovation of channel operation, and expanded the regional scenarios for consumer finance, aiming to enhance our management expertise of diversified products.

Confronting the competition brought by the quasi-credit cards launched by the Internet giants and the challenges from third-party payment, the Company deepened its integration with mobile Internet, strengthened its own platform and channel construction, while forging cooperation with Internet technology enterprises with respect to the traffic management. The Company constantly expanded its differentiated competitive edges by establishing a comprehensive intelligent customer acquisition system, innovating the consumer credit products, refining the platform operation management and building an intelligent risk management system. The Company launched the first "Fast Service Bank" service system in the industry, devoted to conducting the promotion and operation of new payment products, seized the payment portals in mobile Internet era and improved the open user system to build a complete financial ecological platform.

Retail loans

As at the end of the reporting period, the total retail loans of the Company amounted to RMB1,987.587 billion, representing an increase of 12.66% as compared with the end of the previous year and accounting for 54.43% of the total loans and advances to customers, up by 1.07 percentage points as compared with the end of the previous year. Total amount of the Company's retail loans (excluding credit card loans) reached RMB1,412.289 billion, representing an increase of 10.93% as compared with the end of the previous year, accounting for 38.67% of total loans and advances to customers of the Company, representing an increase of 0.16 percentage point as compared with the end of the previous year.

As to business development, the Company actively supported the real economy in accordance with the requirements of the State policies and regulations and accelerated the development of micro-finance loans, in particular, with the guidance of inclusive finance. The Company developed its mortgage business in a steady manner under the local real estate control policies in the support of the residents' reasonable needs for their own homes. The Company strictly controlled the usage of consumption loans and guided a light development path of consumption loans towards the operation mode with online, small-value and customised features so as 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 RMB921.347 billion, representing an increase of 11.57% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB348.993 billion (calculated on the Bank's statistical calibre), representing an increase of 12.23% as compared with the end of the previous year, with its percentage in the balance of incremental retail loans (excluding credit cards) up by 9.15 percentage points as compared with the end of the previous year. The balance of consumption loans amounted to RMB105.433 billion, up by 15.39% as compared with the end of the previous year. As at the end of the reporting period, the Company had 4,735,100 retail loan customers, representing an increase of 73.21% as compared with the end of the previous year. The rapid expansion of customer base was mainly attributable to the light customer acquisition model through online resources.

As to the quality of assets, the Company stabilised the quality of retail loan assets by constantly optimising its policies for retail loans and enhancing its risk management capabilities. As at the end of the reporting period, the balance of the special mention retail loans of the Company amounted to RMB26.470 billion, and its proportion of retail loans recorded a slight increase of 0.06 percentage point as compared with the end of the previous year. The balance of non-performing retail loans amounted to RMB15.719 billion, and its non-performing loan ratio was 0.79%, down by 0.11 percentage point as compared with the end of the previous year. Among retail non-performing loan portfolio, the non-performing ratio of micro-finance loans was 1.34%, down by 0.44 percentage point as compared with the end of the previous year due to an acceleration in the disposal of the non-performing micro-finance loans; the non-performing ratio of consumption loans was 1.13%, down by 0.03 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 75.79% of the balance of the new non-performing retail loans of the Company in 2018, with a mortgage and pledge rate of 48.90%. Given that the vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was not substantial.

As to risk management, driven by big data and quantitative model, based on the integration of internal and external data resources as well as the comprehensive application of risk models, the Company 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", the Company continued to enhance its capabilities to prevent multiple credit granting and credit fraud. With Fintech application, the Company integrated its internal and external data sources to portrait, verify and restore the real balance sheet status of the customers in a multi-dimensional manner, so as to form a unified view of risks associated with its customers and enhance its risk identification capability. The Company adhered to acquiring quality customers whose lion share are with stable jobs and source of income. The Company took into consideration the application scenarios of various real consumptions such as parking space purchase, decoration, education, etc.. The Company also established an automated post-lending monitoring system to continuously monitor the risk of "joint debts" and got prepared in advance.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB42.778 billion, accounting for 42.78% of profit before tax for the business lines of the Company. The net operating income from wholesale finance of the Company was RMB110.848 billion, representing an increase of 8.77% as compared with the previous year, and accounting for 47.41% of the net operating income of the Company. As for the income structure of wholesale finance business, net interest income amounted to RMB77.318 billion, representing an increase of 6.31% as compared with the previous year, and accounting for 69.75% of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB33.530 billion, representing an increase of 14.89% as compared with the previous year and accounting for 30.25% of the net operating income of wholesale finance, and 43.02% of net non-interest income of the Company.

Wholesale customers

The Company has fully implemented the centralised operation of strategic customers, and established the corporate customer service system featuring segmentation and classification-based management, as well as professional and dedicated operation in respect of institutional customers, small-sized enterprise customers, financial institution customers and offshore customers. **With regards to its basic customers**, 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 1,858,000, up by 18.10% as compared with the end of the previous year. The number of newly acquired corporate depositors of the Company during the reporting period was 433,500, contributing daily average deposits of RMB161.482 billion. Both the number of newly opened accounts and the deposit contribution recorded a new high during the reporting period. **With regards to its strategic customers,** targeting its strategic customers under the Head Office, the Company used Fintech technology to delve the platform ecosphere of core customers, thus realising the in-depth operation of those customers. The Company enhanced its professional service capabilities by strengthening research on the industry in which customers operate; and increased support for strategic customers from emerging industry by adhering to integration of investment banking and commercial banking. As at the end of the reporting period, the number of the strategic customers under the Head Office of the Company was 251[9], increasing by 85 as compared with the end of the previous year; the balance of daily average proprietary deposits amounted to RMB557.234 billion, increasing by 16.86% as compared with the beginning of the year; the balance of general loans amounted to RMB486.251 billion, increasing by 35.51% as compared with the beginning of the year. For the strategic customers at the branch level, the Company focused on professional operation and service upgrading. As at the end of the reporting period, the Company had 8,043 branch-level strategic customers[10]. The balance of general loans amounted to RMB285.350 billion, increasing by 13.26% as compared with the beginning of the year. **With regards to its institutional customers**, the Company, by deepening the "Head Office-to-Head Office" strategic cooperation with the national ministries and commissions, the Company continued to innovate cooperation models and focus on fiscal, social security, public resource transactions, provident fund and other customer groups, fully exploited the low cost "liquid funds" and "incremental funds" of its customers while making remarkable efforts in developing the high-value scenarios and strengthening linkage with its retail business so as to promote the rapid growth of institutional customers. As at the end of the reporting period, the Company had 30,900 institutional customers, up by 26.64% as compared with the end of the previous year, with an average daily deposit balance of RMB771.467 billion, representing an increase of 10.22% as compared with the end of the previous year. **With regards to its small-sized enterprise customers,** the Company continued to advance the construction of a segmentation-based operation service system for small-sized enterprise customers while focusing on three customer bases (Qian Ying Zhan Yi (千鷹展翼), supply chain and traditional enterprises with stable businesses) and building diversified customer acquisition channels. The Company offered financing products for small-sized enterprise customers based on their differentiated financing needs. The Company strengthened the capability to offer basic financial services and efficiently meet the diversified non-financial services needs of small-sized enterprise customers from various aspects such as optimising the account opening process, innovating payment and settlement products, and staffing the service advisors in the lobby. As at the end of the reporting period, the number of small-sized enterprise customers reached 1,752,000, representing an increase of 20.63% as compared with that at the beginning of the year. With regards to its financial institution customers, the Company persisted in improving the financial institution customer service system featuring "centralised management, segmentation-based and intensive management", determined the list of strategic customers at the Head Office and branches, carried out in-depth management of strategic financial institution customers based on the principle of "different policy for each customer" and managed basic customers by integrating online and offline services. **With regards to its offshore customers**, the Company's business operation targeted non-resident customers, fully implemented the operation philosophy of "customer-centric", comprehensively carried out the segmentation-based management of offshore strategic customers, value customers and basic customers, optimised the construction of offshore customer service system, and broadened the acquisition channels of customers. As at the end of the reporting period, the Company had 12,500 offshore customers.

9 The number of strategic customers at the Head Office level is that of the group customers as the strategic customers at the Head Office level operated by the Company in 2018.

10 In order to better serve its customers, in 2018, the Company expanded the scope of strategic customers at the branch level horizontally and vertically, included the group member customers, as well as upstream and downstream supply chain customers based on the 2017 customer list.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,518.685 billion, representing an increase of 6.32% as compared with the end of the previous year and accounting for 41.59% of total loans and advances to customers of the Company. Among them, the balance of the medium-to-long term loans to domestic enterprises amounted to RMB659.680 billion, accounting for 47.28% of the total loans to domestic enterprises, and representing an increase of 3 percentage points as compared with the end of the previous year. The non-performing loan ratio of our corporate loans was 2.37%, representing a decrease of 0.39 percentage point as compared with the end of the previous year. In 2018, the floating range of weighted average interest rates of newly granted corporate loans in RMB was 6.95%. As at the end of the reporting period, the weighted average default probability of the risk exposure of the domestic non-defaulting corporate customers was 1.00%, representing a decrease of 0.25 percentage point from the end of the previous year.

In 2018, the Company continued to optimise its asset structure. 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 RMB1,166.060 billion, representing an increase of 10.73% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 83.58% of our total loans granted to domestic enterprises, up by 3.71 percentage points as compared with the beginning of the year; the non-performing loan ratio was 2.04%, down by 0.21 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 RMB126.319 billion, representing a decrease of 13.17% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 9.05% of our total loans granted to domestic enterprises, down by 1.98 percentage points as compared with the beginning of the year; the a non-performing loan ratio was 6.40%, down by 1.17 percentage points as compared with the beginning of the year. The balance of the loans granted to domestic small-sized enterprises amounted to RMB102.771 billion, representing a decrease of 14.32% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 7.37% of our total loans granted to domestic enterprises, down by 1.73 percentage points as compared with the beginning of the year; the non-performing loan ratio was 3.54%, down by 0.24 percentage point as compared with the beginning of the year. The floating range of the weighted average interest rate of the Company's loans newly granted to small-sized enterprises was 16.00% for the year.

During the reporting period, the Company supported green industries, strategic emerging industries and the industries with distinct regional characteristics, accelerated the construction of customer service system for new growth engines, conducted in-depth research on 12 new growth engine industries, and formed a list of 2,174 target customers and credit policies; grasped market opportunities brought by the policy of "infrastructure to complement shortcomings", increased investment in high-quality medium-to-long term assets; and flexibly adjusted loans to real estate, local government financing platforms and other industries in response to the changes in external operating environment. As at the end of the reporting period, the balance of green loans was RMB166.033 billion, representing an increase of RMB8.930 billion as compared with the end of the previous year, and accounting for 10.93% of the total corporate loans of the Company; the balance of loans to strategic emerging industries was RMB87.668 billion, representing an increase of RMB9.347 billion as compared with the end of the previous year and accounting for 5.77% of the total corporate loans of the Company. For further details of loans extended to the sectors which are subject to the strict regulation of the State, such as the real estate industry and the local government financing platforms, please refer to section 3.9.1.

"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 acquired target customers through continuous implementation of the name list marketing model. During the reporting period, the Company focused on the list of two categories of enterprises: "high-tech" and "capital market", and continued to further expand the customer base under "Qian Ying Zhan Yi (千鷹展翼)". Meanwhile, the Company initiated the establishment of "Fintech Cooperation Alliance under Qian Ying Zhan Yi (千鷹展翼科技金融生態合作聯盟)" and provided comprehensive services to technology-based emerging enterprises with concerted efforts of various parties so as to build a service ecosystem. Also, the Company 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 the end of the reporting period, the Company had a total of 23,607 registered customers under "Qian Ying Zhan Yi (千鷹展翼)", representing an increase of 1,586 registered customers on the basis of customer base adjustment at the beginning of the year. During the reporting period, a total of 37 companies in the "Qian Ying Zhan Yi (千鷹展翼)" customer base had successfully listed in Mainland China and each of them opened a special account with the Company for their proceeds from listing. The proportion of special accounts for proceeds from listing opened by small- and medium-sized enterprises and companies listed on the GEM was 40%, continued to rank first in the market. The total amount of the credit lines granted to such customers as at the end of the reporting period amounted to RMB154.013 billion with the balance of loans granted to such customers amounting to RMB30.281 billion.

The main purpose of the Company's syndicated loan business is to enhance interbank cooperation and information sharing, and to spread the risks associated with large-amount loans. As at the end of the reporting period, the balance of syndicated loans amounted to RMB160.289 billion, up by 10.77% as compared with the end of the previous year.

Bill business

During the reporting period, the Company's bill business, by leveraging on its Fintech advantages and system advantages, further enhanced its market competitiveness and the customer experience through continuous product innovation and process optimisation. Firstly, in order to make the forward-looking preparations for the forward settlements of enterprises and the securitisation trend of short-term financing, the Company initially completed the development of "Bills Manager", a complete bills service platform, becoming the first large and medium-sized commercial bank in the market to provide enterprises with the non-stop comprehensive bills service. Secondly, our product innovation efforts have produced remarkable results. Thanks to the outward expansion in the service scope of the Bills Manager platform, the Company has become one of the first three pilot banks of the "Piao Fu Tong (票付通)" product and successfully completed the first transaction in the market. In addition, it has also gained its first-mover advantage in serving the bills settlement business of B2B e-commerce platforms, enhanced its industrial Internet service capability and created an opportunity for the expansion of corporate customers by batch in a cost-efficient way. The Company first launched the "Online Bills Discounting (在線貼現)" service into the market based on its online banking service platform and mobile APP platform, which sets the bills discounting business free from the limitation of space and time and enables its customers to "get discounted at one click", thus serving the long-tail customers of bills discounting by batch in an efficient and low-cost way and effectively improving its capability to serve the real economy. Thirdly, the Company constantly enhanced customer experience and accelerated process optimisation, thereby significantly enhancing its product service efficiency and continuously improving its customer recognition.

During the reporting period, the Company had 66,533 customers of bill business, representing a year-on-year increase of 53.84%, and its bills direct discounting business amounted to RMB1,025.514 billion, representing a year-on-year increase of 30.95%, ranking second in the market in terms of business volume (data from the China Banking Association). As at the end of the reporting period, the bill discounting balance of the Company amounted to RMB145.633 billion, representing an increase of 28.11% from the end of the previous year.

With respect to discounted bill transfer business, the discounted bills transferred to other banks or financial institutions amounted to RMB717.649 billion, with a year-on-year decrease of 77.01% due to the implementation of the New Regulation on Asset Management during the reporting period. Business in central bank bill rediscounting amounted to RMB119.426 billion, with a year-on-year growth of 33.22%. The volume of both discounted bill transfer and bill rediscounting continued to stay ahead in the industry.

Corporate customer deposits

During the reporting period, the Company focused on the segmentation- and classification-based management, as well as the intensive management of corporate customer bases, refocused on its business origin, and centred on the two competitive product lines of transaction banking and investment banking to serve its customers, enhancing the overall contribution and loyalty of its customers while realising a steady growth in corporate deposits. As at the end of the reporting period, the balance of corporate customer deposits amounted to RMB2,774.696 billion, representing an increase of 4.36% as compared with the end of the previous year; the daily average balance amounted to RMB2,738.819 billion, representing an increase of 5.34% as compared with the previous year; the demand deposits accounted for 56.06% of the balance of the daily average deposits from our corporate customers. During the reporting period, the average cost ratio of deposits from corporate customers was 1.68%, up by 0.17 percentage point year-on-year.

Transaction banking business and offshore banking business

With respect to the settlement and cash management, the Company continued to promote the system construction of corporate account management as well as payment and settlement, optimised and upgraded basic settlement products from the perspective of enhancing customer experience, and enlarged customers' settlement flow and settlement activity in the Company. Thanks to its continuous efforts to consolidate the "C+ Cash Settlement Solution" brand, the Company recorded 298,400 newly opened accounts. During the reporting period, the Company launched "All-in-one Cards for Company (公司一卡通)" highlighting "integration of all functions" with a combination of identification, account management, deposit, withdrawal and transfer of funds. As at the end of the reporting period, the number of "All-in-one Cards for Company" customers reached 1,291,900, accounting for 69.53% of the total number of corporate customers, and the total number of accounts opened reached 2,525,700. Focusing on the management of accounts with different tiers, accounts both onshore and offshore, as well as the management of capital liquidity and the value-added need of strategic corporate customers, the Company continued to advance the optimisation and promotion of Innovative Settlement Deposits, Virtual Cash Pool, Multi-level Cash Pool, Global Cash Management (GCM) and other products. As at the end of the reporting period, the Company had a total of 1,709,800 customers using its cash management service, representing an increase of 22.48% as compared with the end of the previous year. The Company upgraded its cash management platform, enriched the product offering, launched a special Cross-bank Solution for Cash Management for small-sized and medium-sized enterprises (CBS mini), released unified version of the Treasury Management System (TMS) and CBS APP3.0 applicable to financial companies, and became the first bank in the industry to launch the CBS-TT cloud platform solution for global cash management. The Company offered its cash management services to 2,120 group customers in total, the number of member enterprises under management reached 50,800, and the transaction amount exceeded RMB10 trillion. At the same time, the Company explored scenario operation of different demands from business customers, and launched various products including aggregated collection (聚合收款), "Transaction Keeper (交易管家)", "Yin Fa Tong (銀法通)", the e-payment system for aggregate tax payments with customs, "Cloud Bill (雲賬單)" B2B payment system and others.

In terms of trade finance, the Company actively promoted the "light capital" business model to optimise the business operation process, focused on serving strategic customers' international trade financing business, strengthened the promotion of key products such as "Making Payments on Behalf of Customers for Imports & Exports (進出口代付)", "Engineering Guarantee (工程保)" business and packaged non-recourse export factoring, and innovated on "Export Pool Finance (出口池融資)" products to promote the steady growth of international trade financing investment through various measures. During the reporting period, the on- and off-balance sheet financing for international trade of the Company amounted to USD18.953 billion, representing a year-on-year increase of 9.55%. At the same time, in domestic trade financing, the Company actively optimised business processes, promoted online factoring business and vigorously promoted featured factoring business to meet customers' deleveraging needs. Through buyer's non-recourse factoring, joint factoring, refactoring and other products, the Company improved its market penetration capability in the industries of pharmaceutical circulation and infrastructure. During the reporting period, the Company's domestic factoring business amounted to RMB233.067 billion, representing a year-on-year growth of 33.50%, of which featured factoring business accounted for RMB44.565 billion.

With respect to its cross-border finance, the Company focused on five major scenarios covering enterprise cross-border procurement, sales, investment, financing and financial management, launched the comprehensive cross-border finance services for 10 industries, and promoted the transformation of marketing model from a single product portfolio to a comprehensive industry operation. At the same time, the Company continued to optimise the basic international business processes and promote online services, launched SWIFT GPI system, electronic bills system for trade in goods, etc., so as to promote paperless operation and real-time exchange of remittance information. As at the end of the reporting period, the onshore international settlements of the Company amounted to USD203.516 billion. The foreign exchange settlements amounted to USD134.945 billion.

With respect to its offshore businesses, the Company returned to its origin of customer service, focused on customers from the new economic sectors, and explored sales to targeted unicorns and quasi-unicorn enterprises through a carefully compiled list; promoted business transformation and innovation, accelerated Fintech application, improved the ability to serve customers through system building, and promoted management refinement. As at the end of the reporting period, the balance of deposits from offshore customers of the Company amounted to USD14.260 billion, the balance of loans granted to offshore customers amounted to USD7.924 billion, and the non-performing loan ratio was 0.27%. During the reporting period, the international settlements amounted to USD287.896 billion.

Investment banking business

During the reporting period, the Company continued to adhere to the strategy of integrating investment banking and commercial banking, and actively capitalised on asset structuring and asset sales as the dual engines to achieve the steady development of investment banking business.

With respect to its bonds underwriting business, the Company further consolidated its professional management team and strengthened the relationship management with its bond investors to capture the market opportunities, thus achieving record high in terms of bonds underwriting and market ranking. Meanwhile, the Company actively responded to the call of the State by assisting state-owned enterprises to revitalise stock assets and deleverage, and launched the first bill backed with off-balance-sheet assets for the project receivables of state-owned enterprises, as well as the first secondary perpetual medium-term note. The Company also assisted private enterprises to resolve their financing difficulties, launched the first special bond backed by private enterprises in the interbank market, became the first joint-stock bank in the market to independently launch the credit risk release certificate for private enterprises, and so on. During the reporting period, the bonds with the Company as the lead underwriter amounted to RMB480.419 billion, representing a year-on-year growth of 69.32%, among which, its ranking in the debt financing instrument issuance market of non-financial enterprises up by one place as compared with the previous year, and ranking second among the lead underwriters of banks in the non-policy financial bonds market (as per the ranking by WIND public data).

With respect to its M&A financing business, on the basis of maintaining traditionally competitive businesses such as M&A financing, the Company actively developed M&A financial consultant and syndicated distribution business, which further enriched its M&A services. During the reporting period, despite a substantial decrease in the amount of domestic M&A transactions as compared with the previous year, our M&A business had managed to reverse the trend and realised M&A transaction of RMB101.718 billion. "Syndicated Loan Project for CIC International's Acquisition of Logicor Group under Blackstone" won the "Best Syndicated Loan Project Award" in 2018 issued by China Banking; "Syndicated Loan Project for the Privatisation of Global Logistic Properties Limited" won the "Best Financing Project in Asia-Pacific Region" issued by Thomson Reuters.

With respect to its structural financing business, the Company actively complied with the regulatory requirements and adapted to changes in market trends, and took market deal matching business as a breakthrough. At the same time, a market trading system "Zhao Tou Xing (招投星)" was launched, so as to establish a non-stop, integrated and intelligent investment and financing service platform for all processes. The Company also actively directed resources at both the asset and capital ends, to provide high quality services on asset structuring and sales and to drive the overall business development. During the reporting period, the Company realised structural financing of RMB13.889 billion, of which market deal matching amounted to approximately RMB70.0 billion.

With respect to its equity capital market business, the Company actively adhered to the new regulatory policies. Through activating the stock assets and combining with the macro themes of the State-owned Enterprise Mixed Ownership Reform and industrial upgrading, the Company actively served the new economy and customers with new growth engines. During the reporting period, the equity capital market business of the Company amounted to RMB11.149 billion.

Financial institution business

With respect to its financial institutions asset and liability business, the Company continued to deepen the management of financial institution customers, optimised its financial institutions deposit structure and supported the liquidity management of the whole Bank. As of the end of the reporting period, the balance of financial institutions deposits of the Company amounted to RMB450.706 billion, representing an increase of 6.99% as compared with the end of the previous year. Among them, the total amount of financial institutions demand deposits in the areas of fund clearing, settlement and depository service reported a balance of RMB327.484 billion, representing an increase of 13.46% as compared with the end of the previous year and accounting for 72.66% of the total amount. The Bank maintained a leading position in terms of scale and percentage of demand deposits among the small and medium-sized banks in China.

With respect to its depository service, during the reporting period, the Company's security and future margin depository service was in stable operation, with third-party depository services extended to 102 securities companies and 9,854,300 new customers secured at the end of the reporting period, representing an increase of 9.25% as compared with the end of the previous year. In addition, the Company entered into cooperation with 86 securities companies on margin trading and short selling business, securing 373,000 new customers at the end of the reporting period, representing an increase of 5.34% as compared with the end of the previous year. Also, the Company entered into cooperation with 51 securities companies on stock options business, securing 18,900 customers at the end of the reporting period, representing an increase of 36.96% as compared with the end of the previous year.

With respect to interbank clearing, as at the end of the reporting period, the number of the cross-border RMB accounts opened by banks and other financial institutions with the Company accumulated to 232, ranking first among all small- and medium-sized banks in China (according to the data released by the PBOC). There were 170 customers which participated indirectly in the RMB Cross-border Interbank Payment System (CIPS), ranking first among all small- and medium-sized banks in China and second in the industry (according to the data released by the CIPS).

With respect to the businesses on "Zhao Ying Tong (招赢通)" Interbank Online Service Platform, as at the end of the reporting period, the number of financial institutions registered on our "Zhao Ying Tong (招赢通)" platform of the Company reached 2,043 and, during the reporting period, the online business volume amounted to RMB825.179 billion, and the online trading replacement ratio of the platform exceeded 80%.

Asset management business

As at the end of the reporting period, the balance of the Company's wealth management products (excluding structured deposits)[11] amounted to RMB1.96 trillion, representing an increase of 4.60% as compared with the end of the previous year calculated on the same statistical calibre. According to the information of the CBIRC, as at the end of the reporting period, the total fund values of the Company's wealth management products and off-balance sheet wealth management products ranked second among the commercial banks.

During the reporting period, the Company scored a number of achievements in terms of wealth management product transformation, asset management business transformation, asset allocation and risk management.

11 The balance of wealth management products (excluding structured deposits) is the sum of customers' principal in the on- and off-balance sheet wealth management products under management by the Company and the changes in net value of net-value products as at the end of the reporting period.

Firstly, the Company formulated a product transformation strategy, continued to promote the innovation and creation of wealth management products and compliance rectification, which further enriched wealth management product lines. During the reporting period, in compliance with the regulatory policy requirements, the Company took the following measures: first, after considering customers' risk-return preferences and the Company's strength in investment operation, the Company developed a product transformation strategy and implementation plan during the transition period; second, the Company reduced the wealth management products with principle guaranteed, products with expected returns and other products that did not meet the requirements of the New Regulation on Asset Management in a steady and orderly manner, while transferred the management functions regarding structured deposits to the department which is responsible for managing on-balance sheet items; third, the Company, adhering to the direction of wealth management product compliance transformation, took advantage from the Company's accumulated experience and customer base acquired from early implementation of transformation to net-value products, promoted the direct transition of net-worth products that meet the net-value management requirements under the New Regulation on Asset Management into compliant net-worth products, with a focus on promoting the transformation of existing quasi net-value products[12] into compliant net-value products, while introducing wealth management products in compliance with the new regulations, which led to initial success in the promotion of new products. As at the end of the reporting period, the Company's net-value products that meet the requirements of the New Regulation on Asset Management accounted for 14.04% of the balance of wealth management products.

Secondly, the Company undertook inspection of wealth management assets and formulated special transitional rectification plan for wealth management assets. In accordance with the requirements of the relevant provisions of the New Regulation on Asset Management, the Company immediately initiated the inspection of wealth management assets during the reporting period, and initially formulated and optimised the overall plan for the transformation management during the transition period of the assets under the wealth management business. The plan confirmed the principal transformation and rectification models adopted for the Company's existing wealth management assets during the transition period for compliance with the new regulation, refined the progress plan and work schedule of asset transformation, put forward a clear management plan and suggestions for new assets acquired during the transition period, and formed the approval process and implementation procedure based on the principle of "different policy for each customer", so as to specify the post-investment management requirements during the duration of wealth management products.

Thirdly, the Company made appropriate allocation of various types of assets, gradually adjusted the asset allocation structure, and adhered to the purpose of serving the real economy. During the reporting period, aiming to raise the return-on-risk ratio of asset allocation, the Company increased its resources and investment in research and improved investment capabilities of standardised financial assets. Wealth management capital flows were directed towards the real economy resulting in positive social benefits. With respect to bonds assets, the Company adhered to the principle of "independent investment first, entrusted investment second" in the related investment. As at the end of the reporting period, wealth management funds invested in the bond market totalled RMB1,257.112 billion, and the proportion of bond assets rose 7.36 percentage points as compared with the end of the previous year. With respect to credit assets, the Company grasped the trend towards investing in standardised assets in the market and vigorously supported standardised asset investments including asset securitisation programs. As at the end of the reporting period, balance of investment in asset securitisation products financed by wealth management funds amounted to RMB218.150 billion. While making non-standardised credit investments within the quota limit in strict compliance with the regulatory guidance, the balance of wealth management funds invested in non-standard assets of the Company amounted to RMB155.856 billion as at the end of the reporting period, and the quality of its non-standardised credit assets remained stable. With respect to equity assets, focusing on the strategic customers of the Company and the industrial leading companies, "Tou Rong Tong" business for listed companies was steadily carried out which catered to the full-range demand for investment and financing during the transformation and growth of enterprises with risk level being generally controllable.

Fourthly, the Company constantly improved its risk management capability in asset management business according to the requirements of the new regulation. During the reporting period, the Company revised and improved the risk management systems of various asset management businesses, streamlined and optimised the asset management business process, strengthened the surveillance of market risk and credit risk at asset-end and product-end, and enhanced the independent liquidity management capability of the asset management business. By doing so, the Company continued to lay a strong foundation for post-investment management and improved the overall risk management capability of asset management business.

For the analysis of the new policy on asset management business, please refer to section 3.9.1.

[12] Quasi net-value products represent products launched by the Company during the reporting period that basically meet the new net-value product management requirements of the New Regulation on Asset Management. The Company's quasi net-value products can be transformed into net-value products that meet the requirements of the New Regulation on Asset Management following the independent custody transformation, rectification of maturity matching of underlying assets and investment concentration as well as adjustment of the valuation method to fair-value calculation of some underlying assets.

Asset custody business

In 2018, with the implementation of the New Regulation on Asset Management and supporting policies, the asset management business was directed back to its origin. As a result, the growth rate of assets under custody of the Bank declined. As at the end of the reporting period, the balance of assets under custody of the Company was RMB12.35 trillion, 3.17% higher compared to the end of the previous year, and continued to rank second in the domestic custody industry (data from China Banking Association). During the reporting period, the Company realised a custodian fee income of RMB4.439 billion, down by 8.57% year-on-year, ranking the third in the domestic custody industry (data from China Banking Association).

During the reporting period, the Company put more efforts into marketing custody products such as mutual fund under custody, insurance products and pensions. It obtained the qualification of depositary under the CBIRC's Pilot Program of Depositary Receipts, consolidating the market position of the Company in the domestic custody industry. Thanks to its continuous optimisation of functions of the custodian system and business processes, the Company became the first bank in the industry to officially release the custodian Big Data platform, and was also the first to achieve the robot process automation technology (RPA) for applications in the custody business, allowing its custody systems to outperform its industrial peers. The Company's "Risk Management System for Custodian Big Data Platform" was awarded the first prize in the "Golden Idea" program initiated by CBIRC. The Company implemented whole life cycle management of custody products, effectively guarded against risks to which custody business exposed to, and effectively fulfilled the responsibilities of custodian.

Financial markets business

In 2018, facing the complexity and difficulties of the global economy, the Chinese economy was under downward pressure and the interest rate of the RMB bond market fell sharply. The volatility of the foreign exchange market intensified, with the US dollar depreciating first and then appreciating while the RMB exchange rate experiencing the reverse trend subsequently, which made the annual fluctuation amplitude exceed 7,300 basis points and recorded the maximum fluctuation since the 1994 exchange rate reform. By adjusting the position structure, scaling up the duration, 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.

With respect to RMB bond investment, the Company moderately extended the portfolio duration of RMB bonds investment through in-depth study of domestic monetary policies and macroeconomic situation and seized the opportunities brought by the downward trend of the RMB bond interest rate. Meanwhile, the Company actively adjusted the position structure of banking accounts in order to improve the portfolio return and prevent the occurrence of credit risk events. With respect to foreign currency bonds investment, in the context of the Fed's interest rate hike, the Company appropriately shortened the portfolio duration of foreign currency bonds investment through close tracking of the monetary policies of the major countries and based on logical judgment of the international economic situation and market trends, so as to avoid the impact of increased interest rate of foreign currency bond market. The Company also grasped the opportunities arising from fluctuation in the spread of credit bonds and increased their range trading operation to effectively improve portfolio yields.

In 2018, the trading volume of RMB bonds of the Company reached RMB6.71 trillion, representing a year-on-year increase of 458.76%; the trading volume of RMB exchange rate swaps reached USD763.884 billion, basically remaining the same as the previous year; the trading volume of RMB-denominated options of the Company had reached USD158.356 billion in the interbank market, representing a year-on-year increase of 59.87%; the trading volume of wholesale customer derivatives had reached USD179.515 billion, representing a year-on-year increase of 84.30%; the trading volume of interest rate swap business reached RMB4.83 trillion, representing a year-on-year increase of 170.86%. According to the data from the China Foreign Exchange Trade System, the percentage of the trading volume of RMB options of the Company ranked first in the 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 distribution network of the Company is primarily located in the major economic centers 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 the end of the reporting period, the Company had 137 branches, 1,673 sub-branches, one dedicated branch-level operation center (credit card center), one representative office, 3,259 self-service centers, 10,316 self-service machines (including 1,212 automatic teller machines and 9,104 deposit-taking and cash withdrawal machines) and 12,897 visual counters in more than 130 cities of Mainland China. The Company also has 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 on the development, improvement and integration of e-banking channels, which serve to effectively relieve pressure on physical outlets of the Company. As at 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 88.10%; and the Company's replacement rate of transaction settlement through the whole-sale electronic channel was 92.96%.

Major retail e-banking channels

CMB APP

During the reporting period, the Company launched CMB APP 7.0 to build a leading financial technology ecosystem in the banking industry on the basis of "connectivity", "management" and "smart service". There were material upgradings in income and expenditure books, city services, fund channels, community upgrades and smart services, with up to 149 functions optimised to provide open and caring integrated financial services to nearly 80,000,000 users, making it the most dynamic e-channel of the Company.

As at the end of the reporting period, the number of CMB APP users in aggregate was 78,270,400, with 41,508,000 monthly active users, a total number of 4.580 billion logins and the average monthly logins of 11.94 per user during the reporting period. Meanwhile, the CMB APP transaction volume has been increasing rapidly, with 1,382 million APP transactions and a total transaction amount of RMB30.76 trillion during the reporting period, up by 33.91% and 72.13% respectively, as compared with the previous year. Among all these transactions, the number of wealth management transactions originated by 5,075,000 wealth management customers using CMB APP accounted for 79.37% of the Bank's total number of wealth management transactions, and a total wealth management sales value reached RMB6.26 trillion, representing an increase of 41.31% as compared with the previous year, and comprised 59.11% of the Bank's total wealth management sales.

CMB Life APP for Credit Card

During the reporting period, the Company continued to focus on upgrading mobile service capabilities with a customer-oriented vision, CMB Life APP as the platform and technology as impetus, while focusing on high-frequency daily consumption scenarios and creating quality life so as to lead the transformation of the credit card industry. As at the end of the reporting period, the total number of CMB Life APP users was 70,027,300, of which non-credit card users accounted for 24.38%. During the reporting period, the maximum number of daily active users of CMB Life APP reached 7,944,100, the number of monthly active users was 39,538,700, among which young customers accounted for over 70%. In terms of the number and online activity of customers, CMB Life APP continued to outperform other credit card APPs in the banking industry. At the same time, the Company actively explored the mobile value output model with high-contribution and high-efficiency to facilitate customer acquisition and achieved breakthrough in operations. During the reporting period, the total number of credit card users of CMB Life APP reached 3,844,400, and consumer financial transactions successfully completed through CMB Life APP accounted for 49.47% of total consumer financial transactions, demonstrating further recognition of the strategic position of CMB Life APP.

Smart WeChat Customer Service

The Company launched the "China Merchants Bank" WeChat Official Account as an important front for brand marketing and promotion of product functions. By integrating with hot issues to facilitate marketing and continuously enhancing brand penetration in young customer groups, the trust and popularity of targeting costumers to our products and the transformation efficiency was improved. As at the end of the reporting period, the "China Merchants Bank" WeChat Official Account had accumulated 16,544,300 followers.

As at the end of the reporting period, the Company gained a total of 122 million fans through third-party credit card channels (mainly from WeChat, Alipay service window and official QQ account). The Company continued to develop our smart service portfolio: promoting an upgrade of AI technology-driven smart services, introducing a new interactive form and AI core; launching the service traffic oriented decision engine, speeding up the efficiency of two-way coordination between intelligent robots and service specialists; achieving an innovative full-service coverage from traditional channels, third-party service channels to emerging service channels through the application of a leading voiceprint recognition system, an audio big data analysis platform, intelligent service robots and smart speaker service admission, so as to accelerate the formation of the APP service ecological closed loop and improve the integrated online service experience.

Direct banking

The Company provides instant, comprehensive, prompt and professional services to its customers through remote methods such as telephone, network and video to meet their needs.

In 2018, the Company constantly improved its service capability and customer experience. As a result, the manual telephone access ratio reached 98.52%; the percentage of manual telephone responses within 20 seconds reached 96.61%; and the satisfaction ratio of its telephone customer service reached 99.69%. In order to keep abreast with the trend of its customers increasingly moving to the mobile Internet, the Company actively strengthened its network service capabilities. In 2018, the online interactive services accounted for 85.15% (referring to the proportion of text online services in various types of remote consulting services), the text online interactive services have become the mainstream of remote consulting services. At the same time, the Company accelerated the pace of evolution into intelligent services, deepened the training and learning of intelligent robots, and enhanced algorithm optimisation. In 2018, the intelligent self-services accounted for 74.71% (referring to the proportion of services undertaken by intelligent robots in various remote consulting services). In 2018, our visual counters received an average of 2,550,000 incoming calls per month, with the highest number of single day transactions exceeding 143,000, showing high replacement effect of in-branch non-cash transactions.

In 2018, the Company continued to facilitate the maintenance of gold card and Sunflower customer base for its direct banking, serving 1,920,000 gold card and Sunflower customers, with the cost of customer maintenance effectively reduced. The Company also actively supported the quality micro-finance customers, with 56,500 micro-finance loans renewed, totalling RMB15.625 billion, with a retention rate of 82.40%.

Major wholesale e-banking channels

Online Corporate Banking

By fully leveraging the traditional advantages of online corporate banking and continually strengthening the construction of customer base of online corporate banking, the Company promoted initiating "online banking service refreshment" program distinguished by "user experience reshaping". As at the end of the reporting period, the number of online corporate banking customers of the Company had reached 1,688,900, representing an increase of 22.44% as compared with the end of the previous year, among which the number of monthly active customers was 823,400, representing an increase of 16.65% as compared with the end of the previous year. The total number of online corporate banking transactions of the Company reached 346,043,200 and total value of transactions amounted to RMB124.09 trillion.

CMB Corporate APP

In August 2018, the Company launched "CMB Corporate APP", a new enterprise-level mobile service platform, which focused on customer acquisition through flow redirection and in-depth management of SMEs. The Company also shared the basic business innovation system with online corporate banking customers to promote the construction of an open service platform. Since its launch, the number of customers of corporate mobile payment and its total number of transactions have grown rapidly. As at the end of the reporting period, the number of customers of CMB Corporate APP had reached 533,900; the number of transactions had reached 26,626,800 and total value of transactions amounted to RMB1,693.920 billion.

3.10.4 IT and R&D

During the reporting period, adhering to construction of the Fintech bank, the Company improved its infrastructure capacity, enhanced its system construction and operational support, increased its efforts in Fintech talent cultivation and recruitment, set up the Fintech college, and commenced the all-round cultivation of Fintech talents. The business development of the entire Bank is supported by three software centers in Shenzhen, Hangzhou and Chengdu and two data centers in Shenzhen and Shanghai.

With respect to basic platform construction, the Company accelerated structural transformation through Mobile Internet, Big Data, Cloud Computing, Artificial Intelligence, Blockchain and other cutting-edge technologies, and enhanced the concurrent application, big data calculation, high openness and high agility of application systems. **With respect to the development of application systems,** the Company launched CMB APP 7.0, CMB Life APP 7.0 during the reporting period, leading Retail 3.0 transformation reform; it launched CMB Corporate APP 5.0, establishing the non-stop corporate service ecosystem; CBS APP 3.0 was put online, which satisfied the demand of mobile cash management of conglomerates; CMB Huijin (招銀匯金) APP was put online to provide an integrated trading and information service platform for retail customers. The Company promoted the construction of Outlet 3.0 to improve the "network-based, digitised and intelligence-oriented" operation. The Company has formed a customer-centric financial service ecosystem through building a scenario development platform with some typical scenarios such as public transportation, parking, education and health-care and offering Fintech capabilities. **With respect to overseas support,** the Head Office managed and supported the construction and improvement of the core business systems and data warehouses of overseas branches, as well as the operation and maintenance of IT systems, which greatly reduced the IT costs of overseas branches, enhanced the capabilities of IT systems and effectively supported the business development of overseas branches. **With respect to security and stability**, the overall operation of the system was stable in the whole year, and the availability of the core accounting system and the backbone network kept ahead, with its system well-prepared and handling the transaction peaks with ease during the online shopping carnival of "Double 11 (11 November)" and the system support capability greatly improved. **With respect to R&D management**, the Company used technology agility to drive business agility and launched the Lean R&D Management System V1.0, so as to promote the in-depth integration of IT and businesses and constantly enhance its prompt response and delivery capability. **With respect to "industry – university – science" partnership**, the Company propelled "industry – university – science" partnership with Stanford University, The Wharton School, Tsinghua University, Chinese Academy of Science and Technology and Shanghai Jiaotong University to intensify research and innovation application of cutting-edge Fintech; it also joined hands with relevant partners to release the enterprise-level distributed database in an innovative way.

3.10.5 Overseas branches

Hong Kong Branch

Established in 2002, our Hong Kong Branch is the first branch duly established overseas by the Group. As a full-licensed bank and a registered institution with SFC, the Hong Kong Branch may engage in comprehensive commercial banking businesses, including 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, settlement, trade facilities, bilateral loans, syndicated loans, cross-border M&A portfolio solutions and asset custody, and engages in transaction of funds among financial institutions, bond trading and foreign exchange trading, and conducts funds clearing and asset transfer with financial institution customers. With respect to retail banking, the Hong Kong Branch proactively develops featured retail banking services and provides cross-border personal banking services and private wealth management 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 2018, by giving full play to its own characteristics and leveraging the advantages of Hong Kong's status as an international financial center, the Hong Kong Branch actively served the "going global" strategy and focused on the strategic opportunities such as "The Belt and Road" initiative, "Internationalisation of RMB" and "Guangdong-Hong Kong-Macao Greater Bay Area", greatly promoted cross-border business coordination, continually developed the local customer base, constantly expanded its market share, and provided customers with strong financial support and good service. Meanwhile, the Hong Kong Branch further strengthened risk compliance and internal basis management, constantly improved and innovated its product and service systems and strove to explore the asset operation model. As a result, all its businesses achieved healthy development. During the reporting period, the Hong Kong Branch realised net operating income of HK$3.323 billion and a profit before tax of HK$2.922 billion.

New York Branch

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

In 2018, our New York Branch adhered to the principle of "taking compliance as a priority and maintaining steady operation" and aimed to build a featured cross-border financial platform. The New York Board made positive progress in expanding Sino-US cross-border business, developing local business, product innovation and customer accumulation, enabling it to achieve a steady growth in business and profits, laying a solid foundation for the subsequent business transformation. During the reporting period, our New York Branch realised net operating income of USD128 million and a profit before tax of USD53,270,000.

Singapore Branch

Established in 2013, our Singapore Branch is positioned as a significant cross-border financial platform in Southeast Asia. Based in Singapore and expanding to Southeast Asia, the Singapore Branch takes two major businesses of cross-border finance and wealth management as its core and strives to provide all-round non-stop solutions for cross-border finance to the Chinese companies "going global" and the companies "brought in" located in Singapore and other Southeast Asian countries. Its major services and products include: funds settlement, deposit service, foreign exchange trading, coordination financing, trade financing, M&A loans, syndicated loans, real estate trust leveraged financing and delisting financing. With respect to wealth management business, the Private Banking (Singapore) Center was officially launched in April 2017 to provide private banking products and value-added services with integrated investment and financing solutions, such as cash management, asset allocation and heritage of wealth to high-net-value customers.

In 2018, the Singapore Branch adhered to the operating strategy of concurrent development of cross-border financing business and local business, and focused on the domestic strategic customers to "go global" from the Head Office and branches of the Company. Moreover, it actively studied the opportunities arising from the infrastructure construction projects of the countries involved in "The Belt and Road" initiative and seized the business opportunities. As a result, all its businesses achieved steady and healthy development. During the reporting period, our Singapore Branch realised the net operating income of USD22,960,000 and a profit before tax of USD2,450,000.

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 an operational 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 2018, the Luxembourg Branch adapted itself to changes in the relevant policies, grasped market opportunities and achieved steady business growth through efficient services and close cooperation with other banks and financial institutions at home and abroad. During the reporting period, our Luxembourg Branch realised net operating income of €15,470,000 and a profit before tax of €2,340,000.

London Branch

Established in 2016, the London Branch of the Company is the first branch approved directly 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 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 institution customers. For nearly three years since its establishment, our London Branch has operated in compliance with regulatory requirements. Its business has developed steadily.

In 2018, our London Branch carried on its innovative business development. It derived a considerable amount of foreign exchange trading business on behalf of customers through asset business besides proceeding traditional businesses such as accepting guarantees from domestic enterprise as security for loans granted to overseas entity and accepting guarantees from overseas entity as security for loans granted to domestic enterprise, but also in terms of new business offerings such as time deposits, mortgage loans, development loans, standby L/C re-issuance and confident letter issuance. During the reporting period, our London Branch realised an net operating income of USD19,290,000 and a profit before tax of USD8,950,000.

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 2018, on the basis of compliant operation, the Sydney Branch endeavored to promote various business developments, and proactively established a steady and sustainable development model with its own features. During the reporting period, the Sydney Branch realised the net operating income of AUD10,830,000 and recorded a pre-tax loss of AUD7,170,000.

3.10.6 CMB Wing Lung Group

Founded in 1933, CMB Wing Lung Bank has a registered capital of HK$1.161 billion as at the end of the reporting period, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of CMB Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, private banking and wealth management, investment, securities, credit cards, NET banking, mobile banking, global cash management, syndicated loans, corporate financing, documentary bills, leasing and hire purchase loans, foreign exchange, insurance agency, mandatory provident fund, insurance brokerage and general insurance underwriting, property management and trustee, nominee and asset management services. At present, CMB Wing Lung Bank has a total of 35 banking offices in Hong Kong, four branches and sub-branches in Mainland China, one branch in Macau, and two overseas branches, located respectively in Los Angeles and San Francisco, the United States. As at the end of the reporting period, the total number of employees of CMB Wing Lung Group is 1,935.

In 2018, CMB Wing Lung Group posted an attributable profit to shareholders of HK$3.219 billion and achieved an operating income of HK$6.188 billion, of which net interest income was HK$4.765 billion and net non-interest income was HK$1.423 billion. The cost-to-income ratio was 35.05%.

As at the end of the reporting period, the total assets of CMB Wing Lung Group amounted to HK$314.478 billion. Total equity attributable to shareholders amounted to HK$35.432 billion. Total loans and advances to customers (including trade bills) amounted to HK$162.466 billion. Deposits from customers amounted to HK$221.329 billion. The loan-to-deposit ratio was 68.59%. The non-performing loan ratio (including trade bills) was 0.52%. The total capital ratio was 17.98%, and the average liquidity coverage ratio for the fourth quarter of 2018 was 166.28%, all above the regulatory requirements.

For detailed financial information on CMB Wing Lung Group, please refer to the 2018 annual report of CMB Wing Lung Bank, which is published on the website of CMB Wing Lung Bank (www.cmbwinglungbank.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 in March 2008 and wholly owned by the Company with a registered capital of RMB6.0 billion and 267 employees. CMB Financial Leasing has adhered to its operation and development strategy of "internationalisation, professionalisation and differentiation", carried out its international presence of aircraft and vessel assets, upgraded key national equipment manufacturing under the professional support, responded to the construction of "The Belt and Road" initiative by provision of differentiated service and launched the financial solutions for the ten sectors of aviation, shipping, urban transportation, high-end equipment, public utilities, energy saving and environmental protection, clean energy, health culture, emerging industries 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.

As at the end of the reporting period, the total assets of CMB Financial Leasing amounted to RMB171.296 billion, and its net assets amounted to RMB17.944 billion. It realised net profit of RMB2.215 billion during the reporting period.

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 436 employees. At present, the business scope of CMB International Capital and its subsidiaries mainly covers corporate finance, asset management, wealth management, stocks and structured finance.

As at the end of the reporting period, the total assets of CMB International Capital amounted to HK$23.571 billion, and its net assets amounted to HK$7.805 billion. It realised net profit of HK$756 million during the reporting period. During the reporting period, CMB International Capital had a market share of approximately 5.9% in terms of IPO underwriting in Hong Kong, ranking first (public data from Bloomberg).

3.10.9 China Merchants Fund

Established on 27 December 2002, China Merchants Fund had a registered capital of RMB1.31 billion and 397 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 the end of the reporting period, the total assets of China Merchants Fund amounted to RMB6.612 billion, and its net assets amounted to RMB4.872 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries) amounted to RMB944.414 billion. It realised net profit of RMB894 million during the reporting period.

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 3,266 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 the end of the reporting period, the total assets of CIGNA & CMB Life Insurance amounted to RMB45.332 billion, and its net assets amounted to RMB5.783 billion. During the reporting period, CIGNA & CMB Life Insurance realised a premium income of RMB15.062 billion. It realised net profit of RMB1.045 billion during the reporting period.

3.11 Risk management

The Company 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.

During the reporting period, 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

Firstly, making steady progress in the development of a comprehensive risk management system while improving the concentrated customer risk management mechanism. The Company has been optimising the risk preference conveyance and management mechanism; co-ordinating overall planning and steadily promoting the consolidated management of affiliated institutions; improving the cross-financial risk management structure and its mechanisms, establishing various market tracking and monitoring mechanisms; standardising product innovation management, fortifying the approval and management for counterparties and cooperative institutions; strengthening identification of major risk as well as assessment and management mechanisms. **Secondly, building an industry research system for new growth engines while consolidating the customer base**. The Company has set up an industry research center, built an industry research system, and formulated industrial credit policies, loan approval standards and targeted customer lists for 12 new growth engines, carried out name list management for the strategic customers of the Head Office and branches as well as customers of industries from which our loans should be reduced and recovered, and established a future-oriented, sustainable and health customer base. **Thirdly, fully implementing the allowance policy for expected credit loss under IFRS 9.** The Company has achieved the refined management of risk costs based on customer ratings and debt ratings, guided credit resource allocation and customer selection with risk pricing mechanism, and gradually established a customer-centric risk management perspective. **Fourthly, consolidating the management foundation while constantly promoting the whole-process credit optimisation.** By organising special group of experts, sorting out and optimising key processes of credit operation, 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. **Fifthly, using Fintech services to enhance the quality and efficiency of risk management**. The Company introduced Big Data and Fintech, strengthened the knowledge graph system of internal and external data visualisation, stressed on customer risk control, enhanced capabilities of risk identification, and improved the automation, process, specialisation and centralisation of risk management processes. **Sixthly, strengthening the control and follow up on asset quality and risk screening while preventing and controlling risks in a perspective manner**. Adhering to careful screening of risks in respect of major corporate customers, the Company implemented the "different policy for each customer" control measures, and conducted regular inspections to achieve "early pre-warning and early disposal". Attaching importance to overdue loans and tightening its control on them, the Company optimised risk reporting mechanisms and strategies to enhance the sensitivity and perspectiveness of risk identification. **Seventhly, increasing the channels for disposal of non-performing assets while accelerating the disposal of risk assets.** The Company has been strengthening clearing and collection of non-performing assets in cash while continuously promoting the write-off of non-performing assets and securitisation of assets, proactively exploring debt-to-equity conversion, making use of a number of methods to manage risk assets and continuously improving its non-performing assets management capability.

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 61(a) to the financial statements.

3.11.2 Management of large-scale risk exposure

In accordance with the "Management Measures for Large-Scale Risk Exposure of Commercial Banks" (CBIRC Order 2018 No. 1) (《商業銀行大額風險暴露管理辦法》(銀保監會2018年1號令)) issued by the CBIRC, large-scale risk exposure refers to the credit risk exposure (including various credit risk exposures in the banking book and trading book) to a single customer or a group of related customers of a commercial bank that exceeds 2.5% of its net Tier 1 capital. The Company has incorporated large-scale risk exposure management into its overall risk management system, and measured and dynamically monitored changes in large-scale risk exposure, so as to effectively controlled customer concentration risks. As at the end of the reporting period, other than customers with regulatory exemption, single non-financial institution customers, group non-financial institution customers, single financial institution customers and group financial institution customers of the Company that reached the standards of large-scale risk exposure were all in compliance with the regulatory requirements.

3.11.3 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, 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 allowances on a quarterly basis. As at the end of the reporting period, the assets of the Company exposed to the country risk remained insignificant, and this indicated low country risk ratings. Moreover, we have made adequate allowances for country risk according to the regulatory requirements. As a result, the country risk will not have material effect on the operations of the Company.

3.11.4 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.

Interest rate risk management

Trading book

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering interest rate risk factors of various currencies and durations 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 300 basis points and cover the extremely unfavorable conditions of the 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 1 basis point. As for daily risk management, the annual 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.

Since 2018, domestic economic growth momentum has weakened; GDP growth rate has declined; corporate financing chains have tightened; credit bond defaults have increased. The international situation has become increasingly complicated. External factors such as Sino-US trade frictions, changes in the US economy and overseas stock markets have also increased market turbulence. Under this situation, the central bank maintained a reasonably sufficient level of funds through targeted interest rate cut and open market operations, and the short-term market interest rate decreased significantly. However, due to the overall downward pressure on the fundamental economy, the long-term interest rate had a relatively small downward trend. The differentiation in credit spread further intensified, and the medium and low rating credit spreads expanded significantly. In respect of overseas, the US macroeconomic performance was strong. The Federal Reserve raised interest rates four times during the year, and the yield of USD bonds showed an upward trend throughout the year.

The investment scope of the trading book of the Company focused on RMB bonds, especially domestic interest rate bonds, and had strict control on credit bond investments. Under the general recovery of the domestic bond market, the investment portfolio for trading book of the Company received good returns, and various interest rate risk indicators were within the target range.

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, and 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 2018, the central bank cut the benchmark interest rate four times, and the market yield rate showed a high-trend at the beginning and a low-trend at the end for the whole year. Among which, the medium-to-long term yields reduced significantly with narrowed spreads between interest rates with different durations. 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 flexible adjustment to the strategy of the proactive management of interest rate risks. In terms of asset investment, the Company proactively extended the durations of RMB bonds investments; in terms of liability management, the Company fully utilised the favorable conditions of monetary policy to maintain "reasonably adequate", rationally arranged active liabilities, replaced high-cost liabilities, and effectively managed the interest rate risk of the Company during the interest cut period. The results of stress test also showed that the various indicators stayed within the limits and prewarning values, and the banking account interest rate risks were at a relatively low level.

In 2018, in accordance with the Guidelines on the Management of Interest Rate Risk of Banking Book of Commercial Banks (Revised) issued by the CBIRC, the Company has completed the comprehensive consolidation and revision of the existing interest rate risk policy system and operating procedures for internal banking book, and has fully satisfied the regulatory requirements in measurement methods, quantitative risk level, system building and modeling.

Exchange rate risk management

Trading book

The Company uses the risk indicators such as risk exposure indicator, market risk value indicator (VaR, covering foreign exchange rate risk factors of various currencies 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. VaR includes general VaR and stress VaR, which are both calculated using historical simulation model and adopt 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, changed 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 annual 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 2018, the US economic data recorded strong performance, and the Federal Reserve raised interest rates several times, which constituted a strong driving force for the US Dollar index. Under the factors of Sino-US trade friction, overseas stock market turmoil, and downturns of emerging markets, the overall fluctuation of the exchange rate market intensified. For the whole year, the US Dollar index rose by 4.68%, and the USD RMB spot exchange rate fell by 5.43%. The volatility of the offshore and onshore exchange rate with various durations increased, and the daily maximum change of the USD RMB spot exchange rate reached 664bps.

Under this background, the Company mainly relied on foreign exchange trading business on behalf of customers to obtain stable spread income, and strengthened the control of the limit indicators such as the exposure of proprietary business, sensitivity index and stop-loss, and all exchange rate risk indicators of trading book were within the target range.

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 historical extreme fluctuations, each scenario could simulate the impact on the Company's profit or loss. The effects of certain scenarios on the profit or loss and its percentage to net capital as a limit indicator are incorporated into daily management. The Company conducts back-testing and assessment on relevant model parameters on a regular basis to verify the effectiveness of measurement models.

The Company regularly measures and analyses foreign exchange exposure of banking book and scenario simulation results, monitors and reports exchange rate risk on a monthly basis under its quota limit framework, and adjusts its foreign exchange exposure accordingly based on the trend of foreign exchange movements, so as to mitigate the relevant foreign exchange risk of banking book. The Audit Department of the Company is responsible for overall auditing of our exchange rate risk.

During the reporting period, the Company paid close attention to exchange rate movements, took initiative to analyse the impact of exchange rate changes in light of the macroeconomic conditions at home and abroad, and proposed a balance sheet optimisation plan as a reasonable reference for the management's decision-making. In 2018, the exchange rate fluctuation range of the RMB increased significantly. In the face of the new international economic landscape, the Company strengthened its analysis of the macro-economy in the United States and Sino-U. S. trade frictions, and further optimised measurement of the exchange risks. The Company had a prudent exchange rate appetite, and the size of foreign exchange exposure was at a relatively low level. At present, the exchange rate risk of the Company is generally stable, with all the core limit indicators, general scenario and stress testing results satisfying the regulatory requirement.

For more information about the Company's market risk management, please refer to Note 61(b) to the financial statements.

3.11.5 Operational risk management

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

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company continued to improve its operational risk management. Firstly, the Company strengthened the control of risks associated with key areas. The Company continued with its risk monitoring and evaluation of key areas, made timely risk warnings for problems, and put forward management proposals. Secondly, the Company optimised and improved its management tools. Through the inspection of key risk indicators, the Company examined and adjusted indicators from various perspectives. Thirdly, the Company strengthened the management of outsourcing-related risk from the top-level deployment. The Company further improved its outsourcing-related risk management mechanism, standardised the management of outsourcing projects, conducted on-site risk assessment for outsourced suppliers in key areas, and urged them to implement the rectification. Fourthly, the Company strengthened the management of risks related to compliance in credit investigation. The Company organised the whole Bank to conduct self-inspection, self-correction and on-site inspection on credit investigation compliance, and further strengthened credit investigation compliance and information security management. Fifthly, the Company strengthened the management of information technology risk. New availability indicators of important systems were added so as to achieve full coverage monitoring of the Company's important system availability, conduct analysis on operation of important systems, IT project launches and external IT risk events, and strengthen information security management and control. Sixthly, the Company accelerated the establishment of business continuity management system. The Company promoted the development of business continuity drills and strengthened emergency switching drills for important operating systems.

3.11.6 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 2018, the central bank maintained a prudent and neutral monetary policy and the liquidity remained reasonably adequate. The liquidity of the Company was basically in line with that of the market, and overall liquidity was relatively stable due to steady growth in deposits from customers and the progressive investment of assets. As at the end of the reporting period, the Company's liquidity coverage ratio was 137.99%[13], representing 37.99 percentage points higher than the minimum requirement of CBIRC. The stress test[14] 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. 11% (2017: 15%) of the total RMB deposits and 5% (2017: 5%) of the total foreign currency deposits were required to be placed with the PBOC.

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 continued to optimise the asset and liability structure, promoted the growth of proprietary deposits through various measures, and increased the efforts in matching of growth in deposits and loans. Secondly, the Company strengthened active liability management, coordinated active liability instruments such as central bank financing instrument and financial bond issuance, and flexibly arranged active liability policy according to its own liquidity need and market trend. Thirdly, the Company conducted in-depth refined forward-looking liquidity risk management. By using quantitative modeling and dynamic measurement and calculation, the Company enhanced its research and judgment in macro-economy and the dynamic prediction on the liquidity of the whole Bank, so as to improve proactive risk management and proactively lay down investment and financing strategies. Fourthly, the Company continuously improved the management of treasurer's daily liquidity, optimised financing capability assessment mechanism and fund gap prediction measures, and further strengthened the refined management of funding positions. Fifthly, 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 set separate liquidity risk limit and enhanced the duration matching management of its assets and liabilities.

In 2018, in accordance with the Administrative Measures on Liquidity Risk of Commercial Banks formally issued by the CBIRC, the Company has completed the comprehensive consolidation and revision of the liquidity risk management policy system, and has fully satisfied the regulatory requirements in internal management procedures, measurement and monitoring of risks.

Please refer to Note 61(c) to the financial statements for more details of the liquidity risk management of the Company.

[13] The liquidity coverage ratio is an external regulatory indicator – the legal person calibre

[14] The stress test is the Company's internal management indicator – the domestic calibre

3.11.7 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 the reputational risk management system and formulated 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 developed and launched domestic and overseas public opinion monitoring and management system, which realised 7*24 hours of network-wide public opinion monitoring and real-time dynamic data analysis, which effectively improved public opinion monitoring efficiency and optimised the linked responding process of the Head Office and branches. The Company strengthened forward-looking management of reputational risks, timely made pre-warning for incidents where reputational risks may occur, and formulated reputational risk plans in advance. Also, the Company carried out reputational risk management training and drills in line with new communication trends, and strengthened the awareness of reputational risks of all employees under the background of "everyone is media", so as to reduce the chances of occurrence of negative public opinions.

3.11.8 Compliance risk management

Compliance risk refers to the risk of the Company 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 Risk and 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 defense 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, confronting the situation of stringent and strict regulatory requirements, the Company proactively adapted to the adjustments in regulatory policies, accurately grasped the direction of compliance, and ensured the dissemination of regulatory requirements. The Company vigorously promoted the implementation of various internal control and compliance management measures, and further improved the long-term mechanism of its internal compliance management. In accordance with the regulatory requirements and in line with the actual situation of the Company, the Company formulated and issued Guiding Opinions for 2018 Internal Control and Compliance Work of the Bank to effectively guide the internal compliance management throughout the whole Bank, completed in-depth rectification of "market disorders in the banking industry" and other rectification works assigned by the CBIRC in a timely and orderly manner, strengthened the understanding of polices and the circulation and delivery of new regulations, and identified, assessed, mitigated and dissolved the compliance risks associated with new products, new businesses and major projects. The Company adopted various measures to strengthen employee behavior management, proactively implemented multi-level compliance education and training, promoted the "Compliance Courses of Branch Leaders and Compliance Officers" and "Compliance Seminars of Sub-branch Leaders and Compliance Supervisors" activities in an orderly manner, formulated and issued training materials such as employee compliance and warning cases, enhanced the employee's compliance concept and awareness, continued to conduct comprehensive compliance inspections, thoroughly analysed the causes of problems, followed up and supervised the rectification, and continuously improved the internal compliance management at all levels.

3.11.9 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 its own actual conditions. It has also developed and launched a comparatively sound anti-money laundering management system, established a comparatively sound anti-money laundering monitoring system, and had a dedicated anti-money laundering team to ensure the sound operation of business throughout the Bank.

During the reporting period, the Company actively fulfilled its anti-money laundering duties and took various measures to ensure the compliance and effectiveness of its anti-money laundering. These measures included but not limited to accelerating the improvement of the anti-money laundering and anti-terrorism financing risk management system of the Company in accordance to the "Guidelines for Risk Management of Money Laundering and Terrorism Financing for Legal Entities of Financial Institutions (Trial)" (Yin Fan Xi Fa [2018] No. 19), continuously carrying out "risk elimination", conducting in-depth inspection on various types of money laundering risks; improving the due diligence procedures of customers, implementing Notice of the People's Bank of China on Strengthening the Work of Identifying Anti-Money Laundering Customers (Yin Fa [2017] 235) and other regulatory policies; continuously strengthening the management and control of high-risk customers, implementing the follow-up risk control measures for suspicious transactions reported; actively promoting the application of new technologies in the field of anti-money laundering, continuing to optimise the anti-money laundering system; and continuously strengthening anti-money laundering management of business and products to ensure that anti-money laundering risk control is effectively embedded in business systems and processes.

3.12 Profit appropriation

3.12.1 The profit appropriation plan for 2018

10% of the audited net profit of the Company for 2018 of RMB75.232 billion, equivalent to RMB7.523 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB6.028 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 RMB0.94 (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 2018, 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 2018 Annual General Meeting of the Company.

For the other information on the closing date for registration, the period for closure of register of members and the profit appropriation plan for the shareholders who are entitled to attend the Company's 2018 Annual General Meeting and those who are entitled to receive the final dividends for 2018, the Company will make further announcement(s) at appropriate times. The Company expects that the distribution of final dividends to the H Shareholders will be completed by 27 August 2019.

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 (inclusive of tax, in RMB)	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 holders of ordinary shares in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash bonus to net profit attributable to holders of ordinary shares in the consolidated financial statements (%)
2016	–	0.74	–	18,663	62,081	30.06
2017	–	0.84	–	21,185	70,150	30.20
2018(note)	–	0.94	–	23,707	78,901	30.05

Note: The profit appropriation plan for 2018 is subject to consideration and approval at the 2018 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 2017 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 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 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 2018 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 40th meeting of the Tenth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2018 Annual General Meeting of the Company. The Independent Directors of the Company have expressed their independent opinions on the profit appropriation plans for 2017 and 2018 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 target 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 2018", 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
22 March 2019

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.

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 statements.

4.4 Fixed assets

Changes in fixed assets of the Company as at the end of the reporting period are detailed in Note 29 to the financial statements.

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 detailed in Note 40 to the financial statements.

4.8 Principal customers

As at the end of the reporting period, the net operating income contributed by 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 2018, 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 (%)
Tian Huiyu	Executive Director, President and Chief Executive Officer	A Share	Long position	Beneficial Owner	110,000	0.00053	0.00044
Li Hao	Executive Director, First Executive Vice President and Chief Financial Officer	A Share	Long position	Beneficial Owner	100,000	0.00048	0.00040
Zhou Song	Non-Executive Director	A Share	Long position	Interest of spouse	23,282	0.00011	0.00009
Liu Yuan	Chairman of Board of Supervisors, Employee Supervisor	A Share	Long position	Beneficial Owner	90,000	0.00044	0.00036
Jin Qingjun	External Supervisor	A Share	Long position	Beneficial Owner	65,800	0.00032	0.00026
Wang Wanqing	Employee Supervisor	A Share	Long position	Beneficial Owner	60,000	0.00029	0.00024
Huang Dan	Employee Supervisor	A Share	Long position	Beneficial Owner	45,000	0.00022	0.00018

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

So 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. (招商局輪船股份有限公司) (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 websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. 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 Company also undertook to earnestly implement the remedial measures. So far as the Company is aware, as at the date of this report, neither the Company nor its Directors and senior management had breached any of the aforesaid undertakings.

4.16 Significant connected transactions

4.16.1 Overview of connected transactions

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

4.16.2 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.

With the approval of the Board of Directors of the Company, on 13 December 2016, the Company announced that the annual caps for the continuing connected transactions with CMFM Group for the years of 2017, 2018 and 2019 had been RMB2.5 billion, RMB3.8 billion and RMB5.8 billion, respectively. On 27 March 2018, the Company announced that the annual caps for the continuing connected transactions with CM Securities Group for the years of 2018, 2019 and 2020 had been RMB500 million. On 20 March 2018, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the years of 2018, 2019 and 2020 had been RMB1.5 billion. On 24 August 2018, the Company announced that the annual cap for the continuing connected transactions with Anbang Insurance Group for the year of 2018 had been adjusted from RMB1.5 billion to RMB2.0 billion. Further details of the above continuing connected transactions, please refer to the relevant announcements issued by the Company on 13 December 2016, 20 March 2018, 27 March 2018 and 24 August 2018, respectively.

CMFM Group

At the end of the 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. The fund distribution agency service provided by the Company to CMFM Group constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 13 December 2016, the Company entered into a Business Co-operation 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 agency 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 2018 was RMB3.8 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were not more 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 the end of the reporting period, the continuing connected transactions between the Company and CMFM Group amounted to RMB1.333 billion.

CM Securities Group

At the end of the reporting period, China Merchants Group Ltd. indirectly held 29.97% of the 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% of the equity interest in CM Securities, CM Securities Group is a connected person of the Company pursuant to the Hong Kong Listing Rules. The services relating to the provision of third parties custodian account, sales of funds, account custodian and agency sales for wealth management products and collective investment products and other services provided by the Company to CM Securities Group constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 27 March 2018, the Company entered into a Business Co-operation Agreement with CM Securities for a term commencing on 1 January 2018 and expiring on 31 December 2020. The agreement was entered into on normal commercial terms after an arm's length negotiation, pursuant to which CM Securities Group shall pay the service fees to the Company at the normal market prices.

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2018 was RMB500 million, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were not more 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 the end of the reporting period, the continuing connected transactions between the Company and CM Securities Group amounted to RMB254 million.

Anbang Insurance Group

As at the end of the reporting period, Anbang Insurance Group indirectly held more than 10% of the equity interest in the Company and is one of the Company's substantial shareholders. According to the Hong Kong Listing Rules, Anbang Insurance Group is a connected person of the Company. The insurance products agency sales services provided by the Company to Anbang Insurance Group constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 20 March 2018, the Company entered into a Business Co-operation Agreement with Anbang Insurance Group for a term commencing on 1 January 2018 and expiring on 31 December 2020. The agreement was entered into on normal commercial terms after an arm's length negotiation, pursuant to which Anbang Insurance Group shall pay the service fees to the Company at the normal market prices.

The annual cap for the continuing connected transactions between the Company and Anbang Insurance Group for 2018 was RMB2.0 billion, for which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were not more 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 the end of the reporting period, the continuing connected transactions between the Company and Anbang Insurance Group amounted to RMB1.270 billion.

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 continuing connected 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.

4.16.4 Significant transactions with related parties

The significant transactions between the Company and related parties are set out in note 62 to the financial statements. These transactions comprised those between the Company and its related parties in its ordinary course of business, including borrowings, investments, deposits, securities trading, agency services, custody and other fiduciary operations as well as off-balance sheet transactions. These transactions were conducted in the ordinary course of business of the Company, which constituted connected transactions under the Hong Kong Listing Rules and complied with the applicable requirements thereof.

4.17 Material litigations and arbitrations

Several lawsuits were filed during the daily operation of the Company, most of which were filed proactively for the purpose of recovering non-performing loans. As at the end of the reporting period, there were 211 pending cases (including litigations and arbitrations) in which the Company was involved, with an aggregate of principal and interest of RMB870 million. The Company believes 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.

4.18 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 CBIRC, 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 the relevant requirements of the CSRC and Shanghai Stock Exchange, the Independent Non-Executive Directors of the Company carried out a due diligence review of the guarantees of the Company for 2018 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 CBIRC, and it was carried out in the ordinary course of business of the banks as a conventional business. As at 31 December 2018, the balance of the irrevocable guarantees of China Merchants Bank was RMB242.047 billion.

China Merchants Bank emphasizes 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, China Merchants Bank 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.

4.19 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.

4.20 Information on significant equity investments

In June 2018, the "Proposal on Capital Contribution of RMB2 billion to the National Financing Guarantee Fund" was considered and approved at the 26th meeting of the 10th Session of the Board of Directors of the Company, approving the Company to make a capital contribution of RMB2 billion to the National Financing Guarantee Fund. The capital contribution will be made in the coming four years from 2018. During the reporting period, the Company has completed the capital contribution of RMB500 million.

In July 2018, CMB Financial Leasing, the wholly-owned subsidiary of the Company, had made a capital increment of RMB4.5 billion to its wholly-owned subsidiary, Zhaoyin Aviation and Shipping Financial Leasing Co., Ltd. (招銀航空航運金融租賃有限公司).

For the relevant details, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

4.21 Appointment of accounting firms and sponsors

According to the resolutions passed at the 2017 Annual General Meeting, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company for 2018 and Deloitte Touche Tohmatsu as the international accounting firm of the Company for 2018. These two accounting firms have been engaged as auditors of the Company since 2016.

The financial statements of the Group for 2018 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Group as at the year end of 2018 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, and the financial statements for 2018 prepared under International Accounting Standards were audited by Deloitte Touche Tohmatsu. 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 RMB23,344,100, among which the audit fees for internal control was approximately RMB1,206,600.

The Company appointed UBS Securities Co., Ltd. and CM Securities as its sponsors for the non-public issuance of domestic preference shares. During the reporting period, the Company paid remuneration of RMB9.30 million (including sponsorship and underwriting fees) to UBS Securities Co., Ltd. and RMB8.70 million (including sponsorship and underwriting fees) to CM Securities, respectively.

4.22 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 Company's annual report for 2018.

4.23 Annual general meeting

For the convening of its 2018 Annual General Meeting, the Company will make further announcement.

4.24 Explanation on changes in accounting policies

For details of the changes in the accounting policies of the Company during the reporting period, please refer to Note 3 "Adoption of newly effective IFRSs and their amendments" to the financial statements.

4.25 Publication of annual report

The Company prepared the annual report in both English and Chinese versions in accordance with the International Accounting Standards and the Hong Kong Listing Rules. These reports are available on the websites of Hong Kong Stock Exchange and the Company. In the event of any discrepancies in 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 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 2017		Changes in the No. of shares during the reporting period	31 December 2018	
		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 288,819 shareholders, including 255,217 holders of A Shares and 33,602 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 this report (namely 28 February 2019), the Company had a total of 237,687 shareholders, including 204,204 holders of A Shares and 33,483 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

Based on the publicly available information and so far as the Directors were aware, as at the end of the reporting period, the Company had met the public float requirement of the Hong Kong Listing Rules.

5.2 Top ten holders of ordinary shares 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.	/	4,546,479,669	18.03	H Shares	2,470,137	–	Unknown
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	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–
4	Hexie Health Insurance Co., Ltd. – Traditional – Ordinary insurance products	Domestic legal person	1,258,949,171	4.99	A Shares not subject to trading moratorium	1,258,949,171	–	–
5	Anbang Life Insurance Co., Ltd. – Conservative Investment Portfolio	Domestic legal person	1,258,949,100	4.99	A Shares not subject to trading moratorium	1,258,949,100	–	–
6	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	–	–	–
7	China Merchants Finance Investment Holdings Co. Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	–	–	–
8	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
9	China Securities Finance Corporation Limited	Domestic legal person	754,798,622	2.99	A Shares not subject to trading moratorium	-106,265,358	–	–
10	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	696,450,214	2.76	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. Hexie Health Insurance Co., Ltd. (hereinafter referred to as "Hexie Health") and Anbang Life Insurance Co., Ltd. (hereinafter referred to as "Anbang Life") are controlled by Anbang Insurance Group Co., Ltd. The Company is not aware of any affiliated relationships among other shareholders.

(3) During the reporting period, Anbang Property & Casualty Insurance Company Ltd. (hereinafter referred to as "Anbang Insurance") transferred its 1,258,949,171 A shares and 1,258,949,100 A shares in the Company to Hexie Health and Anbang Life, respectively. After the share transfer, Anbang Insurance, Hexie Health and Anbang Life together held 2,704,596,216 A shares and 229,498,500 H shares in the Company, which together accounted for 11.63% of the total share capital of the Company.

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

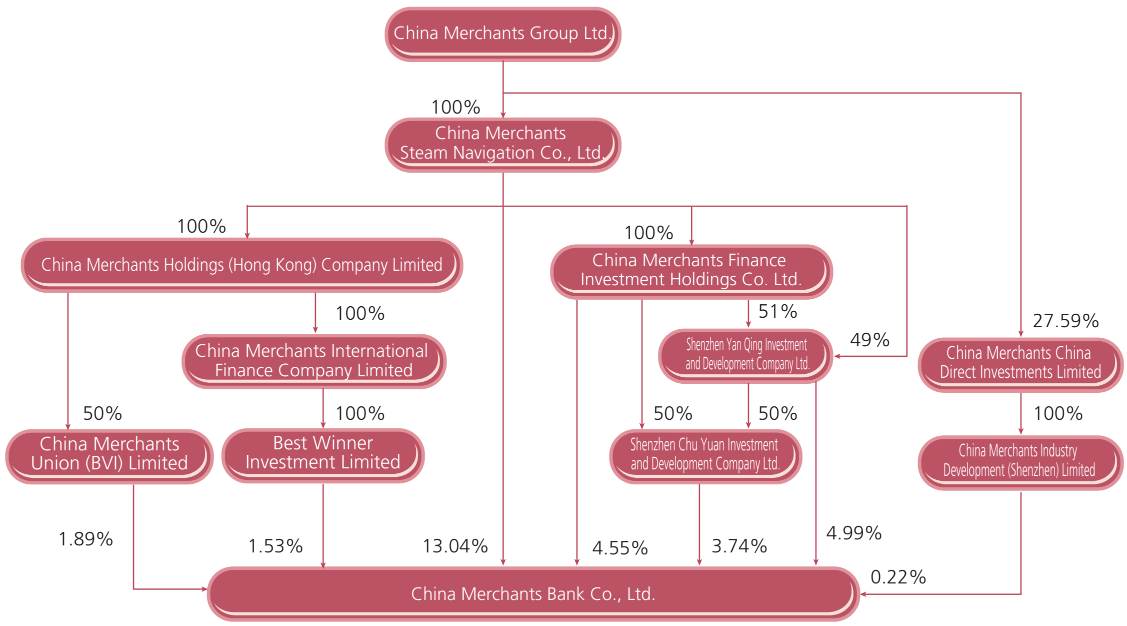
5.3 Information on substantial shareholders

5.3.1 Information on the Company's largest shareholder

China Merchants Steam Navigation Co., Ltd. is the largest shareholder of the Company. The company has a registered capital of RMB7.0 billion, and its legal representative is Li Jianhong. It mainly engages 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.

China Merchants Group Ltd. directly holds 100% equity interests of China Merchants Steam Navigation Co., Ltd. and is the controlling shareholder of the Company's largest shareholder, with a registered capital of RMB16.7 billion. Its legal representative is Li Jianhong. China Merchants Group Ltd. is a state-owned enterprise under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was founded 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 diversified conglomerate, with its businesses focusing on three core industries, namely integrated transportation, featured finance and comprehensive development of cities and industrial zones. It is realising the transformation from three main businesses to three major platforms of industrial operation, financial services, investment and capital operation.

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 controlling shareholder of its largest shareholder is illustrated as follows:



As at the end of the reporting period, 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. There was no pledge of the shares of the Company. (In this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding.)

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

1. Anbang Insurance Group Co., Ltd.. As at the end of the reporting period, Anbang Insurance Group Co., Ltd. in aggregate held 11.63% shares in the Company through Anbang Insurance, Hexie Health and Anbang Life, all being its subsidiaries, and it did not pledge any of its shares in the Company. The controlling shareholder of Anbang Insurance Group Co., Ltd. is China Insurance Security Fund Co., Ltd.. The de facto controller of China Insurance Security Fund Co., Ltd. is the Ministry of Finance. Anbang Insurance Group Co., Ltd. was established on 15 October 2004, with a registered capital of RMB61.9 billion, and its legal representative is He Xiaofeng. The scope of its businesses includes: investments in establishment of insurance enterprises; supervision and management of various domestic and international businesses of the enterprises under control with its investment; 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 the CBIRC.

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 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 (Guangzhou) Co., Ltd., Guangzhou Haining Maritime Technology Consulting Co., Ltd. (廣州海寧海務技術諮詢有限公司), COSCO Shipping (Shanghai) Co., Ltd. (中遠海運（上海）有限公司), COSCO Shipping Financial Holdings Co., Limited 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. There was no pledge of the shares of the Company.

5.3.3 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 is 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 interests of China Communications Construction Company Limited, and therefore is the controlling shareholder of China Communications Construction Company Limited, its 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 Guangzhou Dredging Co., Ltd., CCCC Fourth Harbor Engineering Co. Ltd., CCCC Shanghai Dredging 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. There was no pledge of the shares of the Company.

2. SAIC Motor Corporation Limited. As at the end of the reporting period, SAIC Motor Corporation Limited held 1.23% of the shares of the Company and is a shareholder which has appointed Supervisors in the Company. There was no pledge of the shares of the Company. SAIC Motor Corporation Limited was established on 16 April 1984 and 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 its controlling shareholder, 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.

3. Hebei Port Group Co., Ltd.. As at the end of the reporting period, Hebei Port Group Co., Ltd. held 1.21% of the shares of the Company and is a shareholder which has appointed Supervisors in the 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 Hebei Province.

5.4 Substantial shareholders' and other persons' interests and short positions in the Company under Hong Kong laws and regulations

As at 31 December 2018, 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			
		Long	Others	55,196,540			
				6,752,746,952	1	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			
		Long	Others	55,196,540			
				6,752,746,952	1	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			
		Long	Others	55,196,540			
				3,405,129,475	1	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			
		Long	Interest of controlled corporation	944,013,171			
				2,202,555,520	1	10.68	8.73

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 (%)
Anbang Insurance Group Co., Ltd.	A	Long	Interest of controlled corporation	2,704,596,216	2	13.11	10.72
	H	Long	Interest of controlled corporation	229,498,500	2	4.99	0.91
Anbang Life Insurance Co., Ltd.	A	Long	Beneficial owner	1,258,949,100		6.10	4.99
Anbang Property & Casualty Insurance Company Ltd.	A	Long	Beneficial owner	186,697,945			
		Long	Interest of controlled corporation	1,258,949,171			
				1,445,647,116	2	7.01	5.73
	H	Long	Beneficial owner	229,498,500	2	4.99	0.91
Hexie Health Insurance Co., Ltd.	A	Long	Beneficial owner	1,258,949,171	2	6.10	4.99
China Ocean Shipping Company Limited	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
JPMorgan Chase & Co.	H	Long	Beneficial owner	26,465,550			
		Long	Investment manager	125,880,225			
		Long	Trustee	16,080			
		Long	Approved lending agent	78,690,591			
				231,052,446	3	5.03	0.92
		Short	Beneficial owner	2,037,902	3	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	4	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89

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 (%)
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial owner	477,903,500	4	10.41	1.89
BlackRock, Inc.	H	Long	Interest of controlled corporation	263,574,754	5	5.74	1.05
		Short	Interest of controlled corporation	318,000	5	0.01	0.00
Citigroup Inc.	H	Long	Person having a security interest in shares	4,500			
		Long	Interest of controlled corporation	30,671,564			
		Long	Approved lending agent	240,423,406			
				271,099,470	6	5.91	1.07
		Short	Interest of controlled corporation	2,122,841	6	0.05	0.01

Notes:

(1) For details of China Merchants Group Ltd. and its subsidiaries' interests in the Company, please refer to section 5.3 "Information on the Company's largest shareholder".

(2) Anbang Insurance Group Co., Ltd. was deemed to hold interests in a total of 2,704,596,216 A shares (long position) and 229,498,500 H shares (long position) in the Company by virtue of its control over Anbang Life, Anbang Insurance and Hexie Health.

(3) JPMorgan Chase & Co. was deemed to hold interests in a total of 231,052,446 H shares (long position) and 2,037,902 H shares (short position) in the Company by virtue of its control over a number of corporations.

The equity interests and short positions of JPMorgan Chase & Co. in the Company included a lending pool of 78,690,591 H shares. Besides, 5,890,835 H shares (long position) and 2,037,902 H shares (short position) were held through derivatives as follows:

1,982,835 H shares (long position) and 403,000 H shares (short position)	–through physically settled listed derivatives
1,372,450 H shares (short position)	–through cash settled listed derivatives
1,118,000 H shares (long position) and 262,452 H shares (short position)	–through physically settled unlisted derivatives
2,790,000 H shares (long position)	–through cash settled unlisted derivatives

(4) Pagoda Tree Investment Company Limited was deemed to hold interests in the 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:

(4.1) 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 the 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of holding the 50% interest in China Merchants Union (BVI) Limited.

(4.2) 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.

(4.3) Compass Investment Company Limited (referred to in (4)) 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 the 98.9% interest in CNIC Corporation Limited.

(4.4) The 477,903,500 H shares referred to in (4) and (4.1) to (4.3) represented the same shares.

(5) BlackRock, Inc. was deemed to hold a total of 263,574,754 H shares (long position) and 318,000 H shares (short position) in the Company (of which 1,562,500 H shares (long position) and 204,000 H shares (short position) were held through cash settled unlisted derivatives) by virtue of its control over a number of companies, which were all indirectly wholly-owned by BlackRock, Inc. except for the following:

(5.1) BR Jersey International Holdings L.P. was indirectly held as to 86% by BlackRock, Inc.. BR Jersey International Holdings L.P. held interests in the Company through the following companies:

(5.1.1) BlackRock Japan Co., Ltd. (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 2,850,418 H shares (long position) in the Company.

(5.1.2) BlackRock Asset Management Canada Limited held 577,000 H shares (long position) in the Company. BlackRock Asset Management Canada Limited was indirectly owned as to 99.9% by BR Jersey International Holdings L.P..

(5.1.3) BlackRock Investment Management (Australia) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 1,168,000 H shares (long position) in the Company.

(5.1.4) BlackRock Asset Management North Asia Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 2,769,070 H shares (long position) in the Company.

(5.1.5) BlackRock (Singapore) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 692,000 H shares (long position) in the Company.

(5.2) BlackRock Group Limited was held as to 90% by BR Jersey International Holdings L.P. (referred to in (5.1)). BlackRock Group Limited held its interests in the Company through its direct or indirect wholly-owned companies as follows:

(5.2.1) BlackRock (Netherlands) B.V. held 560,500 H shares (long position) in the Company.

(5.2.2) BlackRock Advisors (UK) Limited held 242,500 H shares (long position) in the Company.

(5.2.3) BlackRock International Limited held 772,498 H shares (long position) in the Company.

(5.2.4) BlackRock Asset Management Ireland Limited held 28,798,784 H shares (long position) in the Company.

(5.2.5) BLACKROCK (Luxembourg) S.A. held 10,720,292 H shares (long position) and 18,000 H shares (short position) in the Company.

(5.2.6) BlackRock Investment Management (UK) Limited held 15,043,907 H shares (long position) in the Company.

(5.2.7) BlackRock Asset Management Deutschland AG held 241,731 H shares (long position) in the Company.

(5.2.8) BlackRock Fund Managers Limited held 9,288,613 H shares (long position) in the Company.

(5.2.9) BlackRock Life Limited held 6,301,655 H shares (long position) in the Company.

(5.2.10) BlackRock Asset Management (Schweiz) AG held 33,000 H shares (long position) in the Company.

(5.3) BlackRock Holdco 6, LLC was indirectly held as to 90% by BlackRock, Inc.. BlackRock Holdco 6, LLC held its interests in the Company through its direct or indirect wholly-owned companies as follows:

(5.3.1) BlackRock Fund Advisors held 120,019,888 H shares (long position) in the Company.

(5.3.2) BlackRock Institutional Trust Company, National Association held 56,848,976 H shares (long position) and 264,000 H shares (short position) in the Company.

(6) Citigroup Inc. was deemed to hold a total of 271,099,470 H shares (long position) and 2,122,841 H shares (short position) in the Company by virtue of its control over a number of companies.

The equity interests and short positions of Citigroup Inc. in the Company included a lending pool of 240,423,406 H shares. Besides, 9,195,772 H shares (long position) and 1,279,258 H shares (short position) were held through derivatives as follows:

500,000 H shares (long position) and 500,000 H shares (short position)	–through physically settled listed derivatives
734,272 H shares (long position) and 292,758 H shares (short position)	–through physically settled unlisted derivatives
7,961,500 H shares (long position) and 486,500 H shares (short position)	–through cash settled unlisted derivatives

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 2018 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5.5 Issuance and listing of securities

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 any corporate bonds listed on a stock exchange by way of public issuance.

For the issuance of other bonds of the Company and its subsidiaries, please refer to Note 44 to the financial statements.

The Company did not issue any internal staff shares.

5.6 Preference shares

5.6.1 Issuance and listing of preference shares

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 50,000,000 non-cumulative perpetual offshore preference shares on 25 October 2017. The offshore preference shares of the issuance were listed on Hong Kong Stock Exchange on 26 October 2017 (abbreviated name of shares: "CMB 17USDPREF"; stock code: 04614; number of listed shares: 50,000,000). The total proceeds from the issuance of the offshore preference shares amounted to USD1.0 billion and, after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 275,000,000 domestic preference shares on 22 December 2017. The domestic preference shares of the issuance have been listed and traded on the integrated business platform of Shanghai Stock Exchange since 12 January 2018 (abbreviated name of shares: "Zhao Yin You 1 (招銀優1)"; stock code: 360028; number of listed shares: 275,000,000). The total proceeds from the issuance of the domestic preference shares amounted to RMB27.5 billion. The net proceeds of RMB27,467,750,000, after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

For details, 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 their nominees), including 1 shareholder of offshore preference shares (or its nominee) and 12 shareholders of domestic preference shares.

As at the end of the previous month (namely 28 February 2019) preceding the date for disclosure of this 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 the Company's top ten shareholders of offshore preference shares (or their 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 shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore preference shares	–	50,000,000	100	–	Unknown

Notes: (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 on the nominees 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 shareholdings" 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 the Company's top ten shareholders of domestic preference shares (or their nominees) were as follows:

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

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 all wholly-owned subsidiaries of China National Tobacco Corporation. Save for the above, the Company is not aware of any affiliated relationship or action in concert among the above shareholders of preference shares or between the above shareholders of preference shares and the Company's top ten shareholders of ordinary shares.

(3) "Percentage of shareholdings" 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

In accordance with the relevant requirements under the "Resolution Regarding the Plan for the Non-public Issuance of Offshore Preference Shares of the Company", which was considered and approved 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, the Company fully paid the dividends for offshore preference shares on 25 October 2018, which was in compliance with the relevant distribution conditions and distribution procedures.

The dividends for offshore preference shares of the Company are paid once a year in cash. The offshore preference shares adopt non-cumulative dividend payment method. After the dividends are distributed to the offshore preference shareholders in accordance with the agreed dividend rate, these shareholders will not participate in the remaining profit distribution with the ordinary shareholders. Pursuant to the relevant terms of the offshore preference shares, the dividend rate per annum of the offshore preference shares is 4.40% (excluding tax, i.e., the actual dividend yield to be received by the holders of the preference shares is 4.40%). According to relevant laws and regulations, the Company shall withhold an income tax at a rate of 10% when distributing the dividends for the offshore preference shares to the offshore non-resident enterprises. According to the terms and conditions of the offshore preference shares, the Company is responsible to pay relevant income tax. Total amount of the proceeds from the issuance of the Company's offshore preference shares was USD1 billion, the total amount of dividends for the offshore preference shares is USD48,888,888.89, comprising of USD44,000,000.00 which was actually paid to the holders of the offshore preference shares, and the withholding tax amounted to USD4,888,888.89.

In accordance with the relevant requirements under the "Resolution Regarding the Plan for the Non-public Issuance of Domestic Preference Shares of the Company", which was considered and approved 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, the Company fully paid the dividends for domestic preference shares on 18 December 2018, which was in compliance with the relevant distribution conditions and distribution procedures.

The dividends for domestic preference shares of the Company are paid once a year in cash. The domestic preference shares adopt non-cumulative dividend payment method. After the dividends are distributed to the domestic preference shareholders in accordance with the agreed dividend rate, these shareholders will not participate in the remaining profit distribution with the ordinary shareholders. Pursuant to the terms of dividends payment for domestic preference shares, based on the dividend rate of 4.81% for domestic preference shares, the dividends per preference share paid were RMB4.81 (including tax), and based on 275 million of domestic preference in issue, the total amount of the dividends paid was RMB1,322.75 million (including tax).

For the details of dividend distribution for domestic and offshore preference shares, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 10 December 2018 and 15 October 2018, respectively.

5.6.4 Repurchase or conversion of preference shares

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

5.6.5 Restored voting rights of preference shares

During the reporting period, the voting rights of the Company's domestic and offshore preference shares 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 Financial Reporting Standard 9-Financial Instruments" and the "International Financial Reporting Standard 7-Financial Instruments: Disclosures" 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 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
Fu Gangfeng	Male	1966.12	Vice Chairman Non-Executive Director	2018.7 – 2019.6 2010.8 – 2019.6	–	–	–	Yes
Tian Huiyu	Male	1965.12	Executive Director President and Chief Executive Officer	2013.8 – 2019.6 2013.9 – 2019.6	–	110,000	468.99	No
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)	–	100,000	428.99	No
Zhou Song	Male	1972.4	Non-Executive Director	2018.10 – 2019.6	–	–	–	Yes
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6 – 2019.6	–	–	–	Yes
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11 – 2019.6	–	–	–	Yes
Su Min	Female	1968.2	Non-Executive Director	2014.9 – 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
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7 – (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	–	–	50.00	No
Li Menggang	Male	1967.4	Independent Non-Executive Director	2018.11 – 2019.6	–	–	4.17	No
Liu Qiao	Male	1970.5	Independent Non-Executive Director	2018.11 – 2019.6	–	–	4.17	No
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8 – 2019.6	–	90,000	386.99	No
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
Wang Wanqing	Male	1964.9	Employee Supervisor	2018.7 – 2019.6	–	60,000	176.23	No
Huang Dan	Female	1966.6	Employee Supervisor	2015.3 – 2019.6	–	45,000	224.45	No
Tang Zhihong	Male	1960.3	Vice President	2006.5 – 2019.6	–	80,000	341.54	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
Liu Jianjun	Male	1965.8	Vice President	2013.12 – 2019.6	–	80,000	344.99	No
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7 – present	–	80,000	344.99	No
Wang Liang	Male	1965.12	Vice President Secretary of Board of Directors	2015.1 – 2019.6 2016.11 – 2019.6	–	80,000	342.99	No
Wang Jianzhong	Male	1962.10	Member of the CPC Committee	2017.4 – present	–	80,000	344.99	No
Shi Shunhua	Male	1962.12	Member of the CPC Committee	2017.4 – present	–	85,000	341.54	No
Li Xiaopeng	Male	1959.5	Former Vice Chairman Former Non-Executive Director	2015.11 – 2018.1 2014.11 – 2018.1	–	–	–	No
Wong Kwai Lam	Male	1949.5	Former Independent Non-Executive Director	2011.7 – 2018.11	–	–	50.00	No
Pan Yingli	Female	1955.6	Former Independent Non-Executive Director	2011.11 – 2018.11	–	–	50.00	No
Fu Junyuan	Male	1961.5	Former Shareholder Supervisor	2015.9 – 2019.2	–	–	–	Yes
Xu Lizhong	Male	1964.3	Former Employee Supervisor	2016.6 – 2018.7	–	50,000	126.32	No
Zhu Qi	Male	1960.7	Former Vice President	2008.12 – 2019.2	–	–	–	No
Zhao Ju	Male	1964.11	Former Vice President	2015.2 – 2019.2	–	–	–	No
Lian Bolin	Male	1958.5	Former Executive Assistant President	2012.6 – 2018.7	–	70,000	174.77	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) As the term of office of Mr. Pan Chengwei expired in July 2018, the Company is in the process of selecting the candidate for a new independent director to take up the position of Mr. Pan Chengwei. 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 numbers of directors shall be independent directors in a listed company. Therefore, Mr. Pan Chengwei will continue to fulfill his duties until the new independent director takes office.

(3) There was a change in the shareholdings of Mr. Tian Huiyu, Mr. Li Hao, Mr. Liu Yuan, Mr. Wang Wanqing, Ms. Huang Dan, Mr. Tang Zhihong, Mr. Liu Jianjun, Mr. Xiong Liangjun, Mr. Wang Liang, Mr. Wang Jianzhong, Mr. Shi Shunhua, Mr. Xu Lizhong and Mr. Lian Bolin during the reporting period, which was due to an increase in their respective shareholdings. The spouse of Mr. Zhou Song held 23,282 A Shares in the Company.

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

(5) The remunerations 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 remunerations of other staff will be disclosed separately upon confirmation of payment.

(7) 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.

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

6.2 Appointment and resignation of Directors, Supervisors and senior management

In January 2018, Mr. Li Xiaopeng resigned as the Vice Chairman and Non-Executive Director of the Company due to a change of work. In July 2018, the appointment of Mr. Fu Gangfeng as the Vice Chairman was approved by the CBIRC. In October 2018, the appointment of Mr. Zhou Song as the Director was approved by the CBIRC. In November 2018, the appointment of Mr. Li Menggang and Mr. Liu Qiao as the Independent Non-Executive Directors was approved by the CBIRC. Mr. Wong Kwai Lam and Ms. Pan Yingli ceased to serve as Independent Non-Executive Directors of the Company.

Mr. Xu Lizhong, a former Employee Supervisor, tendered his resignation letter to the Board of Supervisors of the Company in July 2018 due to other work commitments. According to the resolutions passed at Worker's Congress of the Company held on 18 July 2018, Mr. Wang Wanqing was newly elected as an Employee Supervisor of the Tenth Session of the Board of Supervisors of the Company and Mr. Xu Lizhong ceased to be the Employee Supervisor of the Company. In February 2019, Mr. Fu Junyuan resigned as a Shareholder Supervisor of the Company due to his work engagements.

In July 2018, Mr. Lian Bolin ceased to be the Executive Assistant President of the Company due to the age limit. In February 2019, Mr. Zhu Qi and Mr. Zhao Ju resigned as the Executive Vice President of the Company due to other business commitment. In February 2019, the Board of Directors of the Company appointed Mr. Wang Jianzhong and Mr. Shi Shunhua as the Executive Vice President of the Company, and their qualifications as the Executive Vice President are subject to the approval by the CBIRC.

For details of the above-mentioned matters, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

6.3 Changes of information of Directors and Supervisors

1. Mr. Fu Gangfeng, Non-Executive Director of the Company, serves as the Vice Chairman of the Company and concurrently serves as the Chairman of China Merchants Port Group Co., Ltd. and the Chairman of the Board of Supervisors of China Merchants RenHe Life Insurance Company Limited.

2. Ms. Sun Yueying, Non-Executive Director of the Company, ceased to serve as the Chief Accountant of China COSCO Shipping Corporation Limited and the Chairman of COSCO Finance Co., Ltd..

3. Mr. Hong Xiaoyuan, Non-Executive Director of the Company, ceased to concurrently serve as the Chairman of China Merchants China Direct Investments Limited and the Vice Chairman of China Merchants Capital Investments Co., Ltd..

4. Mr. Zhang Jian, Non-Executive Director of the Company, serves as the Chief Digital Officer of China Merchants Group Ltd., and concurrently serves as a Director of China Merchants Innovative Investment Management Co., Ltd., a Director of China Merchants Innovative Investment (International) Co. Ltd. (招商局創新投資(國際)有限公司), a Director of China Merchants Innovative Investment General Partner (International) Co. Ltd. (招商局創新投資普通合夥(國際)有限公司), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited, the Vice Chairman of China Merchants Capital Investments Co., Ltd. and a Director of China Merchants RenHe Life Insurance Company Limited, and ceased to serve as a Director of China Merchants Ping An AMC.

5. Ms. Su Min, Non-Executive Director of the Company, ceased to serve as a Director of China Merchants Innovative Investment Management Co., Ltd. and a Supervisor of China Merchants Capital Investments Co., Ltd..

6. Mr. Jin Qingjun, External Supervisor of the Company, concurrently serves as a Director of Shenzhen Kondarl (Group) Co., Ltd., and ceased to serve as a Director of Konka Group Co., Ltd..

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 to August 2018
Zhou Song	China Merchants Group Ltd.	Chief Accountant	From October 2018 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager Director of the Executive Committee of the China Merchants Financial Group/Platform	From September 2011 up to now From June 2018 up to now
Zhang Jian	China Merchants Group Ltd.	Chief Digital Officer Deputy Director of the Executive Committee of the China Merchants Financial Group/Platform	From January 2019 up to now From June 2018 up to now
Su Min	China Merchants Group Ltd.	Deputy Director of the Executive Committee of the China Merchants Financial Group/Platform General Manager of China Merchants Finance Holdings	From June 2018 up to now 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 and Chief Financial Officer	From September 2006 to September 2018
Wen Jianguo	Hebei Port Group Co., Ltd.	Director and 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 and is a senior economist. He is 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 Port Holdings Company Limited (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. Fu Gangfeng is the Vice Chairman and 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.. He concurrently serves as the Chairman of China Merchants Port Group Company Limited (招商局港口集團股份有限公司) (a company listed on Shenzhen Stock Exchange) and the Executive Director and Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (a company listed on Hong Kong Stock Exchange), and the Chairman of the Board of Supervisors of China Merchants RenHe Life Insurance Co., Ltd.. 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. 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).

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 CMB Wing Lung Bank, 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.

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 Chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and the Chairman of COSCO SHIPPING Finance Company Limited (中遠海運集團財務有限責任公司). She was the Chief Accountant of China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) and the Chairman of COSCO 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 CMB 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. Zhou Song is a Non-Executive Director of the Company. He obtained a master's degree of World Economics in Wuhan University. Mr. Zhou is the Chief Accountant of China Merchants Group Ltd., the Chairman of China Merchants Capital Investment Co., Ltd, 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 the Chairman of China Merchants Finance Co., Ltd. (招商局集團財務有限公司). He was the Deputy General Manager of the Planning and Finance Department of the Head Office of China Merchants Bank, the Vice President at Wuhan Branch, the Deputy General Manager (in charge of work) and General Manager of the Planning and Finance Department of the Head Office, the Employee Supervisor of China Merchants Bank, the Business Director and General Manager of the Assets and Liabilities Management Department of the Head Office, the President of Interbank Financial Department, the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office, the President of Investment Banking and Financial Market Department, the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office.

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., the Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform 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., 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 and China Merchants Innovative Investment Management Co., Ltd., and the Director of China Merchants RenHe Life Insurance Co,. Ltd.. He served as the Chairman of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), and the Vice Chairman of China Merchants Capital Investments Co., Ltd..

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 Chief Digital Officer of China Merchants Group Ltd., General Manager of Finance Department, the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and the Deputy General Manager of China Merchants Finance Holdings Co., Ltd.. He concurrently serves as a Director of China Merchants RenHe Life Insurance Company Limited, a Director of China Merchants Innovative Investment Management Co., Ltd., a Director of China Merchants Innovative Investment (International) Co., Ltd. (招商局創新投資（國際）有限公司), a Director of China Merchants Innovation Investment General Partnership (International) Co., Ltd. (招商局創新投資普通合夥（國際）有限公司), a Director of Shi Jin Shi Credit Service Co., Ltd. (試金石信用服務有限公司), a Director of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司), a Director of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., the Chairman of China Merchants Financial Technology Co., Ltd. (招商局金融科技有限公司), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited and the Vice Chairman of China Merchants Capital Investments Co., Ltd.. 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, and a Director of China Merchants Insurance Holdings Co., Ltd. (招商局保險控股有限公司) and China Merchants Ping An Asset Management 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. She is the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and the General Manager of China Merchants Finance Holdings Co., Limited. She concurrently serves as a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). She successively served as the Deputy Director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, a Director of Huishang Bank, 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). She served as 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..

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, the Executive Director and 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 COSCOSHIPPING 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 the Chairman and Chief Executive Officer of Nan Fung Group, the Chairman and co-founder of New Frontier, and the Chairman of two 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. 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 COSCOHK 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.

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, a master's degree in Financial Management from the School of Management of Yale University, and an EMBA in PBC School of Finance of Tsinghua 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).

Mr. Li Menggang is an Independent Non-Executive Director of the Company. He obtained a Ph.D. in Economics and a double post-doctoral degree in Transportation and Communication Engineering and Theoretical Economics from Beijing Jiaotong University. He has been serving as a professor and doctoral supervisor at Beijing Jiaotong University, the Joint Dean of the National Academy of Economic Security (NAES) of Beijing Jiaotong University, the Director of Beijing Laboratory of National Economic Security Pre-Warning Project, the Chief Expert of Major Bidding Projects of the National Social Science Fund, the Project Review Expert of the National Social Science Fund, the Chairman of the Professional Committee of the Logistics Informatization and Industrial Security System of the Institute of Electrical and Electronics Engineers (IEEE) and a special economic analyst of Xinhua News Agency. He concurrently serves as the Vice President and the Deputy Director of the Expert Committee of China Human Resource Development Association, the Deputy Director of the Independent Board Committee of China Association for Public Companies, an Independent Director of Daqin Railway Co., Ltd. (a company listed on Shanghai Stock Exchange) and Hunan Copote Science & Technology Co., Ltd. (a company listed on Shanghai Stock Exchange).He served as an Independent Director of Sichuan Golden Summit (Group) Joint-stock Co., Ltd. (a company listed on Shanghai Stock Exchange) and an Independent Non-Executive Director of Yuxing InfoTech Investment Holdings Limited (a company listed on Hong Kong Stock Exchange).

Mr. Liu Qiao is an Independent Non-Executive Director of the Company. He obtained a bachelor of science degree in Economics and Mathematics from Renmin University of China, a master's degree in Economics from the Institute of Finance of People's Bank of China and a Ph.D. in Economics from University of California, Los Angeles in the United States and is a distinguished professor (特聘教授) of Changjiang Scholars Program. He has been serving as the Dean at the Guanghua School of Management of Peking University, professor of Finance and Economics and doctoral supervisor. He is also a member of the 17th Session of the Public Offering Review Committee of the CSRC and the expert panel of the Shenzhen Stock Exchange; an advisor of the post-doctoral stations of the CSRC, the Shenzhen Stock Exchange, the China Financial Futures Exchange and China Minsheng Banking Corp., Ltd. etc., the Vice Chairman of the China Enterprise Reform and Development Society (中國企業改革與發展研究會), an Independent Non-Executive Director of CSC Financial Co., Ltd. (a company listed on Hong Kong Stock Exchange), an Independent Non-Executive Director of ZH International Holdings Limited (a company listed on Hong Kong Stock Exchange) and an Independent Director of Beijing Capital Co., Ltd. (a company listed on Shanghai Stock Exchange).Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong, a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company and an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong.

Supervisors

Mr. Liu Yuan is the Chairman of the Board of Supervisors of the Company and an Employee Supervisor. Mr. Liu obtained a bachelor's degree in Global Economy from Renmin University of China and is a senior economist. 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. He has been the Chairman of the Board of Supervisors of the Company since August 2014.

Mr. Wen Jianguo is a Shareholder Supervisor, a university graduate and an accountant. 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 is a Deputy General Manager of Finance Affairs Department of SAIC Motor Corporation Limited, and General Manager 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, and concurrently serving as a Director and General Manager of Huayu Automotive Systems (Shanghai) Co., Ltd. (華域汽車系統（上海）有限公司) during the period from May 2014 to May 2015.

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. 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 Hong Kong Stock Exchange and Shanghai Stock Exchange), CSG Holding Co., Ltd. (a company listed on Shenzhen Stock Exchange), Times China 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), Invesco Great Wall Fund Management Company Limited as well as a director of Shenzhen Kondarl (Group) Co., Ltd. (a company listed on Shenzhen Stock Exchange). 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) as well as a Director of Konka Group Co., Ltd. (a company listed on Shenzhen Stock Exchange).

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 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 Director in 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. Wang Wanqing is an Employee Supervisor of the Company. Mr. Wang obtained a bachelor's degree in Chinese Language & Literature from Anhui University. Mr. Wang currently serves as the Business Director of the Head Office and the General Manager of the Audit Department of the Company. He is concurrently the executive member of the China Institute of Internal Audit. Mr. Wang started his career in Anhui University in July 1986. He worked in the General Office in Anhui Province from November 1991 to February 2001. From February 2001 to April 2007, he successively served as the Head, Assistant President and Vice President of the Hefei Branch of the Company. From April 2007 to August 2012, he served as the General Manager of the Human Resources Department at the Head Office of the Company and the Deputy Director of the Labour Union. From September 2012 to March 2014, he served as the Business Director of the Head Office of the Company, the General Manager of the Human Resources Department and the Deputy Director of the Labour Union. He has been an Employee Supervisor of the Company since July 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 is the Deputy Director of the Labor Union of the Head Office 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 the Company 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 the Company from April 2005 to December 2014. She has been an Employee Supervisor of the Company since March 2015.

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. 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 Director of the Credit Card Center of the Company, 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. Wang Jianzhong is 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 of the Head Office, the General Manager of Foshan Branch, the General Manager of Wuhan Branch, the Business Director of General Office of Corporate Finance Group of the Head Office 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 is a member of the CPC Committee of the Company. He obtained an MBA degree from China Europe International Business School and is a senior 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 of the Head Office 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 Head Office of the Company.

Joint company secretaries

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

Mrs. Seng Sze Ka Mee, Natalia, the Company's Joint Company Secretary, holds a master's degree in Business Administration (Executive) from City University of Hong Kong, a Chartered Secretary. She is the Vice Chairman of Tricor Hong Kong and Offshore, and Member of Tricor China Management Committee (hereafter collectively referred to as "Tricor"). She leads the strategic development and management of Tricor's operations across Hong Kong, China and Offshore markets. Her professional practice area covers business advisory, corporate governance, fiduciary services and regulatory compliance for private and public listed companies and non-profit organisations. Mrs. Seng is a Past President (2007-2009) and an incumbent Council Member of The Hong Kong Institute of Chartered Secretaries (HKICS), a Fellow of The Taxation Institute of Hong Kong (TIHK) and The Hong Kong Institute of Directors (HKIoD) and a Council Member of The Hong Kong Committee for UNICEF. She has been appointed by government as a member of the Standing Committee on Company Law Reform (SCCLR) for a period of two consecutive terms (February 2016 – January 2020), and has represented HKICS as a member of an Advisory Group on the Rewrite of the Companies Ordinance. She was also appointed by government as a lay member to the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) (December 2013 – November 2015).

6.6 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."; and offers remuneration to Employee Supervisors in accordance with the policies on remuneration of employees of the Company. All of the Directors and Supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

The Board of Directors of the Company evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." and the "Assessment Standards of the H-Share Appreciation Rights Incentive Scheme for the Senior Management". According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors" and the "Policies on Evaluation of Performance of Supervisors by the Board of Supervisors", the Board of Supervisors evaluates the annual duty performance of the Directors and Supervisors 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 "Duty Performance Self-Evaluation Questionnaire" completed by each Director and Supervisor and work summaries, and then reports the same to the general meeting and regulatory authorities. According to the "Policies on Evaluation of Duty Performance of Senior Management by the Board of Supervisors (Trial)", the Board of Supervisors evaluates the annual duty performance of senior management through monitoring their duty performance in the ordinary course and accessing to their duty performance information (including but not limited to, major speeches, major meeting minutes and the evaluation of the duty performance of senior management by the Board of Directors), duty performance interviews and work reports, and then reports the same to the General Meeting and regulatory authorities.

6.7 Information about employees

As at the end of the reporting period, the Company had 74,590 employees (including dispatched employees). The classification of our employees by profession is: 30,625 employees in retail finance, 16,056 employees in corporate finance, 13,884 employees in operation management, 7,547 employees in general management, 3,895 employees in risk management, 2,003 employees in research and development, and 580 employees in administrative and logistical support. The classification of our employees by educational background is: 14,461 employees with master's degree and above, 52,280 employees with bachelor's degree, 6,887 employees with junior college degree, and 962 employees with technical secondary school degrees or below.

During the reporting period, there was no change in the personnel including the Company's core technical team and key technical staff 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 education and training program

The Company has formulated a categorised professional staff training system covering all its staff, and established the college education for medium-to-long term cultivation of talents, and short-term training and diversified education, aiming at promptly improving its staff's competence. 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 and education programs.

6.8 Branches and representative offices

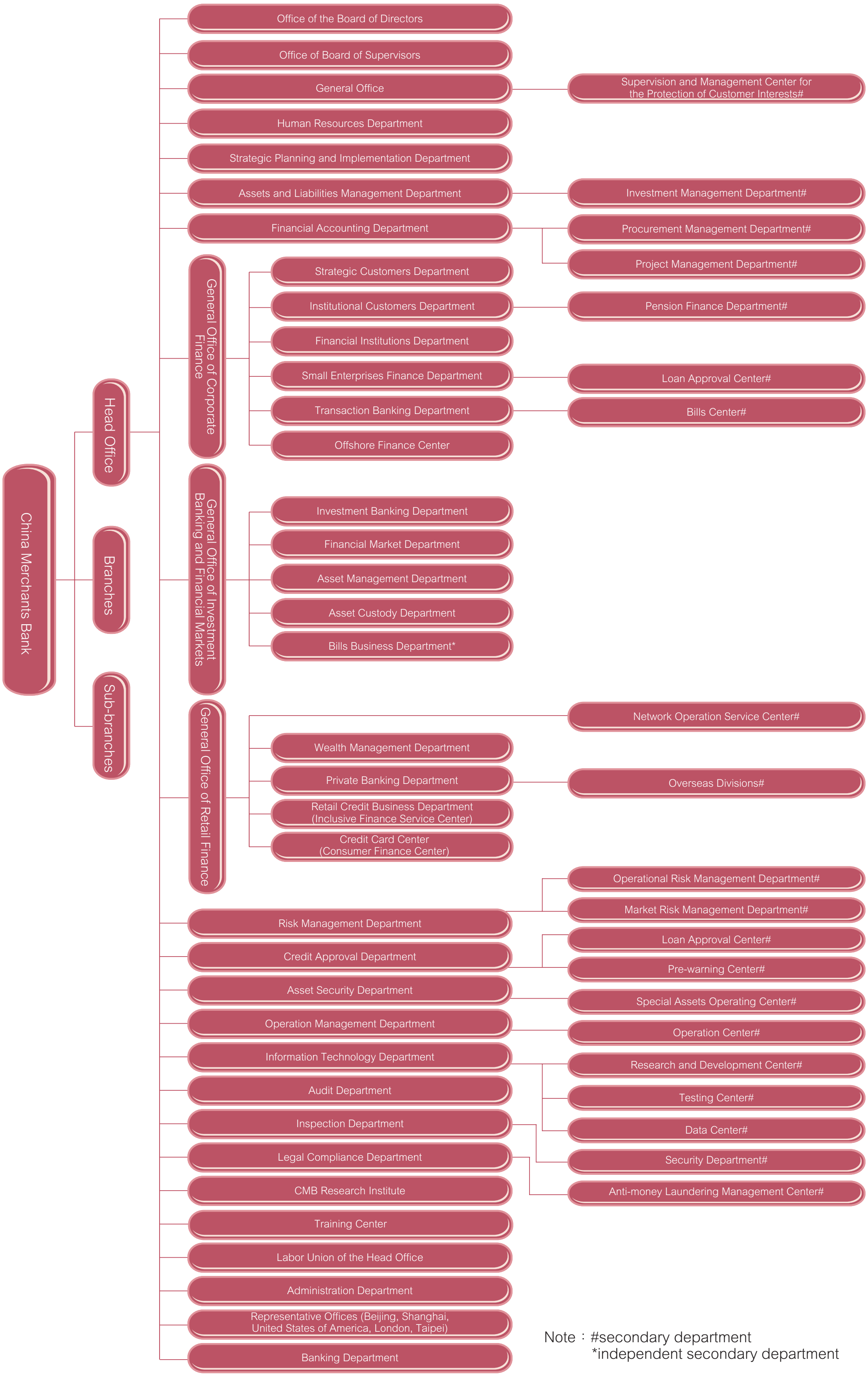
During the reporting period, the Company continued to push forward expansion of its branch network.The Company was approved to establish Sanya Branch (second-level), and Zhoushan Branch (second-level) in Zhejiang Pilot Free Trade Zone.

The following table sets forth the branches and representative offices as at the end of the reporting period:

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	4,804	2,646,099
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,327	547,567
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	96	4,834	183,406
	Shanghai Pilot Free Trade Zone Branch	6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	43	23,260
	Nanjing Branch	199 Lushan Road, Jianye District, Nanjing	210005	80	2,894	159,709
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	74	2,671	155,715
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	31	1,174	64,344
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	29	1,313	101,645
	Wuxi Branch	6-107, 6-108 1st Financial Street, Binhu District, Wuxi	214001	18	741	35,551
	Wenzhou Branch	1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	13	544	30,839
	Nantong Branch	111 Gongnong Road, Nantong	226007	13	537	23,139
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	9	–
	Beijing Branch	156 Fuxingmen Nei Dajie, Xicheng District, Beijing	100031	99	4,853	304,705
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	49	1,586	45,937
	Tianjin Branch	255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	44	1,790	78,227
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	59	1,805	65,742
	Yantai Branch	66 Zhujiang Road, Economic & Technological Development Area, Yantai	264006	19	541	14,069
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	13	444	14,240
	Tangshan Branch	45 Beixin Road West, Lubei District, Tangshan	063000	7	227	3,223
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	80	2,746	133,909
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	115	5,185	354,375
	Fuzhou Branch	316 Jiangbingzhong Boulevard Road, Fuzhou	350014	32	1,148	56,350
	Xiamen Branch	18 Lingshiguan Road, Siming District, Xiamen	361012	31	990	52,904
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	18	485	17,683
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	28	909	38,623
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	31	937	42,354

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	60	1,655	45,778
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	38	1,267	32,330
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,086	42,258
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	29	700	24,002
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	105	2,695	126,424
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	56	1,509	72,518
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	43	1,466	41,785
	Hefei Branch	169 Funan Road, Hefei	230001	42	1,281	47,610
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	42	1,280	60,472
	Taiyuan Branch	265 Nan Zhong Huan Road, Xiaodian District, Taiyuan	030012	28	878	28,919
	Haikou Branch	Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	10	288	11,353
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	52	1,617	55,573
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	28	906	27,073
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	64	1,859	61,466
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	47	1,656	72,429
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	771	23,650
	Kunming Branch	1 Chongren Street Wuhua District, Kunming	650021	46	1,278	53,047
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	21	625	21,576
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	522	23,120
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	18	455	18,892
	Yinchuan Branch	138 Beijingzhong Road, Jinfeng District, Yinchuan	750001	16	404	12,873
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	10	265	10,450
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	250	155,201
	USA Representative Office	23rd Floor, 535 Madison Avenue, New York, U.S.A	10022	1	1	–
	New York Branch	23rd Floor,535 Madison Avenue, New York, U.S.A	10022	1	131	41,750
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	50	13,081
	London Representative Office	18/F, 20 Fenchurch Street, London, UK	–	1	1	–
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	2	–
	Luxembourg Branch	20 Boulevard Royal, L-2449 Luxembourg	L-2449	1	43	15,584
	London Branch	18/F, 20 Fenchurch Street, London, UK	–	1	45	8,424
	Sydney Branch	L39, GPT, 1 Farrer Place, Sydney, NSW	–	1	29	6,362
Other assignments	–	–	–	–	38	–
Total	–	–	–	1,822	74,590	6,347,615

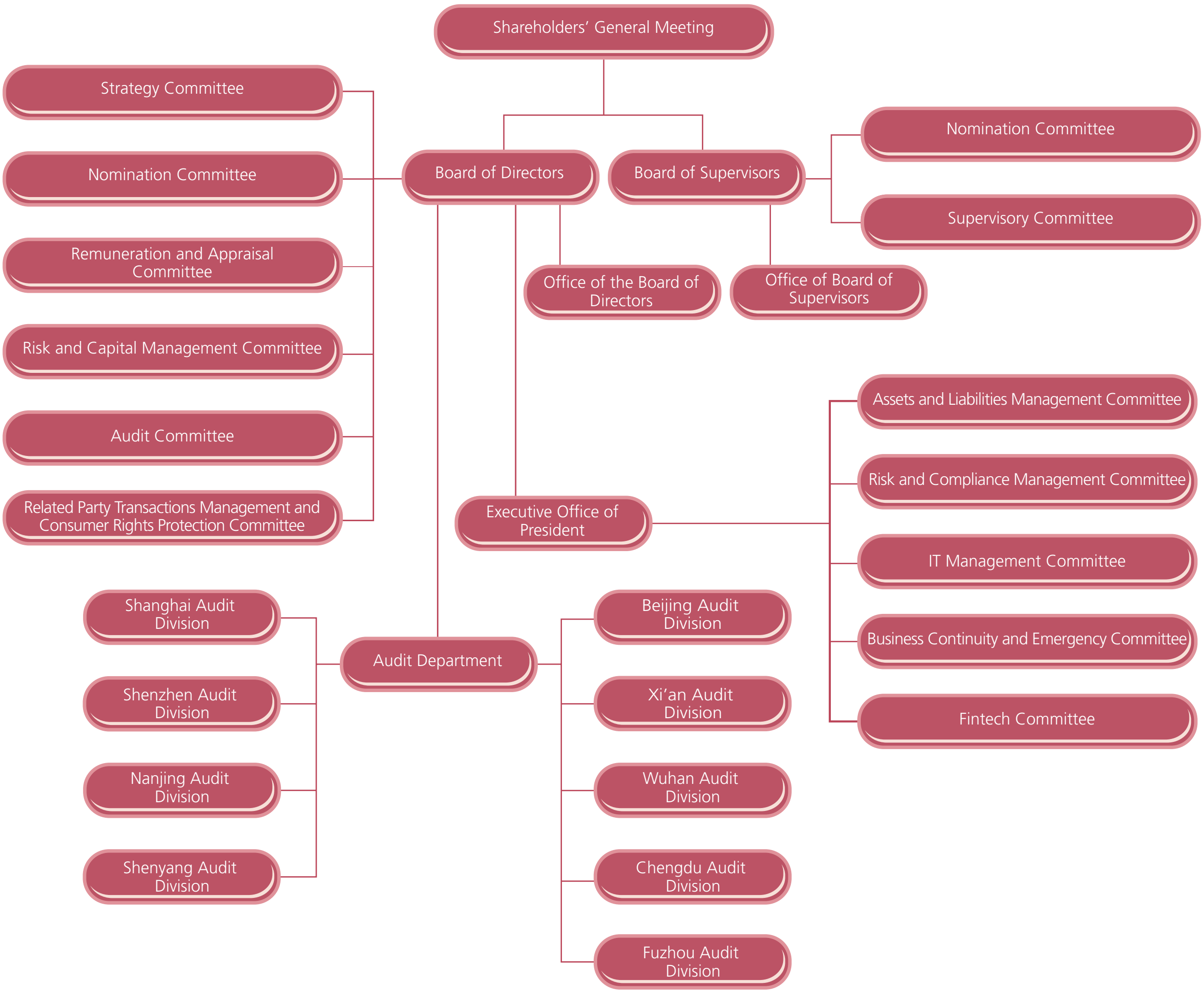
6.9 The Company's organisational structure:



Note：#secondary department
*independent secondary department

Corporate Governance

7.1 Corporate governance structure:



7.2 Overview of corporate governance

During the reporting period, the Company convened a total of 59 important meetings at which 258 proposals were reviewed and 44 reports were delivered. Among the 59 meetings, there were 2 shareholders' general meetings (19 proposals were reviewed), 18 meetings of the Board of Directors (95 proposals were reviewed and 16 reports were delivered), 7 meetings of the Board of Supervisors (31 proposals were reviewed and 10 reports were delivered), 28 meetings of the special committees under the Board of Directors (108 proposals were reviewed and 17 reports were delivered), 3 meetings of the special committees under the Board of Supervisors (5 proposals were reviewed) and 1 meeting of Non-Executive Directors (1 report was delivered). In addition, 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 the 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 honors, mainly including the "Best Board of Directors Award" and the "Most Innovative Board Secretary Award" in the selection of the "Gold Round Table Award" by the Board of Directors; the "Gold Award for Annual Reports Worldwide" selected by League of American Communications Professionals LLC, the highest level of "A" in the annual evaluation of information disclosures by Shanghai Stock Exchange; the awards of "Best Investor Relations Management Company", the "Best Corporate Governance" and the "Best Analyst Open Day" for the Asian listed banks selected by Institutional Investor of U.S., and the "Best IR Companies Listed in Hong Kong" hosted firstly by the New Fortune magazine.

7.3 Information about general meetings

During the reporting period, the Company convened 2 shareholders' general meetings, namely the 2017 Annual General Meeting on 27 June 2018 and the 2018 First Extraordinary General Meeting on 7 November 2018.

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 has sixteen members, including eight Non-Executive Directors, two Executive Directors, and six Independent Non-Executive Directors. All the eight Non-Executive Directors are from large state-owned enterprises where they hold key positions such as the Chairman of the Board of Directors, General Manager, Deputy General Manager or 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, there are renowned experts in accounting and finance and financial experts and investment bankers with international vision, and they all have extensive knowledge of the development of domestic and overseas banking industry. The two Independent Non-Executive Directors from Hong Kong are proficient in international accounting standards and the requirements of Hong Kong capital market. The Board of Directors of the Company has two 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 under the articles of association of the Company and the domestic and overseas regulatory rules, 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 96%.

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 such as the preliminary profit appropriation plan, nomination and election of directors, changes in accounting policies, engagement of accounting firms, related party transactions and external guarantees. 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 CBIRC, 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. 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 has 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. In order to allow the Board of Directors to discuss all major and relevant matters in time, the Chairman and senior management worked together to ensure that the Directors duly receive appropriate, complete and reliable information for their reference 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 the special committees under the Board of Directors and at the shareholders' general meetings held in 2018.

Directors	Board of Directors (1)	Special committees under the Board of Directors: Strategy Committee	Nomination Committee	Remuneration and Appraisal Committee	Risk and Capital Management Committee	Audit Committee	Related Party Transactions Management and Consumer Rights Protection Committee	Shareholders' General Meeting
	Actual times of attendance/Required times of attendance(2)							
Non-Executive Directors								
Li Jianhong	18/18	7/7	3/3	/	/	/	/	0/2
Fu Gangfeng	18/18	7/7	/	/	/	5/5	/	2/2
Sun Yueying	18/18	/	/	2/2	6/6	/	/	2/2
Zhou Song	5/5	/	/	/	/	1/1	/	1/1
Hong Xiaoyuan	18/18	/	/	2/2	6/6	/	/	2/2
Zhang Jian	17/18	/	/	/	6/6	/	/	2/2
Su Min	18/18	/	/	/	6/6	/	4/4	2/2
Wang Daxiong	18/18	/	/	/	/	6/6	/	2/2
Executive Directors								
Tian Huiyu	18/18	7/7	3/3	/	/	/	/	1/2
Li Hao	18/18	/	/	/	6/6	/	4/4	2/2
Independent Non-Executive Directors								
Leung Kam Chung, Antony	17/18	/	/	2/2	5/6	/	/	2/2
Pan Chengwei	18/18	/	3/3	/	/	6/6	4/4	2/2
Zhao Jun	18/18	/	3/3	/	/	/	4/4	2/2
Wong See Hong	17/18	/	/	/	/	6/6	4/4	2/2
Li Menggang	2/2	/	/	1/1	/	0/0	/	0/0
Liu Qiao	2/2	/	0/0	1/1	/	/	/	0/0
Wong Kwai Lam (resigned)	16/16	/	/	1/1	/	6/6	/	2/2
Pan Yingli (resigned)	16/16	/	3/3	0/1	/	/	/	2/2

Notes: (1) During the reporting period, the Board of Directors of the Company held a total of 18 meetings, and the special committees under the Board of Directors held a total of 28 meetings.

(2) Actual number of attendance does not include attendance by proxy.

(3) Li Jianhong, the Chairman of the Board of Directors, did not attend the general meeting due to his other business engagements.

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 specific enquiry of all the Directors and Supervisors, the Company confirmed that they had complied with the aforesaid Model Code during the reporting period.

The Company has also established the guidelines for the relevant employees' dealings in the Company's securities, which are no less exacting than the Model Code. The Company is not aware of any non-compliance with the aforesaid guidelines by the 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 the relevant requirements of the CBIRC, 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 the 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 the Hong Kong Listing Rules. Therefore, the Company is of the opinion that all the Independent Non-Executive Directors have complied with the requirement of independence set out in the 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 Transactions Management and Consumer Rights Protection 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 the meetings held by the Board of Directors and its various special committees, actively expressing their opinions and suggestions and attending to the interests and requests of minority shareholders. For details of the attendance of Independent Non-Executive Directors at the meetings convened by the Board of Directors and its special committees, please refer to "Attendance of Directors at relevant meetings" in this report.

During the reporting period, the Independent Non-Executive Directors of the Company expressed their independent opinions on significant matters such as the preliminary profit appropriation plan, nomination and election of directors, changes in accounting policies, engagement of accounting firms, related party transactions and external guarantees. They made no objection to the resolutions of the Board of Directors and others of the Company in the year.

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 the reports on the operation of the Company in 2018. The Independent Non-Executive Directors believed that the reports had fully and objectively reflected the operation of the Company in 2018 as well as the progress of significant matters. They recognised and were satisfied with the work performed and the results achieved in 2018.

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 annual audit, the Independent Non-Executive Directors discussed with the certified public accountants in charge of annual audit 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 accounting firm in charge of annual audit, the Independent Non-Executive Directors discussed with the certified public accountants in charge of annual audit 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 about such meetings.

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 under 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 Transactions Management and Consumer Rights Protection Committee.

In 2018, all the 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 28 meetings to study and review 125 significant issues, including strategic implementation and assessment, profit appropriation, annual financial budget and final account, remuneration and appraisal, capital management plan, comprehensive risk management, internal control and external investments, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence fully playing its role in assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees under the Board of Directors of the Company as well as their work in 2018 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), Fu Gangfeng (a Non-Executive Director) and Tian Huiyu (an Executive Director). The Strategy Committee is mainly responsible for formulating the operation and management goals and the medium-to-long term development strategies of the Company, as well as supervising and examinating its annual operation plan and investment 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 operation and investment plans;
4. Evaluate and monitor the implementation of the Board resolutions; and
5. Make recommendations and proposals on the important issues for discussion and determination by the Board of Directors.
6. Any other task delegated by the Board of Directors.

In 2018, the Strategy Committee focused on reviewing various proposals including the Fintech special report, the adjustment in the amount of provision for the fund of Fintech innovation projects and the projects winning the financial innovation award, increased the amount of provision for the fund of Fintech innovation projects from 1% of the Company's pre-tax profit to 1% of its operating income, and assisted the Board of Directors to effectively promote the implementation of the "Digital Bank" strategy.

In 2018, the Strategy Committee studied and reviewed the "Annual Strategy Implementation and Appraisal Report of China Merchants Bank in 2017", strengthened the predictability of guiding strategies, ensured the implementation of strategies through process supervision, maintained strategic continuity through unswerving execution, and assisted the Board of Directors to steadily promote the achievement of the development vision "to build itself into the best commercial bank in China featuring innovation-driven development, the retail banking-prioritised business strategy and distinctive advantages". In order to strengthen the integrated operation of the Company and reinforce the capital base of its branches, the Strategy Committee also considered various significant investments including the establishment of a legal entity operating as a direct sales bank by way of joint venture, the establishment of an asset management company, and the increase of investment in Merchants Union Consumer Finance Company Limited.

7.5.2 Nomination Committee

The majority of members of the Nomination Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Nomination Committee include Pan Chengwei (Chairman), Zhao Jun and Liu Qiao (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 formulating the procedures and standards for election of the Directors and senior management, conducting preliminary verification on the qualification for appointment of the Directors and senior management and making proposals to the Board of Directors.

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 changes to the Board of Directors to implement the strategies of the Company according to the Company's business operation, 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 2018, the Nomination Committee reviewed and approved the Resolution in relation to the "Addition of Mr. Zhou Song as Non-Executive Director", the Resolution in relation to the "Addition of Mr. Li Menggang as Independent Non-Executive Director", the Resolution in relation to the "Addition of Mr. Liu Qiao as Independent Non-Executive Director" and the Resolution in relation to the "Addition of Mr. Luo Sheng as Non-Executive Director".

7.5.3 Remuneration and Appraisal Committee

The majority of members of the Remuneration and Appraisal Committee were Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Remuneration and Appraisal Committee currently include Li Menggang (Chairman), Leung Kam Chung, Antony, Liu Qiao (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 reviewing the remuneration management system and policies of the Company, formulating the remuneration package for directors and senior management, making proposals to the Board of Directors and supervising the implementation of proposals.

Main authorities and duties:

1. Study the standards for assessment of Directors and senior management 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 systems and policies for remuneration management of the whole Bank; and

4. Any other task delegated by the Board of Directors.

In 2018, 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 Staff Costs of China Merchants Bank", and further improved the incentive and restrictive mechanism. Pursuant to the provisions of the H Share Appreciation Rights Scheme, the Remuneration and Appraisal Committee conducted validity appraisal and price adjustment in respect of the appreciation rights granted, which ensured the continuous implementation of the medium-to-long term incentive mechanism of the Company.

7.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (Chairman), Sun Yueying, Zhang Jian, Su Min (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 supervising the status of risk control by the senior management of the Company in relation to major risks, making regular assessment on the risk policies, risk-withstanding ability and capital management status of the Company and submitting proposals on perfecting the management of risks and capital 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 2018, 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 complicated external situations and internal operation management, the Risk and Capital Management Committee assisted the Board of Directors to focus on and prevent liquidity risk, credit risk, compliance risk and asset management risk and, on the premise of fully exposing risks, improved quality and efficiency, consolidated the asset quality foundation, enhanced the Company's comprehensive competitiveness, and fully implemented the strategic requirements of the Board of Directors to "outrunning the market and outperforming the peers".

The Risk and Capital Management Committee studied and considered various resolutions on the comprehensive risk reports, the risk preference implementation reports and the comprehensive risk consolidated management plans for various quarters to strengthen the predictability of risk management mechanism, consistently implemented the "Substance over Form" concept in various works regarding the risk exposure management of the Company and constantly improved the construction of the risk management system. Also, the Risk and Capital Management Committee reviewed various resolutions on the annual business continuity management work report, the annual anti-money laundering work report, the stress test report, the verification policy implementation report and the outsourcing management report, effectively monitored the risk management work and assisted the Board of Directors to further enhance its risk management capability.

7.5.5 Audit Committee

The majority of members of the Audit Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Audit Committee are Wong See Hong (Chairman), Pan Chengwei and Li Menggang (all being Independent Non-Executive Directors), Zhou Song and Wang Daxiong (both being Non-Executive Directors). None of the above persons has ever served as a partner of the incumbent auditors of the Company. The Audit Committee is mainly responsible for examining the accounting policies and financial position of the Company; and is responsible for the annual audit work of the Company, proposing the appointment or replacement of external auditors and examining the status of the internal audit and internal control 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 the truthfulness, accuracy, completeness and timeliness of the information contained in the audited financial statements, 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 statements, 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 2018, based on the quarterly regular meeting system, the Audit Committee took the regular reports and internal and external audit reports as the starting point, supervised and verified the truthfulness, accuracy and timeliness of information set out in the financial statements. The Company obtained the findings of internal audits in a timely manner and strengthened the rectification of and the accountability for the problems found in bank-wide self-examination and concerned by relevant regulators so as to practically consolidate the third defense line, and promoted an effective communication mechanism between internal and external audits by constantly enhancing the communication and contact with internal auditors and external auditors. Moreover, the Audit Committee also reviewed various resolutions on the change of accounting policies and the appraisal of internal control, gave full play to the important role of monitoring operating management, disclosing risks and issues and improving management levels, and effectively discharged relevant functions.

According to the "Work Procedures on Annual Reports for Audit Committee under the Board of Directors" adopted by the Company, the Audit Committee under the Board of Directors of the Company performed the following duties in preparing and reviewing the annual report for 2018:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the accounting firm's audit plan for 2018 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 report on the operation of the Company for 2018. The Audit Committee exchanged opinions on the significant matters and 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 on the above issues.
3. Before the convening of the annual meeting of the Board of Directors, the Audit Committee reviewed the Company's Annual Report for 2018 and agreed to submit the same to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and submitted to the Board of Directors the conclusion report prepared by the auditors in charge of annual audit in respect of the audit work of the Company in 2018.

7.5.6 Related Party Transactions Management and Consumer Rights Protection Committee

The majority of members of the Related Party Transactions Management and Consumer Rights Protection Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Related Party Transactions Management and Consumer Rights Protection 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 Transactions Management and Consumer Rights Protection Committee is mainly responsible for inspection, supervision and review of related party transactions of the Company and protection of the legitimate rights and interests of consumers.

Main authorities and duties:

1. Identify related parties of the Company pursuant to relevant laws and regulations;
2. Inspect, supervise and review the major related party transactions and continuing related party transactions, and control the risks associated with related party transactions;
3. Review the administrative measures on related party transactions of the Company, and monitor the establishment and improvement of the related party transaction management system of the Company;
4. Review the announcements on related party transactions of the Company;
5. Review the strategies, policies and objectives of the consumer rights protection work of the Company;
6. Regularly listen to the report on the implementation of the consumer rights protection work of the Company and the relevant resolution, and make recommendations to the Board of Directors in respect of the relevant work;
7. Supervise and evaluate the comprehensiveness, timeliness and effectiveness of the consumer rights protection work of the Company, the duty performance of senior management in the protection of consumer rights, and the information disclosure of consumer rights protection work;
8. Any other task delegated by the Board of Directors.

In 2018, the Related Party Transactions Management and Consumer Rights Protection Committee reviewed the fairness of the related party transactions, assisted the Board of Directors to ensure the legitimacy and compliance of related party transactions, carried out relevant responsibilities of consumer right protection in accordance with the regulatory requirements, reviewed and approved various resolutions on, among others, the 2017 Annual Related Party Transaction Report and the List of Related Parties in 2018, reviewed the related party transactions of the Company with China Merchants Group Ltd., China Communications Construction Group (Limited), Anbang Life, Merchants Union Consumer Finance Company Limited, CMB Financial Leasing and Bank of Tianjin Co., Ltd., and reviewed the caps for the connected transactions with Anbang Insurance Group Co., Ltd. and CM Securities. The functions of consumer right protection were added into the functions of the Committee, and the name of the Committee was changed accordingly, and the Committee reviewed the report on the relevant rules and regulations of consumer rights protection.

7.6 Corporate governance functions

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

1. Formulate and evaluate the policies and practices on corporate governance of the Company and make certain amendments as it deems necessary, so as to ensure the validity of those policies and practices;
2. Evaluate and supervise the trainings and the improvement of professional competence of Directors and senior management;
3. Evaluate and supervise the policies and practices of the Company for compliance with laws and regulatory requirements;
4. Formulate, evaluate and supervise the Code of Conduct and the Compliance Handbook applicable to the Directors and employees of the Company;
5. Review the compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance; and
6. Manage, control, monitor and assess the risks of the Company and evaluate the internal control status of the Company. The Board of Directors is of the opinion that the risk management and internal control systems of the Company are 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, legal operation, corporate governance, the duty performance of the Board of Directors and 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 nine members, including three Shareholder Supervisors, three Employee Supervisors and three External Supervisors. The proportion of Employee Supervisors and External Supervisors in the members of the Board of Supervisors each meets the regulatory requirements. The three 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 three Employee Supervisors have long participated in banking operation and administration, and thus accumulated rich professional experience in finance; and the three 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 performs its supervisory duties primarily by: holding regular meetings of Board of Supervisors 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 opinion exchanges and discussions, carrying out special investigations and surveys at domestic and overseas branches of the Company on a collective or separate basis and having talks with Directors and the senior management over their duty performance in the year, communicating with external auditors regularly, etc. By doing so, the Board of Supervisors comprehensively monitors the operation and management status, risk management status and internal control status of the Company as well as duty performance of the Directors and the senior management, and puts forward the constructive and targeted operation and management advice and supervision opinions.

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

During the reporting period, the Board of Supervisors convened a total of seven meetings, of which three were on-site meetings and four were meetings convened and voted by correspondence. 31 proposals regarding business operations, financial activities, internal control, risk management, consolidated statement management, related party transactions, corporate governance, evaluation of the duty performance of the Directors and Supervisors and resignation audit on the senior management were considered, ten special reports involving disposal of non-performing assets, the prevention and control of crimes, consumer rights protection, assessment on strategic implementation and internal audit were reviewed at those meetings.

In 2018, the Company convened a total of two shareholders' general meetings and three on-site board meetings. Supervisors attended the general meetings and were present at all the on-site board meetings, and supervised the legal compliance of convening the shareholders' general meetings and the Board meetings, voting procedures, the Directors' attendance at those meetings, issue of opinions and voting details.

During the reporting period, all the three 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 at branch level on a collective or separate basis, proactively familiarising themselves with the operation and management of the Company, and giving opinions or suggestions on significant matters. During the adjournment of the meetings 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 respect of the problems found in a timely manner, thereby playing an active role in assisting the Board of Supervisors in performing their supervisory duties.

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

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, and those committees were chaired by an External Supervisor.

The Nomination Committee under the Board of Supervisors

As at the end of the reporting period, 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 their members, 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 are scientific and reasonable.

In 2018, the Nomination Committee under the Board of Supervisors convened one meeting where proposals regarding the evaluation report on duty performance of the Board of Directors and its members in 2017, the evaluation report on duty performance of the Board of Supervisors and its members in 2017, the evaluation report on duty performance of the senior management and its members in 2017 were considered.

The Supervisory Committee under the Board of Supervisors

As at the end of the reporting period, the members of the Supervisory Committee of the Tenth Session of the Board of Supervisors were Jin Qingjun (Chairman), Wu Heng, Han Zirong and Wang Wanqing. 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 its formulation of suitable development strategies in line with the actual situations of the Company; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management 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 their duty performance; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Company under the authorisation of the Board of Supervisors when necessary; to formulate the plans for conducting resignation audit on Directors, President and other senior management when necessary.

In 2018, the Supervisory Committee under the Board of Supervisors convened a total of two meetings where the work plan of the Board of Supervisors in 2018 and the audit opinions on resignation of senior management 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 under the Board of Directors. They also reviewed the consideration and discussion on the financial decisions, risk management, internal control management and capital management of the Company, supervised the duty performance of the Directors, offered comments and suggestions on some issues and made monitoring records.

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

During the reporting period, the Board of Directors and the Board of Supervisors of the Company organised seven investigations/surveys, through which the duty performance, decision-making and effectiveness of supervision of our Directors and Supervisors continued to improve.

During the reporting period, the Board of Directors of the Company organised three investigations/surveys/visits for the Directors, which involved visits to the Head Office, branches and sub-branches to get familiar with their business operations, the implementation of the strategies of "Light-operation Bank" and the work reports in respect of the development of key businesses, risk management and internal control and compliance, while providing professional guidance to the branches.

During the reporting period, the Board of Supervisors strengthened on-site research and subsequent supervision based on budget assessments, and effectively improved its capability to coordinate and solve difficulties and problems, aiming to "build itself into the bank with best customer experience". The Board of Supervisors organised a total of four collective surveys throughout the year, including three domestic surveys and one overseas survey, involving 13 branches. Through such researches and surveys, the Board of Supervisors came up with high-quality opinions and suggestions on the circumstances faced by the surveyed branches, particularly the direction of their strategic development, risk control and prudent management, leveraging the momentum of financial technology transformation, improvement of customer experience, management of second-level branches, compliance and risk control of our overseas branches, care for our employees and enhancement of their satisfaction, etc., and formed a complete supervision process for collecting problems and appeals, sorting out and integrating supervision-related matters, communicating with the relevant authorities for timely feedback and finally solving the problems. In addition, the Board of Supervisors renovated the carrier of supervision by launching the "Core Requirements on the Work of the Board of Supervisors", which focused on the core and key aspects of supervision, and regularly circulated the concerns and movements of the Board of Supervisors among the directors, Supervisors and senior management, giving full play to its role in strengthening supervision on duty performance in support of our business development.

During the reporting period, the Directors of the Company participated in relevant trainings or researches according to the requirements on duty performance, the contents of which include corporate governance, policies and regulations and banking operation and management. The above trainings or researches helped improve the duty performance of the Directors, ensure that the Directors were fully aware of the information required for duty performance, and continued to make contributions to the Board of Directors of the Company based on the actual situation of the Company. If necessary, the Company would assist the Directors to participate in appropriate trainings and researches and make reimbursements for relevant expenses.

7.9 Company secretary under Hong Kong Listing Rules

Mr. Wang Liang, Secretary of the Board of Directors of the Company, and Mrs. Sang Size Ka Me, Natalia of TRICOR Services Limited, an external services provider, are 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. Sang Size Ka Me, Natalia both attended the relevant professional trainings for 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

During the reporting period, the Company had no internal cases that inflict huge losses, or external cases or incidents of theft or robbery, or material safety issues.

7.11 Communication with shareholders

Investor relations

In 2018, the Company remained investor-oriented, focused on its fundamentals and movements in the market, and maintained effective communication with its investors and analysts at home and abroad in a positive, innovative and professional manner and conveyed the Company's development strategy, operating results, business highlights and investment value efficiently, accurately, comprehensively and objectively to its investors in a variety of forms, while constantly enhancing the investor experience and the capital market's understanding of the Company's differentiated features, and enhancing the Company's good market image of professionalism, openness and transparency. Notwithstanding the significant fluctuations in the capital market throughout the year, the valuation of the Company's A+H Shares remained at the forefront in the domestic banking industry, with its market value maintaining the fifth place among the domestic banks.

During the reporting period, the Company rolled out a global road show for its annual results, held two performance presentations and analysts' meetings, one media press, and one seminar for the investor analysts. Chairman Li Jianhong and President Tian Huiyu attached great importance to investor relations management, and attended the 2017 performance presentation for investor analysts and press conference for the announcement of our annual results, and answered the questions from the investors, analysts and news media. Following the release of our 2017 annual results, President Tian Huiyu and other senior management led three road show teams to roll out global road shows in Hong Kong, the United States, Europe, Japan, Singapore and Australia, including visits to 116 key institutions, communicating with them adequately and intensively on the Company's financial technology transformation, business development, advantages and characteristics as well as strategic visions; A total of 373 institutional investors, analysts and 55 media reporters attended our 2017 annual results presentation and press conference, setting a record since the Company was listed in 2002. A total of 343 domestic and foreign institutional investors and analyst attended the Company's 2017 interim results phone presentation; we visited 21 important A-share institutional investors in Beijing, Shanghai, Guangzhou and Shenzhen, and conducted in-depth exchanges with 281 investment research directors, fund managers and researchers. In addition, the Company arranged for and received 103 visits and telephone surveys by 230 domestic and foreign institutional investors, investment banks and brokerage analysts throughout the year, attended the investor conferences held by 39 domestic and foreign investment banks and securities brokers, and conducted 156 one-to-one or one-to-many discussions with a total of 1,151 Institutional investors; we also answered hundreds of phone calls from the investors and processed hundreds of messages from investors on the Company's official website, investors' mailbox, and SSE E-interaction. The above measures satisfied the needs of our investors and analysts to communicate with the Company in an effective manner.

Our investor relations management efforts again met with the recognition of the capital market. In the votes for the "Gold Medal Board Secretary" held by the domestic "New Fortune (《新財富》)" magazine, Mr. Wang Liang, our Deputy President and Secretary of the Board of Directors, attended the selection campaign for the first time and secured the seventh place in all industries and the first place in the banking industry. Also, the Company won the first "Best IR Company Listed in Hong Kong" award presented by the New Fortune. In the votes held by the "Institutional Investor", a US magazine, the Company won the "Respectable Company in Asia" award in 2018, and secured the second place of the "Company with Best Investor Relations Management" among the Asian listed banks and the third place of the "Best Analyst Open Day".

Information disclosure

The Company's information disclosure is based on good corporate governance practice, sound internal control, and an effective information disclosure system, which ensures that our investors can obtain information in a timely, accurate and equal manner.

During the reporting period, the Company disclosed the material information in a true, accurate, complete, timely and fair manner in strict accordance with the requirements of relevant information disclosure laws and regulations, and released over 340 disclosure documents on Shanghai Stock Exchange and Hong Kong Stock Exchange, including periodic reports and temporary announcements, corporate governance documents, shareholders' circulars, etc., which have an aggregate of over 2.6 million words. While fulfilling its statutory obligations for information disclosure, the Company further improved the initiative and transparency of information disclosure. By timely releasing its annual and interim reports, the Company aimed to guide the market expectations in a reasonable manner. The Company has adhered to the guideline of "investor-oriented" disclosure, and made proactive disclosure of the hot issues of investors' interest and the distinctive information about the banking industry in combination with the macroeconomic and financial situation, so as to help the investors to obtain a thorough understanding of the Company's business models, competitive edges and risk status, which met with the recognition of the capital market. During the reporting period, the Company did not make any mistakes in respect of information disclosure.

During the reporting period, the Company formulated the "Regulations on the Preparation and Review of Periodic Reports and Performance Presentation Materials" in consideration of the regulatory requirements and daily work practices, which imposed further regulation and constriction on the division of responsibilities and work processes for the preparation and review of its periodic reports and results presentation materials.

During the reporting period, by dispatching the notices regularly and clarifying the scope and quantitative standards for circulation of the significant sensitive information, the Company effectively enhanced the accuracy and timeliness of its reporting of sensitive information, which resulted in the smooth operation of the information disclosure contact mechanism. The Company also put great efforts on the management of information disclosure and insider dealing, enhanced its employees' awareness of compliance, increased their vigilance against insider information leakage and insider dealing, which effectively reduced risks in information disclosure.

The Company's well-regulated operation and outstanding information disclosure practice met with recognition from the regulatory authorities, and received Grade A (the highest grade) in the annual appraisal of 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 working days after receiving the proposal.

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 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 on 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 of the Company upon the submission of written documents certifying the class and quantity of shares of the Company held by the shareholders, the identity of whom has been verified by the Company.

7.13 Major amendments to the Articles of Association of the Company

During the reporting period, 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 3 May 2018, 9 June 2018 and 8 October 2018, respectively.

7.14 Statement made by the Directors about their responsibility for 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 2018 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, except as disclosed, 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, according to the unified arrangements of the CBIRC, the Company has conscientiously organised and made further efforts to rectify the market disorders in the banking industry throughout the Bank, conducted comprehensive assessment on the effectiveness and implementation of a series of special rectification works of "Three Violations, Three Arbitrages, Four Improprieties and Ten Problems" carried out in 2017, fully carried out self-examination and self-correction by focusing on the "major issues to rectify the market disorders in the banking industry in 2018" proposed by the CBIRC, and implemented comprehensive rectification work in respect of system improvement, culture promotion activities, system construction, processes optimisation, business training, supervision and inspection, etc., continued to strengthen compliance on internal control and risk management, returning to the origins of the business of serving the real economy. In accordance with the relevant provisions of the "Guidelines for the Management of Practitioners in Banking and Financial Institutions", in 2018, the Company revised and improved the "Management Measures on Employees' Behavior of China Merchants Bank", further improved the governance structure and responsibility system of employees' behavior management, and established a employees' behavior management system with characteristics of clear responsibilities, complete process, division of work and cooperation, and joint management. Faced with the "new normal" of strict regulations and severe punishment, the Company further improved the education on compliance and case warning trainings for its employees during the reporting period; in addition to the normalisation of investigation on employees' abnormal behaviors, carried out special rectification on major harmful violations such as "employees' investment and shareholding in credit granting enterprises", "employees' financial dealings with P2P platforms", "employees using customers' insider information for personal interests" and other harmful violations, identifying and eliminating all kinds of potential risks in a timely manner; further increased the efforts in applying employees' behavior management tools such as keeping a list of employee violation points and a list of names of violating employees, strengthening non-compliance accountability and conducting due diligence investigation on termination of employment, and earnestly implemented the strict management requirements with a view to ensuring the compliant operation and healthy development of various businesses.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2018 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 "Report of Assessment on Internal Control of China Merchants Bank Co., Ltd. in 2018", 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 an independent and vertical internal audit management system. The Board of Directors shall assume the ultimate responsibility for the independence and effectiveness of internal audit, being responsible for reviewing and approving the constitutional documents of internal audit, establishing the audit organisation system, formulating the medium-to-long term audit plan and annual audit plan, appointing the head officer of the audit department, providing necessary support to carry out independent internal audit work, and assessing the independence and effectiveness of internal audit work. The Board of Directors has an Audit Committee, which is responsible for reviewing important systems and reports such as the constitutional documents of internal audit, approving the medium-to-long term audit plan and the annual audit plan, and guiding, assessing and evaluating the internal audit work. The Head Office has an Audit Department which consists of nine audit divisions, which are under the guidance of the Board of Supervisors and senior management, and shall undertake the specific internal audit duties. In June 2018, the Company implemented an organisational restructuring of the Audit Department and added a virtual "direct division" to the headquarters of the Audit Department under the Head Office, so as to strengthen the audit on the departments under the Head Office, overseas institutions and anti-money laundering work; nine specialised teams were established to strengthen the off-site audit work such as "research, analysis, organisation and guidance" and enhanced the support and management of the inspection teams of audit divisions. In each audit division, five professionally mixed audit teams were established, including a new ongoing audit team, to strengthen the ongoing audit and rectification following-up of regional branches and institutions.

In 2018, the Company focused on risk prevention and control, with audit transformation as the main theme, ongoing audit as the starting point and audit rectification as the driving force, closely focused on key areas, key risks and key points, and continuously expanded the extent and scope of audit supervision. We also put more resources in building the audit information platform, further strengthened off-site audit, shifted our focus from post-supervision to pre-warning and warning, identified the potential problems in a timely manner, prompted the risk in a timely manner, proposed prevention and control measures in a timely manner, strictly carried out audit rectification through various measures, and promoted the continuous improvement of the mechanisms, processes and systems across the Bank, so as to ensure the high-quality development of 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 statements for 2018 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 statements 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 2018, 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 2018", 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

22 March 2019

Financial Statements

(See Annexures)

Independent Auditor's Report

DTTHK(A)(19)I00046

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 135 to 283, which comprise the consolidated statement of financial position as at 31 December 2018, 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 flow 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 2018, 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
Expected credit loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost	
We identified expected credit loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost as a key audit matter due to the materiality of the balances of these financial instruments. The expected credit loss (ECL) model was applied by the Group to estimate ECLs since 1 January 2018, which involves significant management judgement and estimates. As at 31 December 2018, as set out in note 22, the Group reported loans and advances to customers at amortised cost of RMB3,764,074 million and RMB191,895 million of relevant expected credit loss allowance. While as set out in note 24(b), the Group reported debt investments at amortised cost of RMB924,138 million and related credit loss allowance of RMB8,126 million. Key judgements and estimates in respect of the measurement of ECLs include: the criteria selected to identify a significant increase in credit risk (SICR) are highly judgemental; the identification of credit impairment events is a key area of judgement; significant judgments are required to the determination of inputs used in the ECL model, as well as the determination of the forward-looking information. Principal accounting policies, accounting estimates and judgement applied in determining the loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost are set out in notes 4(5) and 5(4) to the consolidated financial statements.	Our procedures in relation to the expected credit loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost included: We understood management's process and tested the design and operating effectiveness of key controls across the processes relevant to the ECL of the Group. These controls included the validation and review of the ECL model; the controls over the model data input, including manual controls and automatic controls; the automatic controls over the ECL model calculation process; the controls over the identification of SICR indicators and impairment evidence. We assessed whether the ECL model applied by the Group has covered all the exposures that should be taken into consideration. In respect of different portfolios of loans and advances to customers at amortised cost and debt investments at amortised cost, we involved our internal modelling specialist to assist us in assessing the appropriateness of the Group's methodology of ECL model. We reviewed relevant documents and evaluated the applicability and appropriateness of the ECL model. With the support of our internal modelling specialist, we assessed the reasonableness of the key definitions, parameters and assumptions used in the ECL model. This included assessing stage allocation, probability of default, loss given default, exposure at default and forward-looking information. We selected samples to conduct credit reviews in order to assess whether the SICR and impairment events were occurred and were appropriately recognized without delay. In addition, we tested the input data samples of the ECL model to evaluate the completeness and accuracy of the data input. We also tested the calculation of the ECL model on a sample basis. For the loans and advances at amortised cost and debt investments at amortised cost at stage 3, we selected samples to test the reasonableness of future cash flows estimated by the Group, including the expected recoverable amount of collateral, to assess whether there were significant misstatements in the loss allowance.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The valuation of the Group's financial instruments, measured at fair value, is based on a combination of market data and valuation models which require a considerable number of inputs. Most of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where observable data is not readily available, as in the case of level 3 financial instruments, estimates are required to determine the unobservable inputs, which involve significant management judgement. We identified the valuation of financial instruments as a key audit matter due to the materiality of the balances and the complexity involved in valuing certain financial instruments, of which significant judgement and estimation are required in determining the valuation technique and the inputs used in the valuation models. As at December 31, 2018, as set out in note 61(g) the Group's financial assets and financial liabilities at fair value totalled RMB958,339 million and RMB80,670 million respectively, accounting for 14% and 1% of total assets and liabilities of the Group respectively. Significant estimates applied in fair value of financial instruments and the disclosure of fair value are set out in notes 5(5) and 61(g) to the consolidated financial statements.	Our procedures in relation to the valuation of the fair value of financial instruments included understanding and testing the design and operating effectiveness of key internal controls over the determination of valuation model and valuation of the financial instrument at fair value. We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data. With the support of our internal valuation specialists, we performed independent valuations, on a sample basis, of level 2 and level 3 financial instruments and compared our valuations with the Group's valuations.
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 65 in the consolidated financial statements. As describe in note 4(1), the consolidation of structured entities is determined based on the control. Control is achieved when the investor has power over the investee, the investor is exposed, or has rights, to variable returns from its involvement with the investee; and the investor has the ability to use its power to affect its returns. 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 understanding and testing the design and operating effectiveness of key controls over the management process in determining the consolidation scope for interests in structured entities as well as understanding 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.

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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 of the Bank 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 of the Bank 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 of the Bank 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 of the Bank.
- Conclude on the appropriateness of the directors of the Bank’s 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

22 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2018	2017
Interest income	6	270,911	242,005
Interest expense	7	(110,527)	(97,153)
Net interest income		160,384	144,852
Fee and commission income	8	73,046	69,908
Fee and commission expense		(6,566)	(5,890)
Net fee and commission income		66,480	64,018
Other net income	9	20,271	11,169
– Disposal of financial instruments at amortised cost		(350)	N/A
Operating income		247,135	220,039
Operating expenses	10	(81,110)	(70,431)
Operating profit before impairment losses		166,025	149,608
Expected credit losses	14	(60,829)	(59,922)
Impairment losses on other assets		(8)	(4)
Share of profits of joint ventures	26	1,272	995
Share of profits of associates	27	37	3
Profit before taxation		106,497	90,680
Income tax	15	(25,678)	(20,042)
Profit for the year		80,819	70,638
Attributable to:			
Equity shareholders of the Bank		80,560	70,150
Non-controlling interests		259	488
Earnings per share			
Basic and diluted (RMB)	17	3.13	2.78

The notes form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018
(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2018	2017
Profit for the year		80,819	70,638
Other comprehensive income for the year after tax and reclassification adjustments			
Items that may be reclassified subsequently to profit or loss			
Equity-accounted investees share of other comprehensive income	26	(36)	44
Fair value gain on debt instruments measured at fair value through other comprehensive income		6,243	N/A
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		496	N/A
Available-for-sale financial assets: net movement in fair value reserve		N/A	(5,369)
Cash flow hedge: net movement in hedging reserve		149	(67)
Exchange difference on translation of financial statements of foreign operations		1,995	(2,359)
Items that will not be reclassified to profit or loss			
Fair value gain on equity instruments measured at fair value through other comprehensive income		332	N/A
Remeasurement of defined benefit liability		(62)	60
Other comprehensive income for the year, net of tax	16	9,117	(7,691)
Attributable to:			
Equity shareholders of the Bank		9,094	(7,692)
Non-controlling interests		23	1
Total comprehensive income for the year		89,936	62,947
Attributable to:			
Equity shareholders of the Bank		89,654	62,458
Non-controlling interests		282	489

The notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2018	2017 (Restated)
Assets			
Cash		15,814	16,412
Precious metals		6,638	9,309
Balances with central bank	18	477,568	600,007
Balances with banks and other financial institutions	19	100,160	76,918
Placements with banks and other financial institutions	20	313,411	154,628
Amounts held under resale agreements	21	199,386	252,550
Loans and advances to customers	22	3,749,949	3,414,612
Interest receivable	23	N/A	28,726
Investments at fair value through profit or loss	24(a)	330,302	64,796
Derivative financial assets	61(f)	34,220	18,916
Debt investments at amortised cost	24(b)	916,012	N/A
Debt investments at fair value through other comprehensive income	24(c)	421,070	N/A
Equity investments designated at fair value through other comprehensive income	24(d)	4,015	N/A
Available-for-sale financial assets	24(e)	N/A	383,101
Held-to-maturity investments	24(f)	N/A	558,218
Debt securities classified as receivables	24(g)	N/A	572,241
Interest in joint ventures	26	8,622	5,183
Interest in associates	27	249	20
Investment properties	28	2,061	1,612
Property and equipment	29	56,206	49,812
Intangible assets	30	9,150	7,255
Goodwill	31	9,954	9,954
Deferred tax assets	32	58,374	50,120
Other assets	33	32,568	23,248
Total assets		6,745,729	6,297,638

The notes form part of these consolidated financial statements.

	Notes	2018	2017 (Restated)
Liabilities			
Borrowing from central bank		405,314	414,838
Deposits from banks and other financial institutions	34	470,826	439,118
Placements from banks and other financial institutions	35	203,950	272,734
Financial liabilities at fair value through profit or loss	36	44,144	26,619
Derivative financial liabilities	61(f)	36,570	21,857
Amounts sold under repurchase agreements	37	78,141	125,620
Deposits from customers	38	4,427,566	4,064,345
Interest payable	39	N/A	36,501
Salaries and welfare payable	40(a)	8,475	8,020
Tax payable	41	20,411	26,701
Contract liabilities	42	5,607	N/A
Provision	43	5,665	450
Debt securities issued	44	424,926	296,477
Deferred tax liabilities	32	1,211	1,070
Other liabilities	45	69,318	79,896
Total liabilities		6,202,124	5,814,246
Equity			
Share capital	46	25,220	25,220
Other equity instruments		34,065	34,065
– Preference shares	47	34,065	34,065
Capital reserve	48	67,523	67,523
Investment revaluation reserve	49	5,532	(3,812)
Hedging reserve	50	63	(86)
Surplus reserve	51	53,682	46,159
Regulatory general reserve	52	78,542	70,921
Retained profits		250,654	219,878
Proposed profit appropriations	53(b)	23,707	21,185
Exchange reserve	54	1,130	(843)
Total equity attributable to shareholders of the Bank		540,118	480,210
Non-controlling interests		3,487	3,182
– Non-controlling interest		2,329	2,012
– Perpetual debt capital	63(a)	1,158	1,170
Total equity		543,605	483,392
Total equity and liabilities		6,745,729	6,297,638

The notes form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 22 March 2019.

Li Jianhong
Director

Tian Huiyu
Director

Company Chop

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(Expressed in millions of Renminbi unless otherwise stated)

		2018													
		Total equity attributable to equity shareholders of the Bank											Non-controlling interests		
	Notes	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 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
Adjustments of application of accounting policy changes	3	–	–	–	2,368	–	–	–	(9,270)	–	–	(6,902)	–	–	(6,902)
At 1 January 2018		25,220	34,065	67,523	(1,444)	(86)	46,159	70,921	210,608	21,185	(843)	473,308	1,170	2,012	476,490
Changes in equity for the year		–	–	–	6,976	149	7,523	7,621	40,046	2,522	1,973	66,810	(12)	317	67,115
(a) Net profit for the year		–	–	–	–	–	–	–	80,560	–	–	80,560	64	195	80,819
(b) Other comprehensive income for the year	16	–	–	–	6,972	149	–	–	–	–	1,973	9,094	(12)	35	9,117
Total comprehensive income for the year		–	–	–	6,972	149	–	–	80,560	–	1,973	89,654	52	230	89,936
(c) Capital contribution from equity holders		–	–	–	–	–	–	–	–	–	–	–	–	91	91
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	125	125
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(34)	(34)
(d) Profit appropriations		–	–	–	–	–	7,523	7,621	(40,510)	2,522	–	(22,844)	(64)	(4)	(22,912)
(i) Appropriations to statutory surplus reserve	51	–	–	–	–	–	7,523	–	(7,523)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	52	–	–	–	–	–	–	7,621	(7,621)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2017		–	–	–	–	–	–	–	–	(21,185)	–	(21,185)	–	(4)	(21,189)
(iv) Distribution to perpetual capital instruments	63	–	–	–	–	–	–	–	–	–	–	–	(64)	–	(64)
(v) Proposed dividends for the year 2018		–	–	–	–	–	–	–	(23,707)	23,707	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	(1,659)	–	–	(1,659)	–	–	(1,659)
(e) Transfers within equity upon disposal of equity Instruments designated at FVTOCI		–	–	–	4	–	–	–	(4)	–	–	–	–	–	–
At 31 December 2018		25,220	34,065	67,523	5,532	63	53,682	78,542	250,654	23,707	1,130	540,118	1,158	2,329	543,605

The notes form part of these consolidated financial statements.

2017														
		Total equity attributable to equity shareholders of the Bank										Non-controlling interests		
	Notes	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 interests	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	16	–	–	–	(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	25(iv)	–	–	–	–	–	–	–	–	–	–	–	–	495	495
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(32)	(32)
(iii) Capital injection from preference shareholders	47	–	34,065	–	–	–	–	–	–	–	–	34,065	–	–	34,065
(iv) Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	–	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	51	–	–	–	–	–	6,451	–	(6,451)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	52	–	–	–	–	–	–	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		–	–	–	–	–	–	–	–	–	–	–	(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

Note: (i) China Merchants Fund Management Co., Ltd. cancelled the dividends distribution scheme of the year 2016 in 2017.

The notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(Expressed in millions of Renminbi unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Profit before tax	106,497	90,680
Adjustments for:		
– Impairment losses on loans and advances	59,252	60,052
– Impairment losses on investments and other assets	1,585	(126)
– Unwind of discount	(307)	(561)
– Depreciation of properties and equipment and investment properties	5,270	5,062
– Amortisation of other assets	1,005	724
– Net gain on debt securities and equity investments	(200)	(729)
– Interest income on investments	(48,267)	(52,042)
– Interest expense on issued debt securities	14,530	13,436
– Share of profits of associates	(37)	(3)
– Share of profits of joint ventures	(1,272)	(995)
– Net gains on disposal of properties and equipment	(196)	(127)
Changes in:		
Balances with central bank	91,162	(25,205)
Loans and advances to customers	(375,451)	(322,105)
Other assets	(14,437)	(11,390)
Deposits from customers	336,329	262,296
Deposits and placements from banks and other financial institutions	(87,461)	(129,953)
Balances and placements with banks and other financial institutions with original maturity over 3 months	(21,311)	30,597
Borrowing from central bank	(14,693)	84,730
Other liabilities	(48,130)	20,833
Cash generated from operating activities before tax	3,868	25,174
Income tax paid	(39,589)	(30,834)
Net cash used in operating activities	(35,721)	(5,660)
Investing activities		
Payment for the purchase of investments	(994,234)	(923,275)
Proceeds from the disposal of investments	980,939	803,283
Investments and net gains received from investments	48,692	52,205
Payment for the purchase of subsidiaries, associates, joint venture	(2,154)	(606)
Payment for the purchase of properties and equipment and other assets	(17,492)	(16,336)
Proceeds from the disposal of properties and equipment and other assets	2,173	191
Proceeds from the disposal of subsidiaries, associates, joint venture	9	67
Proceeds from other investing activities	1,785	–
Net cash generated from(used in) investing activities	19,718	(84,471)

The notes form part of these consolidated financial statements.

	Note	2018	2017
Financing activities			
Proceeds from the issue of debt securities		73,029	52,449
Proceeds from the issue of negotiable interbank certificates of deposits		407,328	559,795
Proceeds from the issue of certificates of deposits		32,300	19,086
Proceeds from the issue of perpetual debt capital		–	1,170
Proceeds from the issue of preferred shares		–	34,065
Proceeds from non-controlling shareholders		125	495
Proceeds from other financing activities		2,921	–
Repayment of issued debt securities		(15,590)	(30,186)
Repayment of negotiable interbank certificates of deposits		(342,201)	(569,088)
Repayment of certificates of deposit		(28,389)	(11,916)
Payment for acquiring additional non-controlling equity		(34)	(32)
Dividends paid		(22,912)	(18,692)
Interest paid on financing activities		(11,813)	(14,483)
Payment for other financing activities		(431)	–
Net cash generated from financing activities		94,333	22,663
Net increase/decrease in cash and cash equivalents		78,330	(67,468)
Cash and cash equivalents as at 1 January		460,425	532,112
Effect of foreign exchange rate changes		4,928	(4,219)
Cash and cash equivalents as at 31 December	56(a)	543,683	460,425
Cash flows from operating activities include:			
Interest received		214,843	188,045
Interest paid		95,349	83,869

The notes form part of these consolidated financial statements.

Notes to the Financial Consolidated Statements

For the year ended December 31, 2018

(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(1) 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 2018, apart from the Head Office, the Bank had 51 branches in the Mainland China, Hong Kong, New York, Singapore, Sydney and Luxembourg. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

(2) Principal activities

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

2. Basis of preparation of consolidated financial statements

(1) 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.

(2) 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 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

2. Basis of preparation of consolidated financial statements *(continued)*

(2) Basis of measurement *(continued)*

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, 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 5.

3. Application of new and amendments to IFRSs

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 40	Transfers of Investment Property
Amendments to IAS 28	As part of the annual Improvements to IFRS standards 2014-2016 Cycle

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, contract assets, leases receivable, loan commitments and financial guarantee contracts, and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and investment revaluation reserve, without restating comparative information. Accordingly, certain comparative information may not be comparable in these consolidated financial statements.

Accounting policies resulting from application of IFRS 9 are disclosed in note 4(5).

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.1) Impacts from classification and measurement

The directors of the Bank reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement (including impairment) on the Group's financial assets and the impacts thereof are detailed below:

	IAS 39 31 December 2017	Reclassification	Remeasurement	IFRS 9 1 January 2018
Balances with banks and other financial institutions				
IAS 39	76,918			
Remeasurement: ECL			(22)	
IFRS 9				76,896
Placements with banks and other financial institutions				
IAS 39	154,628			
Remeasurement: ECL			(49)	
IFRS 9				154,579
Amounts held under resale agreements				
IAS 39	252,550			
Remeasurement: ECL			(610)	
IFRS 9				251,940
Loans and advances to customers at amortised cost				
IAS 39	3,414,612			
Transfer to loans and advances to customers at FVTOCI (note (i))		(136,918)		
Remeasurement: ECL			(923)	
IFRS 9				3,276,771
Loans and advances to customers at FVTOCI				
IAS 39	–			
From loans and advances to customers at amortised cost (note (i))		136,918		
Remeasurement: from amortised cost to fair value (note (i))			(90)	
IFRS 9				136,828
Investments at FVTPL				
IAS 39	64,796			
From available-for-sale financial assets (note (ii))		49,055		
From debt securities classified as receivables (note (iii))		205,657		
Remeasurement: from amortised cost to fair value (note (iii))			(917)	
IFRS 9				318,591

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.1) Impacts from classification and measurement (continued)

	IAS 39 31 December 2017	Reclassification	Remeasurement	IFRS 9 1 January 2018
Available-for-sale financial assets				
IAS 39	383,101			
Transfer to Investments at FVTPL (note (ii))		(49,055)		
Transfer to Debt investments at FVTOCI (note (iv))		(331,498)		
Transfer to Equity investments designated at FVTOCI		(1,648)		
Transfer to Debt investments at amortised cost		(900)		
IFRS 9				–
Held-to-maturity investments				
IAS 39	558,218			
Transfer to Debt investments at amortised cost (note (vi))		(558,218)		
IFRS 9				–
Debt securities classified as receivables				
IAS 39	572,241			
Transfer to Investments at FVTPL (note (iii))		(205,657)		
Transfer to Debt investments at FVTOCI		(1,540)		
Transfer to Debt investments at amortised cost (note (v))		(365,044)		
IFRS 9				–
Debt investments at FVTOCI				
IAS 39	–			
From Available-for-sale financial assets (note (iv))		331,498		
From Debt securities classified as receivables		1,540		
Remeasurement: from amortised cost to fair value			342	
IFRS 9				333,380
Equity investments designated at FVTOCI				
IAS 39	–			
From Available-for-sale financial assets		1,648		
From other assets		100		
Remeasurement: from cost to fair value			1,177	
IFRS 9				2,925
Debt investments at amortised cost				
IAS 39	–			
From Available-for-sale financial assets		900		
From Held-to-maturity investments (note (vi))		558,218		
From Debt securities classified as receivables (note (v))		365,044		
Remeasurement: ECL			(2,670)	
Remeasurement: from fair value to amortised cost			2	
IFRS 9				921,494

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.1) Impacts from classification and measurement *(continued)*

	IAS 39 31 December 2017	Reclassification	Remeasurement	IFRS 9 1 January 2018
Interest receivable				
IAS 39	28,726			
Remeasurement: ECL			(546)	
IFRS 9				28,180
Precious metals				
IAS 39	9,309			
Remeasurement: ECL (note (vii))			17	
IFRS 9				9,326
Other assets				
IAS 39	23,372			
Transfer to Equity investments designated at FVTOCI		(100)		
IFRS 9				23,272
Deferred tax assets				
IAS 39	50,120			
Remeasurement			2,211	
IFRS 9				52,331
Provision				
IAS 39	450			
Remeasurement: ECL			4,824	
IFRS 9				5,274
Investment revaluation reserve				
IAS 39	(3,812)			
Remeasurement			2,368	
IFRS 9				(1,444)
Retained profits				
IAS 39	219,878			
Remeasurement			(9,270)	
IFRS 9				210,608

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.1) Impacts from classification and measurement *(continued)*

Notes:

(i) Loans and advances to customers at amortised cost of RMB136,918 million were reclassified to loans and advances to customers at FVTOCI, as these loans and advances to customers are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these loans are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB90 million was adjusted to loans and advances to customers at FVTOCI and revaluation reserve as at 1 January 2018.

(ii) Available-for-sale investments of RMB49,055 million were reclassified to investments at FVTPL. This is because the cash flows of these investments did not represent solely payments of principal and interest on the principal amount outstanding.

(iii) Debt securities classified as receivables of RMB205,657 million were reclassified to investments at FVTPL upon the application of IFRS 9 because the contractual cash flows did not represent solely payments of principal and interest on the principal amount outstanding. The related fair value losses of RMB917 million was adjusted to investments at FVTPL and retained profits as at 1 January 2018.

(iv) Available-for-sale investments of RMB331,498 million were reclassified to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding.

(v) Debt securities classified as receivables of RMB365,044 million were reclassified and measured at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(vi) Bonds previously classified as held-to-maturity investments were reclassified and measured at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(vii) The Group recognised a loss allowance for ECL on precious metals lease which are subject to impairment under IFRS 9.

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.2) Impacts from ECL

As at 1 January 2018, the directors of the Bank reviewed and assessed the Group's existing financial assets, leases receivable, loan commitments and financial guarantee contracts etc. for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

All loss allowances for financial assets, leases receivable, loan commitments and financial guarantee contracts etc. as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Loans and advances to customers at amortised cost	Loans and advances to customers at FVTOCI	Debt instruments at FVTOCI	Debt investments at amortised cost	Financial guarantee contracts and credit commitment	Available-for-sale financial assets	Debt securities classified as receivables	Held-to-maturity investments	Balances with banks and other financial institutions	Placements with banks and other financial institutions	Amounts held under resale agreements	Interest receivable	Precious metals
At 31 December 2017 – IAS 39	150,432	–	–	–	–	531	4,302	93	116	135	754	–	22
Reclassification	(15)	15	455	4,395	–	(531)	(4,302)	(93)	–	–	–	–	–
Amounts remeasured through opening retained profits	923	–	–	2,670	4,824	–	–	–	22	49	610	546	(17)
Amounts remeasured through investment revaluation reserve	–	165	990	–	–	–	–	–	–	–	–	13	–
At 1 January 2018	151,340	180	1,445	7,065	4,824	–	–	–	138	184	1,364	559	5

(1.3) Impacts from Hedge accounting

The Group applies the hedge accounting requirements of IFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate several interest rate swap contracts as the hedging instrument for all of its hedging relationships involving interest rate risk. As such, the adoption of the hedge accounting requirements of IFRS 9 had not resulted in adjustments to comparative figures.

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(2) Impacts and changes in accounting policies of application on IFRS 15

The Group has applied IFRS 15 for the first time in the current annual period. IFRS 15 superseded IAS 18 Revenue and the related interpretations. In accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

There is no significant impact on retained profits on initial application of IFRS 15. At 1 January 2018, total deferred income RMB4,244 million were reclassified from other liabilities to contract liabilities upon application of IFRS 15.

As at 31 December 2018, if the statement of financial position was presented without application of IFRS 15, contract liabilities amounting to RMB5,607 million upon application of IFRS 15 would be presented and included in other liabilities.

The accounting policies resulting from application of IFRS 15 are disclosed in notes 4(14).

Except as described above, the application of other amendments to IFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(3) **Impacts opening consolidated statement of financial position arising from the application of all new standards, amendments**

As a result of the changes in the Group's accounting policies as described above, the opening consolidated statement of financial position had to be adjusted. The following table show the adjustments recognised for each individual line item.

	31 December 2017	IFRS 9	IFRS 15	1 January 2018
Assets				
Cash	16,412	–	–	16,412
Precious metals	9,309	17	–	9,326
Balances with central bank	600,007	–	–	600,007
Balances with banks and other financial institutions	76,918	(22)	–	76,896
Placements with banks and other financial institutions	154,628	(49)	–	154,579
Amounts held under resale agreements	252,550	(610)	–	251,940
Loans and advances to customers	3,414,612	(1,013)	–	3,413,599
Interest receivable	28,726	(546)	–	28,180
Investments at fair value through profit or loss	64,796	253,795	–	318,591
Derivative financial assets	18,916	–	–	18,916
Debt investments at amortised cost	–	921,494	–	921,494
Debt investments at fair value through other comprehensive income	–	333,380	–	333,380
Equity investments designated at fair value through other comprehensive income	–	2,925	–	2,925
Available-for-sale financial assets	383,101	(383,101)	–	–
Held-to-maturity investments	558,218	(558,218)	–	–
Debt securities classified as receivables	572,241	(572,241)	–	–
Interests in joint ventures	5,183	–	–	5,183
Interests in associates	20	–	–	20
Investment properties	1,612	–	–	1,612
Property and equipment	49,812	–	–	49,812
Intangible assets	7,255	–	–	7,255
Goodwill	9,954	–	–	9,954
Deferred tax assets	50,120	2,211	–	52,331
Other assets	23,248	(100)	–	23,148
Total assets	6,297,638	(2,078)	–	6,295,560

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current period applied by the Group *(continued)*

(3) **Impacts opening consolidated statement of financial position arising from the application of all new standards, amendments** *(continued)*

	31 December 2017	IFRS 9	IFRS 15	1 January 2018
Liabilities				
Borrowing from central bank	414,838	–	–	414,838
Deposits from banks and other financial institutions	439,118	–	–	439,118
Placements from banks and other financial institutions	272,734	–	–	272,734
Financial liabilities at fair value through profit or loss	26,619	–	–	26,619
Derivative financial liabilities	21,857	–	–	21,857
Amounts sold under repurchase agreements	125,620	–	–	125,620
Deposits from customers	4,064,345	–	–	4,064,345
Interest payable	36,501	–	–	36,501
Salaries and welfare payable	8,020	–	–	8,020
Tax payable	26,701	–	–	26,701
Contract liabilities	–	–	4,244	4,244
Provision	450	4,824	–	5,274
Debt securities issued	296,477	–	–	296,477
Deferred tax liabilities	1,070	–	–	1,070
Other liabilities	79,896	–	(4,244)	75,652
Total liabilities	5,814,246	4,824	–	5,819,070
Equity				
Share capital	25,220	–	–	25,220
Other equity instruments	34,065	–	–	34,065
Including: Preference shares	34,065	–	–	34,065
Capital reserve	67,523	–	–	67,523
Investment revaluation reserve	(3,812)	2,368	–	(1,444)
Hedging reserve	(86)	–	–	(86)
Surplus reserve	46,159	–	–	46,159
Regulatory general reserve	70,921	–	–	70,921
Retained profits	219,878	(9,270)	–	210,608
Proposed profit appropriations	21,185	–	–	21,185
Exchange reserve	(843)	–	–	(843)
Total equity attributable to equity shareholders of the Bank	480,210	(6,902)	–	473,308
Non-controlling interests	3,182	–	–	3,182
– Non-controlling interests	2,012	–	–	2,012
– Perpetual debt capital	1,170	–	–	1,170
Total equity	483,392	(6,902)	–	476,490
Total equity and liabilities	6,297,638	(2,078)	–	6,295,560

3. Application of new and amendments to IFRSs *(continued)*

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 16	Leases	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRSs	Annual Improvements to IFRS standards 2015-2017 Cycle	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
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 IFRS 3	Definition of a Business	Note (i)
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020

Note: (i) Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The above new and amendments to IFRSs have been effective for the year beginning on or after 1 January 2019, and have not been used in advance in the consolidated financial statements of this year. Except for the new and amendments to IFRSs mentioned below, the Group anticipates that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Application of new and amendments to IFRSs *(continued)*

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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. 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 IAS 17. Under 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 2018, the Group has non-cancellable operating lease commitments of RMB14,548 million as disclosed in note 59(c). Under IFRS 16, 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

In addition, the Group also elected to use the following practical expedients when applying this Standard retrospectively in accordance with IFRS 16 to leases previously classified as operating leases applying IAS 17:

– Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

– Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

– Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained profits without restating comparative information. Based on the assessment by the Group, the adoption of IFRS 16 would not have a material impact on retained earnings of the Group at 1 January 2019.

4. Principal accounting policies

(1) 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 in 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 4(5)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 4(2)) or, an associate (see Note 4(3)).

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.

4. Principal accounting policies *(continued)*

(2) 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 4(4) and 4(11)).

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 4(5)).

4. Principal accounting policies *(continued)*

(3) 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 4(4) and 4(11)).

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 4(5)).

(4) 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 4(11)).

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.

4. Principal accounting policies *(continued)*

(5) Financial instruments

Initial recognition

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.

At initial recognition, financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and measurement of financial assets

The Group classifies its financial assets into the following measurement categories at initial recognition: financial assets at amortised cost; financial assets fair value through other comprehensive income; and financial assets at fair value through profit or loss.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment, which is not held for trading, in other comprehensive income (“OCI”).

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Debt instruments and loans and advances to customers classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments and loans and advances to customers classified as at FVTOCI as a result of interest income calculated using the effective interest method, foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of debt instruments and loan and advances to customers are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment losses are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of debt instruments and loan and advances to customers. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if debt instruments and loan and advances to customers had been measured at amortised cost. When debt instruments and loan and advances to customers are derecognised, the cumulative gains or losses previously recognised in investment revaluation reserve are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments which are not held for trading as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other net income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other net income" line item.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including financial assets at amortised cost, debt instruments assets at fair value through other comprehensive income), leases receivable, loan commitments and financial guarantee contracts etc. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group assesses the ECL of financial assets with forward-looking information. 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. In contrast, lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. Assessment are done based on the factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For the above financial instruments that apply the IFRS 9 Impairment Model of Financial Instruments, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by the Group to determine whether to recognize lifetime ECL. When the credit risk of these financial instruments does not increase significantly after the initial recognition, the Group makes provision for credit losses according 12-month ECL; in the event of a significant increase in credit risk, the group makes provision for the credit losses in accordance with the ECL for the entire duration.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The assessment of whether the credit risk has increased significantly are detailed in Note 61(a).

Measurement and recognition of ECL

ECL is measured based on the probability of default, loss given default and the exposure at default. Measurement of ECL are detailed in Note 61(a).

Generally, ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, ECL is the present value of the difference between the contractual cash flows that are due to the Group:

- if the holder of the loan commitments draws down the loan, and
- the cash flows that the Group expects to receive if the loan is drawn down.

For investments in debt instruments and loans and advances to customers that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these financial assets. The loss allowance for loan commitments and financial guarantee contracts is recognised in profit or loss and accumulated in provision. The loss allowance for other financial assets which are subject to impairment under IFRS 9 is recognised in profit or loss through a loss allowance account.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at amortised cost

Financial liabilities including borrowing from central bank, deposits from banks and other financial institutions, placements from banks and other financial institutions, amounts sold under repurchase agreements, deposits from customers are subsequently measured at amortised cost, using the effective interest method.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedge. The Group documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge, at the inception of a hedging relationship,. The Group also requires 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.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Hedge accounting *(continued)*

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 hedging reserve. 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 hedging reserve 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 hedging reserve 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 is immediately reclassified to the consolidated statement of profit or loss.

Hedge effectiveness testing

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

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.

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.

Balances and 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, insurance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking and Insurance Regulatory Commission (the "CBIRC") and securities firms and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Balances and placements with banks and other financial institutions are accounted for as loans and receivables.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

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 equity investments designated at fair value through other comprehensive income. Debt investments are classified as financial assets at fair value through profit or loss, debt investments at amortised cost, debt investments at fair value through other comprehensive income in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

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.

Loans and advances to customers are classified as loans and advances customers at fair value through profit or loss (loans and advances customers at FVTPL), loans and advances customers at amortised cost, loans and advances customers at fair value through other comprehensive income (loans and advances customers at FVTOCI) in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

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.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. 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 hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Equity instruments

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.

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.

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.

Derecognition of financial instruments

(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.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Derecognition of financial instruments *(continued)*

(b) Securitisation

As part of its operational activities, the Group securities financial assets, generally through the sale of these assets to structured entities which 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 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.

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.

(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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4. Principal accounting policies *(continued)*

(6) 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:

Land and 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.

(7) 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 except the equity instrument are reported in "other assets".

Repossessed assets except equity instrument are measured at fair value at the date of exchange. They are not depreciated or amortised. Impairment losses on subsequent remeasurement are recognised in the consolidated statement of profit or loss.

Repossessed assets of equity instruments are detailed in note 4 (5).

4. Principal accounting policies *(continued)*

(8) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see Note 4(11)). 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 the end of reporting period.

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.

(9) Finance and operating lease

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.

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 4(5).

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 4(6) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 4(11). 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.

4. Principal accounting policies *(continued)*

(10) 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 policy holders. 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.

(11) Impairment on tangible, intangible assets other than impairment under ECL model

The carrying amount of tangible and intangible assets other than impairment under ECL model is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount, including property and equipment, intangible assets, investment properties, interest in joint ventures, interest in associates, good will and other non-current assets. 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.

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).

4. Principal accounting policies *(continued)*

(11) Impairment on tangible, intangible assets other than impairment under ECL model *(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.

(12) 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.

(13) Financial guarantee issued, provisions and contingent liabilities

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. The provision of financial guarantees issued is confirmed in the statement of financial position in accordance with note 4 (5).

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.

4. Principal accounting policies *(continued)*

(14) Income recognition

Revenue is the inflow of economic benefits that the Group has formed in its daily activities that will result in an increase in shareholders' equity and have nothing to do with the capital invested by shareholders.

Net Interest income

Interest income and expense for all financial instruments except for those classified as at FVTPL are recognised in "Interest income" and "Interest expense" in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, which is recognized in "Other net income".

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.

Rental income

Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term.

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.

Fee and commission income

Under IFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income *(continued)*

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

If the revenue is recognised over time, the Group recognizes revenue in accordance with the progress towards complete satisfaction of a performance obligation. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

If a performance obligation is not satisfied over time, it is satisfied at a point in time. To determine the point in time at which a customer obtains control of a promised service, the following indicators of the transfer of control should also be considered; these include, but are not limited to:

- The Group has a present right to payment for the services;
- The Group has transferred physical possession of the service;
- The customer has the significant risks and rewards of ownership of the service;
- The customer has accepted the services.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

4. Principal accounting policies *(continued)*

(15) 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.

The Group shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied: the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

(16) 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 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.

4. Principal accounting policies *(continued)*

(16) Foreign currencies translations *(continued)*

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 exchange reserve (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in exchange reserve in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

(17) Employee benefits

Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

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 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.

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"), the Scheme is settle by cash. 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.

4. Principal accounting policies *(continued)*

(18) 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.

(19) 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.

(20) 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.

(21) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

5. 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.

5. Significant accounting estimates and judgements *(continued)*

(1) 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.

(2) Classification of financial assets

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVTOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(3) 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.

5. Significant accounting estimates and judgements *(continued)*

(4) Impairment under ECL model

- Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 61(a) for more details.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 61(a) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 61(a) for more details on ECL and Note 61(g) for more details on fair value measurement.
- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 61(a) for more details.
- Probability of Default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 61(a) for more details.
- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 61(a) for more details.

5. Significant accounting estimates and judgements *(continued)*

(5) 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.

(6) 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.

(7) 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.

6. Interest income

	2018	2017
Loans and advances to customers		
– Corporate loans	73,954	65,864
– Retail loans	113,698	98,386
– Discounted bills	8,718	4,608
Balances with central bank	7,961	8,679
Balances with banks and other financial institutions	1,980	1,271
Placements with banks and other financial institutions	8,802	6,019
Amounts held under resale agreements	7,531	5,136
Investments	48,267	52,042
– Debt investments at FVTOCI	12,256	N/A
– Debt investments at amortised cost	36,011	N/A
Interest income on financial assets measured at amortised cost and fair value through other comprehensive income.	270,911	242,005

Note: For the year ended 31 December 2018, included in the above is interest income of RMB307 million accrued on impaired loans (2017: RMB561 million) and nil for impaired debt securities investments (2017: nil), and RMB9,462 million on loans and advances to customers at fair value through other comprehensive income (for the year ended 31 December 2017: not applicable).

7. Interest expense

	2018	2017
Deposits from customers	61,987	50,329
Borrowing from central bank	10,982	9,250
Deposits from banks and other financial institutions	12,166	13,606
Placements from banks and other financial institutions	7,294	4,441
Amounts sold under repurchase agreements	3,568	6,091
Debt securities issued	14,530	13,436
Interest expense on financial liabilities measured at amortised cost	110,527	97,153

8. Fee and commission income

	2018	2017
Bank cards fees	16,727	14,011
Remittance and settlement fees	10,267	9,209
Agency services fees	12,723	12,287
Commissions from credit commitment and lending business	6,807	6,372
Commissions on trust and fiduciary activities	23,351	25,245
Others	3,171	2,784
Total	73,046	69,908

9. Other net income

	2018	2017
Profit/(loss) from fair value change	1,091	671
– financial instruments at fair value through profit or loss	1,803	104
– derivatives instruments	52	400
– precious metals	(764)	167
Investment income	11,327	4,911
– financial instruments at FVTPL	9,734	1,138
– disposal of financial instruments at amortised cost	(350)	N/A
– disposal of debt instruments at FVTOCI	1,816	N/A
– of which: gain on disposal of bills	1,742	N/A
– dividend income from equity investments designated at FVTOCI	154	N/A
– available-for-sale financial assets	N/A	836
– gain on disposal of bills	N/A	2,903
– others	(27)	34
Exchange gain	3,538	1,934
Other income	3,889	3,202
– rental income	3,555	2,882
– insurance income	334	320
Others	426	451
Total	20,271	11,169

10. Operating expenses

	2018	2017
Staff costs		
– Salaries and bonuses (note (i))	33,077	28,286
– Social insurance and corporate supplemental insurance	5,777	4,696
– Others	7,171	6,530
Subtotal	46,025	39,512
Business tax and surcharges	2,132	2,152
Property, equipment and investment properties depreciation	5,270	5,062
Intangible assets amortization	983	714
Rental expenses	4,242	4,189
Charge for insurance claims	244	232
Other general and administrative expenses (note (ii))	22,214	18,570
Total	81,110	70,431

Notes:

(i) Performance bonus is included in the salaries and bonuses, the details of which are disclosed in Note 40(a).

(ii) Auditors' remuneration amounted to RMB30 million for the year ended 31 December 2018(2017: RMB20 million), which was included in other general and administrative expenses.

11. Directors' and Supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

	2018				
	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	–	70	4,690
Li Hao	–	4,200	–	90	4,290
Subtotal	–	8,820	–	160	8,980

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	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song (ii)	–	–	–	–	–
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
Pan Chengwei	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Wong See Hong	500	–	–	–	500
Li Menggang (iii)	42	–	–	–	42
Liu Qiao (iii)	42	–	–	–	42
Liu Yuan	–	3,780	–	90	3,870
Fu Junyuan (iv)	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Jin Qingjun	400	–	–	–	400
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Wang Wanqing (v)	–	1,723	–	39	1,762
Huang Dan	–	2,152	–	93	2,245
Subtotal	3,284	7,655	–	222	11,161

The independent Non-Executive Directors' and Supervisors' emoluments shown above were for their services as Directors or Supervisors of the Bank.

11. Directors' and Supervisors' emoluments *(continued)*

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, Non-Executive Directors and Supervisors					
Li Xiaopeng (vi)	–	–	–	–	–
Wong Kwai Lam (vii)	500	–	–	–	500
Pan Yingli (vii)	500	–	–	–	500
Xu Lizhong (v)	–	1,200	–	63	1,263
Subtotal	1,000	1,200	–	63	2,263

The former executive, Non-Executive Directors' and Supervisors' emoluments shown above were for their services as Directors or Supervisors of the Bank.

Total	4,284	17,675	–	445	22,404

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) During the reporting period, the appointment qualification of Mr.Zhou Song was approved by the China Banking and Insurance Regulatory Commission in October 2018.

(iii) During the reporting period, the appointment qualification of Mr.Li Menggang and Liu Qiao were approved by the China Banking and Insurance Regulatory Commission in November 2018.

(iv) Mr. Fu Junyuan resigned as a shareholder Supervisor of the Bank and a member of the Nomination Committee of the Board of Supervisors for work reasons, effective since February 28, 2019.

(v) In July 2018, Mr. Xu Lizhong, the former employee Supervisor, submitted his resignation to the Supervisory Committee of the Bank for work reasons. According to the results of the employee representative meeting held on July 18, 2018, Mr. Wang Wanqing was newly elected as the employee Supervisor of the tenth session of the Supervisory Committee of the Bank, and Mr. Xu Lizhong no longer served as employee Supervisor of the Bank.

(vi) In January 2018, Mr. Li Xiaopeng resigned as the Bank's vice chairman and Non-Executive Director.

(vii) In November 2018, Mr. Wong Kwai Lam and Mrs. Pan Yingli resigned as the Bank's independent Non-Executive Director.

(viii) As at 31 December 2018, 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 40(a)(iii).

11. Directors' and Supervisors' emoluments *(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
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.

11. Directors' and Supervisors' emoluments *(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 40(a)(iii).

(iii) During the reporting period, Wong See Hong was approved by the China Banking and Insurance Regulatory Commission in February 2017.

(iv) In February 2017, Guo Xuemeng resigned as the Bank's independent Non-Executive Director.

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

	2018	2017
HKD		
0 – 500,000	**16**	15
500,001 – 1,000,000	**4**	5
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**–**	–
2,000,001 – 2,500,000	**1**	–
2,500,001 – 3,000,000	**1**	1
3,000,001 – 3,500,000	**–**	–
3,500,001 – 4,000,000	**–**	–
4,000,001 – 4,500,000	**1**	1
4,500,001 – 5,000,000	**1**	–
5,000,001 – 5,500,000	**1**	–
5,500,001 – 6,000,000	**–**	2
6,000,001 – 6,500,000	**–**	1
Total	**25**	25

During the year ended 31 December 2018, 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 2018, there was no arrangement under which a director or a Supervisor waived or agreed to waive any remuneration.

12. Individuals with highest emoluments

Of the five individuals with the highest emoluments for the year ended 31 December 2018, 3 (2017: 3) are Directors or Supervisors of the Bank whose emoluments are included in Note 11 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	22,680	30,014
Discretionary bonuses (Note 11)	–	–
Contributions to defined contribution retirement schemes	520	3,736
Total	23,200	33,750

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

	2018	2017
HKD		
3,500,001 – 4,000,000	3	–
4,000,001 – 4,500,000	1	–
4,500,001 – 5,000,000	1	5
5,000,001 – 5,500,000	1	–
5,500,001 – 6,000,000	–	2
6,000,001 – 6,500,000	–	1

During the year ended 31 December 2018, the five highest paid individuals include six persons in total as three of them are with the same emoluments and being the forth highest paid individuals. 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.

13. Loans to Directors, Supervisors and executive officers

Loans to Directors, Supervisors and executive officers of the Group are as follows:

	2018	2017
Aggregate amount of relevant loans made by the Group outstanding at year end	47	50
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	54	57

14. Expected credit losses

	2018	2017
Loans and advances to customers (Note 22(c))	59,252	60,052
Amounts due from banks and other financial institutions	(368)	121
Investments		
– Debt investments at amortised cost (Note 24(b))	787	N/A
– Debt investments at FVTOCI (Note 24(c))	389	N/A
– Available-for-sale financial assets	N/A	(55)
– Held-to-maturity investments (Note 24(f))	N/A	8
– Debt securities classified as receivables (Note 24(g))	N/A	(886)
Expected credit losses relating to financial guarantees and loan commitments	374	N/A
Others	395	682
Total	60,829	59,922

15. Income tax

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

	2018	2017
Current income tax expense		
– Mainland China	32,744	35,849
– Hong Kong	1,017	1,129
– Overseas	216	149
Subtotal	33,977	37,127
Deferred taxation	(8,299)	(17,085)
Total	25,678	20,042

(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:

	2018	2017
Profit before taxation	106,497	90,680
Tax at the PRC statutory income tax rate of 25% (2017: 25%)	26,624	22,670
Tax effects of the following items:		
– Effects of non-deductible expenses	1,574	811
– Effects of non-taxable income	(5,917)	(5,235)
– Effects of different applicable rates of tax prevailing in other jurisdictions	(210)	(358)
– Transfer out of prior deferred tax assets	3,570	1,970
– Other	37	184
Income tax expense	25,678	20,042

Note:

(i) The applicable income tax rate for the Group's operations in Mainland China is 25% during 2018 (2017: 25%).

(ii) The applicable income tax rate in Hong Kong is 8.25% on assessable profits up to HKD2,000,000; and 16.5% on any part of assessable profits over HKD2,000,000 during 2018 (2017: 16.5%).

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

16. Other comprehensive income

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

	2018			2017		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Items that may be reclassified to profit or loss						
– Fair value gain on debt instruments measured at fair value through other comprehensive income	8,494	(2,251)	6,243	N/A	N/A	N/A
– Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income	490	6	496	N/A	N/A	N/A
– Net movement in fair value reserve of available-for-sale financial assets	N/A	N/A	N/A	(7,154)	1,785	(5,369)
– Net movement in cash flow hedge reserve	180	(31)	149	(89)	22	(67)
– Equity-accounted investees-share of other comprehensive income	(36)	–	(36)	44	–	44
– Exchange difference on translation of financial statements of foreign operations	1,995	–	1,995	(2,359)	–	(2,359)
Items that will not be reclassified subsequently to profit or loss						
– Fair value gain on equity instruments measured at fair value through other comprehensive income	439	(107)	332	N/A	N/A	N/A
– Remeasurement of defined benefit scheme redesigned through reserve	(74)	12	(62)	72	(12)	60
Other comprehensive income	11,488	(2,371)	9,117	(9,486)	1,795	(7,691)

16. Other comprehensive income *(continued)*

(b) Movements relating to components of other comprehensive income are as follows:

	2018	2017
Reserve changes in debt instruments at FVTOCI		
Changes in fair value recognised during the year	**8,059**	N/A
Reclassification adjustments for amounts transferred to profit or loss		
– On disposal	**(1,816)**	N/A
Net movement in the debt instrument revaluation reserve during the year recognised in other comprehensive income	**6,243**	N/A
Changes in expected credit losses in financial assets at FVTOCI		
Changes in expected credit losses recognised during the year	**496**	N/A
Reclassification adjustments for amounts transferred to profit or loss		
Net movement in the debt instrument revaluation reserve during the year recognised in other comprehensive income	**496**	N/A
Equity instruments measured at fair value through other comprehensive income		
Changes in fair value recognised during the year	**332**	N/A
Net movement in the equity investment revaluation reserve during the year recognised in other comprehensive income	**332**	N/A
Available-for-sale financial assets		
Changes in fair value recognised during the year	**N/A**	(4,868)
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	**N/A**	(501)
Net movement in the investment reserve during the year recognised in other comprehensive income	**N/A**	(5,369)
Cash flow hedge		
Effective portion of changes in fair value of hedging instruments	**106**	(88)
Reclassification adjustment for realised loss transferred to profit or loss		
– Realised losses	**43**	21
Net movement in the hedging reserve during the year recognised in other comprehensive income	**149**	(67)

17. Earnings per share

The calculation of basic earnings per share for the years 2018 and 2017 is based on the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there are no potential ordinary shares outstanding during the years 2018 and 2017.

	2018	2017
Net profit attributable to equity shareholders of the Bank	80,560	70,150
Less: Net profit attributable to preference shareholders of the Bank	(1,659)	–
Net profit attributable to ordinary shareholders of the Bank	78,901	70,150
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)	3.13	2.78

Note:

The Bank issued non-cumulative preference shares in year 2017. For the purpose of calculating basic earnings per share for the year ended 31 December 2018 and 2017, dividends on non-cumulative preference shares declared in respect of the year 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 2018 and 2017. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation.

18. Balances with central bank

	2018	2017
Statutory deposit reserve (note (i))	438,777	530,509
Surplus deposit reserve (note (ii))	36,488	68,012
Fiscal deposits	2,056	1,486
Interest receivable	247	N/A
Total	477,568	600,007

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 11% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2018 (2017: 15% and 5% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, 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.

19. Balances with banks and other financial institutions

	2018	2017
Principal (a)	100,022	77,034
Impairment losses (a)(b)	(171)	(116)
Subtotal	99,851	76,918
Interest receivable	309	N/A
Total	100,160	76,918

(a) Analysed by nature of counterparties

	2018	2017
Balances in Mainland China		
– Banks	60,222	49,093
– Other financial institutions	2,833	2,942
Subtotal	63,055	52,035
Balances outside Mainland China		
– Banks	36,861	24,937
– Other financial institutions	106	62
Subtotal	36,967	24,999
Total	100,022	77,034
Less: Impairment allowances		
– Banks	(133)	(116)
– Other financial institutions	(38)	–
Subtotal	(171)	(116)
Total	99,851	76,918

(b) Movements of allowances for impairment losses are as follows:

	2018	2017
Balance as at the end of last year	116	196
Adjustments under IFRS 9	22	N/A
Balance as at the beginning of the year	138	196
Charge/(release) for the year (note 14)	43	(80)
Exchange difference	(10)	–
Balance as at the end of the year	171	116

20. Placements with banks and other financial institutions

	2018	2017
Principal (a)	312,559	154,763
Impairment losses (a)(c)	(405)	(135)
Subtotal	312,154	154,628
Interest receivable	1,257	N/A
Total	313,411	154,628

(a) Analysed by nature of counterparties

	2018	2017
Placements in Mainland China		
– Banks	99,487	74,098
– Other financial institutions	136,274	52,747
Subtotal	235,761	126,845
Placements outside Mainland China		
– Banks	76,798	27,918
Subtotal	76,798	27,918
Total	312,559	154,763
Less: Impairment allowances		
– Banks	(180)	(98)
– Other financial institutions	(225)	(37)
Subtotal	(405)	(135)
Total	312,154	154,628

(b) Analysed by residual maturity

	2018	2017
Maturing		
– Within one month (inclusive)	208,432	36,202
– Between one month and one year (inclusive)	102,493	116,526
– Over one year	1,229	1,900
Total	312,154	154,628

(c) Movements of allowances for impairment losses are as follows:

	2018	2017
Balance as at the end of last year	135	16
Adjustments under IFRS 9	49	N/A
Balance as at the beginning of the year	184	16
Charge for the year (note 14)	218	119
Exchange difference	3	–
Balance as at the end of the year	405	135

21. Amounts held under resale agreements

	2018	2017
Principal(a)	199,918	253,304
Impairment losses (a)(d)	(737)	(754)
Subtotal	199,181	252,550
Interest receivable	205	N/A
Total	199,386	252,550

(a) Analysed by nature of counterparties

	2018	2017
Amounts held under resale agreements in Mainland China		
– Banks	47,793	32,365
– Other financial institutions	152,125	220,939
Subtotal	199,918	253,304
Less: Impairment allowances		
– Banks	(229)	(659)
– Other financial institutions	(508)	(95)
Subtotal	(737)	(754)
Total	199,181	252,550

(b) Analysed by residual maturity

	2018	2017
Maturing		
– Within one month (inclusive)	198,183	249,563
– Between one month and one year (inclusive)	998	2,987
Total	199,181	252,550

(c) Analysed by assets types

	2018	2017
Bonds	188,429	245,059
Bills	10,752	6,443
Asset management schemes	–	1,048
Total	199,181	252,550

(d) Movements of allowances for impairment losses are as follows:

	2018	2017
Balance as at the end of last year	754	672
Adjustments under IFRS 9	610	N/A
Balance as at the beginning of the year	1,364	672
(Release)/charge for the year (note 14)	(629)	82
Exchange difference	2	–
Balance as at the end of the year	737	754

22. Loans and advances to customers

(a) Loans and advances to customers

	31 December 2018	31 December 2017
Gross loans and advances to customers at amortised cost (i)	3,755,264	3,565,044
Interest receivable	8,810	N/A
Subtotal	3,764,074	3,565,044
loss allowances of loans and advances to customers at amortised cost (i)	(191,772)	(150,432)
loss allowances of Interest receivable	(123)	N/A
Subtotal	(191,895)	(150,432)
Loans and advances to customers at amortised cost	3,572,179	3,414,612
Loans and advances to customers at FVTOCI (ii)	177,367	N/A
Loans and advances to customers at FVTPL	403	N/A
Total	3,749,949	3,414,612

(i) Loans and advances to customers at amortised cost

	31 December 2018
Corporate loans and advances	1,745,925
Retail loans and advances	2,009,339
Gross loans and advances to customers at amortised cost	3,755,264
Less: loss allowances	
– Stage 1 (12-month ECL)	(105,978)
– Stage 2 (Lifetime ECL- not credit-impaired)	(38,517)
– Stage 3 (Lifetime ECL- credit impaired)	(47,277)
Subtotal	(191,772)
Net loans and advances to customers at amortised cost	3,563,492

	31 December 2017
Corporate loans and advances	1,663,861
Discounted bills	115,888
Subtotal	1,779,749
Retail loans and advances	
Residential mortgage	833,410
Credit cards	491,383
Micro-finance loans	312,716
Others	147,786
Subtotal	1,785,295
Gross loans and advances to customers	3,565,044
Less: Impairment allowances	
– Individually assessed	(33,931)
– Collectively assessed	(116,501)
Subtotal	(150,432)
Net loans and advances to customers	3,414,612

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

(a) Loans and advances to customers *(continued)*

(ii) Loans and advances to customers at FVTOCI

	31 December 2018
Corporate loans and advances	27,601
Discount bills	149,766
Loans and advances to customers at FVTOCI	177,367
Loss allowances	
– Stage 1 (12-month ECL)	(187)
– Stage 2 (Lifetime ECL- not credit-impaired)	(41)
– Stage 3 (Lifetime ECL- credit impaired)	–
Subtotal	(228)

No loss allowance is recognised in the consolidated statement of financial position for loans and advances to customers at FVTOCI as the carrying amount is at fair value.

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operation in the Mainland China

	2018	2017
Property development	262,323	188,822
Manufacturing	255,683	251,979
Transportation, storage and postal services	248,815	204,322
Wholesale and retail	157,984	205,884
Production and supply of electric power, heating power, gas and water	138,773	121,900
Leasing and commercial services	124,094	123,768
Construction	84,475	74,804
Financial concerns	61,963	46,276
Telecommunications, software and IT services	60,703	67,964
Water, environment and public utilities management	55,890	61,920
Mining	35,349	39,136
Others	59,021	56,721
Corporate loans and advances subtotal	1,545,073	1,443,496
Discounted bills	149,766	115,888
Residential mortgage	921,500	825,797
Credit cards	575,299	491,179
Micro-finance loans	349,009	310,969
Others	141,835	136,410
Retail loans and advances subtotal	1,987,643	1,764,355
Gross loans and advances to customers	3,682,482	3,323,739

22. 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

	2018	2017
Property development	54,167	63,209
Financial concerns	52,174	47,198
Transportation, storage and postal services	38,212	25,613
Manufacturing	26,860	14,221
Wholesale and retail	12,505	13,934
Telecommunications, software and IT services	9,309	11,371
Production and supply of electric power, heating power, gas and water	7,889	7,065
Construction	5,635	1,937
Mining	2,196	4,211
Leasing and commercial services	2,001	13,444
Water, environment and public utilities management	26	419
Others	17,882	17,743
Corporate loans and advances subtotal	228,856	220,365
Residential mortgage	7,260	7,613
Credit cards	191	204
Micro-finance loans	1,525	1,747
Others	12,720	11,376
Retail loans and advances subtotal	21,696	20,940
Gross loans and advances to customers	250,552	241,305

Notes: In 2018, the Group divided industry sector and category according to the newly revised "Industrial Classification for National Economic Activities" (GB/T 4754-2017) standards issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China and has restated the corresponding comparative figures.

As at 31 December 2018, over 90% of the Group's loans and advances to customers were conducted in the People's Republic of China (31 December 2017: over 90%).

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

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

(ii) Analyzed by ECL

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	3,610,711	90,942	53,611	3,755,264
Less: Loss allowances of loans and advances to customers at amortised cost	(105,978)	(38,517)	(47,277)	(191,772)
Net loans and advances to customers at amortised cost	3,504,733	52,425	6,334	3,563,492
Loans and advances to customers at FVTOCI	175,078	2,289	–	177,367
Loss allowances of loans and advances to customers at FVTOCI	(187)	(41)	–	(228)

	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
Loans and advances	3,507,658	15,866	41,520	3,565,044
Less: allowance	(102,717)	(13,784)	(33,931)	(150,432)
Net loans and advances	3,404,941	2,082	7,589	3,414,612

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

(c) Movements of allowance for impairment losses

(i) Reconciliation of allowance for expected credit loss measured at amortised cost:

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	68,107	33,815	49,418	151,340
Transfer to				
– Stage 1	1,545	(1,462)	(83)	–
– Stage 2	(1,624)	1,951	(327)	–
– Stage 3	(845)	(6,341)	7,186	–
Impairment losses for the year				
Charge for the year (Note 14)	78,220	28,151	29,779	136,150
Release for the year (Note 14)	(39,577)	(17,646)	(19,723)	(76,946)
Write-offs	–	–	(26,197)	(26,197)
Unwinding of discount on allowance	–	–	(307)	(307)
Recovery of loans and advances written off	–	–	7,453	7,453
Exchange difference	152	49	78	279
Balance as at the end of the year	105,978	38,517	47,277	191,772

	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
Balance as at the beginning of the year	70,694	10,108	29,230	110,032
Impairment losses for the year				
Charge for the year (Note 14)	33,240	9,955	21,255	64,450
Release for the year (Note 14)	(1,005)	(1)	(3,392)	(4,398)
Write-offs	–	(8,601)	(15,682)	(24,283)
Transfer	–	–	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)
Balance as at the end of the year	102,717	13,784	33,931	150,432

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

(c) Movements of allowance for impairment losses *(continued)*

(ii) Reconciliation of allowance for impairment losses measured at FVTOCI:

	2018
Balance as at the end of last year	–
Adjustments under IFRS 9	180
Balance as at the beginning of the year	180
Charge for the year (note 14)	48
Balance as at the end of the year	228

(d) Finance leases receivable

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

	2018			2017		
	Total minimum leases receivable	Unearned finance income	Present value of minimum leases receivable	Total minimum leases receivable	Unearned finance income	Present value of minimum leases receivable
Within 1 year (inclusive)	37,900	(4,076)	33,824	37,172	(5,093)	32,079
Over 1 year but within 5 years (inclusive)	84,166	(11,777)	72,389	76,868	(11,092)	65,776
Over 5 years	35,053	(6,603)	28,450	32,215	(4,787)	27,428
Subtotal	157,119	(22,456)	134,663	146,255	(20,972)	125,283
Less: Impairment allowances						
– Stage 1 (12-month ECL)	–	–	(2,411)	N/A	N/A	N/A
– Stage 2 (Lifetime ECL-not credit-impaired)	–	–	(492)	N/A	N/A	N/A
– Stage 3 (Lifetime ECL -credit impaired)	–	–	(847)	N/A	N/A	N/A
– Individually assessed	N/A	N/A	N/A	–	–	(426)
– Collectively assessed	N/A	N/A	N/A	–	–	(2,674)
Net investment in finance leases receivable	–	–	130,913	–	–	122,183

23. Interest receivable

	2017
Debt securities	15,089
Loans and advances to customers	10,240
Others	3,397
Total	28,726

As at 31 December 2018, the interests accrued on financial instruments of the Group are included in the carrying amounts of the corresponding financial assets.

24. Investments

	Notes	2018	2017
Financial assets at fair value through profit or loss	24(a)	**330,302**	64,796
Derivative financial assets	61(f)	**34,220**	18,916
Debt investments at amortised cost	24(b)	**916,012**	N/A
Debt investments at FVTOCI	24(c)	**421,070**	N/A
Equity investments designated at FVTOCI	24(d)	**4,015**	N/A
Available-for-sale financial assets	24(e)	**N/A**	383,101
Held-to-maturity investments	24(f)	**N/A**	558,218
Debt securities classified as receivables	24(g)	**N/A**	572,241
Total		**1,705,619**	1,597,272

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

	Notes	2018	2017
Investments measured at FVTPL	(i)	**314,459**	55,415
Financial assets designated at fair value through profit or loss	(ii)	**13,184**	9,381
Subtotal		**327,643**	64,796
Interest receivable		**2,659**	N/A
Total		**330,302**	64,796

(i) Investments measured at FVTPL

Financial assets held for trading

	2018	2017
Bonds		
Government bonds	**20,917**	12,286
Bonds issued by policy banks	**9,091**	1,317
Bonds issued by commercial banks and other financial institutions	**17,362**	36,085
Other debt securities	**47,605**	5,083
Equity investments	**111**	32
Investments in funds	**2,089**	401
Long position in precious metal contracts	**111**	211
Others	**1,217**	–
Total	**98,503**	55,415
Bonds		
Listed inside mainland China	**85,379**	35,837
Listed outside mainland China	**8,514**	9,848
Unlisted	**1,082**	9,086
Investments in equity, funds, precious metal contracts and others		
Listed inside mainland China	**84**	2
Listed outside mainland China	**121**	271
Unlisted	**3,323**	371

24. Investments *(continued)*

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

(i) Investments measured at FVTPL *(continued)*

Other investments measured at FVTPL

	2018
Bonds	
Bonds issued by commercial banks and other financial institutions	22,352
Other debt securities	2,338
Non-standard assets -Bills	173,988
Equity investments	1,450
Investments in funds	14,765
Wealth management products	1,060
Others	3
Total	215,956
Bonds	
Listed inside Mainland China	24,303
Unlisted	387
Non-standard assets -Bills	
Unlisted	173,988
Investments in equity, funds, wealth management products and others	
Unlisted	17,278

(ii) Financial assets designated at fair value through profit or loss

	2018	2017
Government bonds	–	520
Bonds issued by policy banks	2,310	2,571
Bonds issued by commercial banks and other financial institutions	7,190	1,576
Other debt securities	3,684	4,714
Total	13,184	9,381
Classification		
Listed inside mainland China	160	520
Listed outside mainland China	5,372	4,762
Unlisted	7,652	4,099

The amounts of changes in the fair value of these investments that are attributable to changes in credit risk are considered not significant during the years ended 31 December 2018 and 2017 and as at 31 December 2018 and 2017.

(b) Debt investments at amortised cost

	2018
Debt investments at amortised cost (i)(ii)	911,348
Interest receivable	12,790
Subtotal	924,138
Impairment losses of principal (i)(ii)(iii)	(8,080)
Impairment losses of interest receivable	(46)
Subtotal	(8,126)
Total	916,012

24. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(i) Debt investments at amortised cost by type:

	2018
Bonds	
Government bonds	400,107
Bonds issued by policy banks	219,275
Bonds issued by commercial banks and other financial institutions	29,602
Other debt securities	8,942
Non-standard assets	
Bills	43,655
Loans and advances to customers	206,229
Creditor's beneficiary rights to other commercial banks	3,000
Others	538
Subtotal	911,348
Less: loss allowances	
Stage 1 (12-month ECL)	(3,582)
Stage 2 (Lifetime ECL- not credit-impaired)	(517)
Stage 3 (Lifetime ECL- credit impaired)	(3,981)
Total	903,268
Bonds	
Listed inside Mainland China	651,347
Listed outside Mainland China	3,490
Unlisted	3,089
Fair value for the listed bonds	666,092
Non-standard assets	
Unlisted	253,422

(ii) Analyzed by ECL ：

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL- credit impaired)	Total
Debt investments at amortised cost	906,347	960	4,041	911,348
Less: Loss allowances of debt investments at amortised cost	(3,582)	(517)	(3,981)	(8,080)
Net debt investments at amortised cost	902,765	443	60	903,268

24. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for impairment losses

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	4,461	49	2,555	7,065
Transfer to:				
– Stage 1	24	(17)	(7)	–
– Stage 2	(3)	6	(3)	–
– Stage 3	(42)	(9)	51	–
Charge for the year				
– Charge for the year (note 14)	907	507	1,707	3,121
– Release for the year (note 14)	(1,797)	(19)	(518)	(2,334)
Recoveries of debt previously written off	–	–	192	192
Exchange difference	32	–	4	36
Balance as at the end of the year	3,582	517	3,981	8,080

(c) Debt investments at FVTOCI

	2018
Debt investments at FVTOCI(i)	414,691
Interest receivable	6,379
Total	421,070
Impairment losses of debt investments at FVTOCI (ii)	(1,897)
Impairment losses of interest receivable	(15)
Total	(1,912)

No loss allowances are recognised in the consolidated statement of financial position for debt investments at FVTOCI as the carrying amount is at fair value.

(i) Debt investments at FVTOCI by type ：

	2018
Government bonds	220,078
Bonds issued by policy banks	60,365
Bonds issued by commercial banks and other financial institutions	98,428
Other debt securities	35,820
Total	414,691
Classification	
Listed inside Mainland China	292,347
Listed outside Mainland China	50,486
Unlisted	71,858

24. Investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(ii) Movements of allowances for impairment losses

	2018
Balance as at the end of last year	–
Adjustments under IFRS 9	1,445
Balance as at the beginning of the year	1,445
Charge for the year (note 14)	389
Exchange difference	63
Balance as at the end of the year	1,897

(d) Equity investments designated at FVTOCI

	2018
Repossessed equity instruments	220
Others	3,795
Total	4,015
Listed inside Mainland China	66
Listed outside Mainland China	1,410
Unlisted	2,539

During the year ended 31 December 2018, the fair value of the equity investment designated at the date of derecognition was RMB17 million, the cumulative loss on disposal was RMB4 million which was transferred from investment revaluation reserve to retained profits on disposal.

(e) Available-for-sale financial assets

	2017
Government bonds	153,426
Bonds issued by policy banks	51,715
Bonds issued by commercial banks and other financial institutions	78,940
Other debt securities	49,703
Subtotal	333,784
Equity investments	3,301
Investments in funds	46,547
Subtotal	383,632
Less: impairment allowances	(531)
Total	383,101
Classification	
Bonds	
Listed inside mainland China	231,466
Listed outside mainland China	44,195
Unlisted	58,123
Investments in equity and funds	
Listed inside mainland China	1,905
Listed outside mainland China	1,057
Unlisted	46,886

24. Investments *(continued)*

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

Movements of allowances for impairment losses are as follows:

	2017
Balance as at the beginning of the year	645
Charge for the year	24
Releases for the year	(75)
Write-offs	(35)
Exchange difference	(28)
Balance as at the end of the year	531

(f) Held-to-maturity investments

	2017
Government bonds	330,120
Bonds issued by policy banks	202,610
Bonds issued by commercial banks and other financial institutions	25,072
Other debt securities	509
Subtotal	558,311
Less: impairment allowances	(93)
Total	558,218
Classification	
Listed inside mainland China	554,936
Listed outside mainland China	2,661
Unlisted	714
Fair value of listed debt securities	542,523

Movements of allowances for impairment losses are as follows:

	2017
Balance as at the beginning of the year	90
Charge for the year(note 14)	8
Exchange difference	(5)
Balance as at the end of the year	93

24. Investments *(continued)*

(g) Debt securities classified as receivables

	2017
Bonds	
Government bonds	908
Bonds issued by commercial banks and other financial institutions	9,428
Other debt securities	9,817
Non-standard assets	
Bills	290,215
Loans and advances to customers	261,213
Wealth management products	1,962
Creditor's beneficiary rights to other commercial banks	3,000
Subtotal	576,543
Less: impairment allowances	(4,302)
Total	572,241
Classification	
Inside mainland China	576,505
Outside mainland China	38

Movements of allowances for impairment losses are as follows:

	2017
Balance as at the beginning of the year	6,176
Charge for the year(note 14)	1,341
Release for the year(note 14)	(2,227)
Write-off for the year	(988)
Balance as at the end of the year	4,302

25. 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 4(1) 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	Shi Shunhua
CMB 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 CBIRC 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) CMB Wing Lung Bank Limited ("WLB"), formerly known as Wing Lung Bank Limited. On 30 September 2008, the Bank acquired a 53.12% equity interests in 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.

26. Interest in joint ventures

	2018	2017 (Restated)
Share of net assets	**8,622**	5,183
Share of profits for the year	**1,272**	995
Share of other comprehensive (expense) income for the year	**(36)**	44

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	RMB3,868,964	50.00%	24.15%	25.85%	Consumer finance

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"). CBIRC 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%, WLB's shareholding percentage is 35%, and the Group's shareholding percentage remains unchanged. In December 2018, the Group made an additional capital contribution of RMB1,000 million in CUNC, and the other shareholder of CUNC injected capital proportionally. The Bank's shareholding percentage is 24.15%, WLB's shareholding percentage is 25.85%, and the Group's shareholding percentage remains unchanged.

26. 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
2018										
CIGNA & CMB Life	**45,332**	**39,549**	**5,783**	**16,649**	**1,045**	**(25)**	**1,020**	**303**	**28**	**245**
Group's effective interest	**22,666**	**19,775**	**2,891**	**8,325**	**509**	**(13)**	**496**	**152**	**14**	**123**
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

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Profit or loss	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2018									
MUCFC	**74,748**	**66,855**	**7,893**	**6,956**	**1,253**	**1,253**	**2,273**	**10**	**391**
Group's effective interest	**37,374**	**33,428**	**3,946**	**3,478**	**626**	**626**	**1,137**	**5**	**196**
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

Summarised financial information of the joint ventures that are not individually material to the Group:

	Profit or loss	Other comprehensive income	Total comprehensive income
2018			
Others	**1,051**	**(111)**	**940**
Group's effective interest	**137**	**(23)**	**114**
2017			
Others	398	53	451
Group's effective interest	81	11	92

27. Interest in associates

	2018	2017
Share of net assets	249	18
Goodwill	–	2
Total	249	20
Share of profits for the year	37	3

The following list contains the information of associates, which are unlisted corporate entities and are not individually material to the Group:

	Profit or loss	Other comprehensive income	Total comprehensive income
2018			
Others	4,837	–	4,837
Group's effective interest	37	–	37
2017			
Others	8	–	8
Group's effective interest	3	–	3

28. Investment properties

	2018	2017
Cost:		
At 1 January	2,855	2,884
Transfers in/(out)	550	109
Disposals	(12)	–
Exchange difference	95	(138)
At 31 December	3,488	2,855
Accumulated depreciation:		
At 1 January	1,243	1,183
Depreciation	134	147
Transfers in/(out)	17	(27)
Disposals	(12)	–
Exchange difference	45	(60)
At 31 December	1,427	1,243
Net book value:		
At 31 December	2,061	1,612
At 1 January	1,612	1,701

As at 31 December 2018, no impairment was considered necessary for investment properties by the management of the Group (2017: nil).

Investment properties of the Group mainly represent the leased properties of WLB and the portion of the Bank's properties in Qingdao, Hefei, Huhehaote, Guangzhou and Ningbo 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 2018, the fair value of these properties was RMB4,645 million (2017: RMB3,721 million). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2018	2017
Within 1 year (inclusive)	277	216
1 year to 5 years (inclusive)	251	140
Over 5 years	2	2
Total	530	358

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 2018
Held in Mainland China	–	–	1,781	1,781
Held overseas	–	–	2,864	2,864
Total	–	–	4,645	4,645

	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.

29. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2018	24,847	2,482	10,165	6,829	26,420	6,416	77,159
Additions	65	805	2,309	736	8,437	431	12,783
Reclassification and transfers	982	(1,641)	–	109	–	–	(550)
Disposals	(151)	–	(252)	(19)	(2,094)	(490)	(3,006)
Exchange difference	180	–	54	14	1,141	12	1,401
At 31 December 2018	25,923	1,646	12,276	7,669	33,904	6,369	87,787
Accumulated depreciation:							
At 1 January 2018	8,134	–	7,673	4,305	1,947	5,288	27,347
Depreciation	1,220	–	1,344	576	1,459	537	5,136
Reclassification and transfers	(17)	–	–	–	–	–	(17)
Disposals	(19)	–	(252)	(18)	(256)	(487)	(1,032)
Exchange difference	94	–	24	6	19	4	147
At 31 December 2018	9,412	–	8,789	4,869	3,169	5,342	31,581
Net book value:							
At 31 December 2018	16,511	1,646	3,487	2,800	30,735	1,027	56,206
At 1 January 2018	16,713	2,482	2,492	2,524	24,473	1,128	49,812

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	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	(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	(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

(a) As at 31 December 2018, the Group considered that there is no impairment loss on property and equipment (2017: nil).

(b) As at 31 December 2018, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB2,066 million (2017: RMB4,080 million) was still in progress.

(c) As at 31 December 2018, the Group has no significant unused property and equipment (2017: nil).

30. Intangible assets

	Land use rights	Software and others	Core deposits	Total
Cost:				
At 1 January 2018	4,634	4,923	1,095	10,652
Additions	3,224	1,398	–	4,622
Transfers	(1,785)	–	–	(1,785)
Disposals	(4)	(4)	–	(8)
Exchange difference	5	5	67	77
At 31 December 2018	6,074	6,322	1,162	13,558
Amortisation:				
At 1 January 2018	426	2,613	358	3,397
Additions (Note 10)	237	706	40	983
Transfers/disposals	(2)	(3)	–	(5)
Exchange difference	1	3	29	33
At 31 December 2018	662	3,319	427	4,408
Net book value:				
At 31 December 2018	5,412	3,003	735	9,150
At 1 January 2018	4,208	2,310	737	7,255

	Land use rights	Software and Others	Core deposits	Total
Cost:				
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 (Note 10)	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

31. Goodwill

	As at 1 January 2018	Addition in the year	Release in the year	As at 31 December 2018	Impairment loss at 1 January 2018 & 31 December 2018	Net value at 1 January 2018 & 31 December 2018
WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
Zhaoyin Internet (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 25.

(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 25.

(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.

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 that the terminal growth rate is comparable to the forecast long-term economic growth rate issued by authoritative institutions. A pre-tax discount rate of 12% and 14% (2017: 9% and 12%) 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.

32. Deferred tax assets, deferred tax liabilities

	2018	2017
Deferred tax assets	58,374	50,120
Deferred tax liabilities	(1,211)	(1,070)
Net amount	57,163	49,050

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

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

	2018		2017	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers at amortised cost and other assets	206,932	51,684	166,590	41,616
Financial assets at FVTOCI	(5,899)	(1,475)	N/A	N/A
Financial assets at FVTPL	7,758	1,940	7,428	1,857
Available-for-sale financial assets	N/A	N/A	5,381	1,344
Salary and welfare payable	18,582	4,646	15,535	3,884
Others	6,980	1,579	6,413	1,419
Total	234,353	58,374	201,347	50,120
Deferred tax liabilities				
Impairment allowances on loans and advances to customers at amortised cost and other assets	207	34	189	31
Financial assets at FVTOCI	244	38	N/A	N/A
Financial assets at FVTPL	(116)	(29)	–	–
Available-for-sale financial assets	N/A	N/A	(124)	(36)
Others	(8,524)	(1,254)	(6,932)	(1,065)
Total	(8,189)	(1,211)	(6,867)	(1,070)

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

(b) Movements of deferred tax are as follows:

	Impairment allowances on loans and advances at amortised cost to customers and other assets	Financial instruments at FVTOCI	Financial instruments at FVTPL	Available-for-sale financial assets	Salary and welfare payable	Others	Total
At 31 December 2017	41,647	–	1,857	1,308	3,884	354	49,050
Adjustments under IFRS 9	2,247	921	351	(1,308)	N/A	–	2,211
At 1 January 2018	43,894	921	2,208	–	3,884	354	51,261
Recognised in profit or loss	7,819	(6)	(297)	N/A	762	21	8,299
Recognised in other comprehensive Income	–	(2,352)	–	N/A	–	(19)	(2,371)
Exchange difference	5	–	–	N/A	–	(31)	(26)
At 31 December 2018	51,718	(1,437)	1,911	N/A	4,646	325	57,163

	Impairment allowances on loans and advances to customers and other assets	Financial instruments at FVTPL	Available-for-sale financial assets	Salary and welfare payable	Others	Total
At 1 January 2017	28,134	85	(443)	2,625	(288)	30,113
Recognised in profit or loss	13,518	1,764	–	1,260	543	17,085
Recognised in other comprehensive Income	–	–	1,751	–	44	1,795
Exchange difference	(5)	8	–	(1)	55	57
At 31 December 2017	41,647	1,857	1,308	3,884	354	49,050

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.

33. Other assets

	2018	2017 (Restated)
Amounts pending for settlement	9,344	7,818
Interest receivable	2,888	N/A
Prepaid lease payments	1,117	1,109
Repossessed assets (note (a))	597	868
Guarantee deposits	794	607
Recoverable from reinsurers	209	207
Prepayment for lease improvement and other miscellaneous items	2,416	3,054
Premium receivables	112	88
Post-employment benefits		
– Defined benefit plan (Note 40(b))	31	109
Others	15,060	9,388
Total	32,568	23,248

(a) Repossessed assets

	2018	2017
Residential properties	767	1,026
Others	18	488
Total	785	1,514
Less: impairment allowances	(188)	(646)
Net repossessed assets	597	868

Note:

(i) In 2018, the Group has disposed of repossessed assets with a total cost of RMB143 million (2017: RMB73 million).

(ii) The Group plans to dispose of the repossessed assets by auction, bid or transfer.

34. Deposits from banks and other financial institutions

	2018	2017
Principal(a)	469,008	439,118
Interest payable	1,818	N/A
Total	470,826	439,118

(a) Analysed by nature of counterparties

	2018	2017
In Mainland China		
– Banks	108,732	72,324
– Other financial institutions	350,347	359,598
Subtotal	459,079	431,922
Outside Mainland China		
– Banks	9,897	7,185
– Other financial institutions	32	11
Subtotal	9,929	7,196
Total	469,008	439,118

35. Placements from banks and other financial institutions

	2018	2017
Principal (a)	202,974	272,734
Interest payable	976	N/A
Total	203,950	272,734

(a) Analysed by nature of counterparties

	2018	2017
In Mainland China		
– Banks	81,876	122,305
– Other financial institutions	48,311	88,862
Subtotal	130,187	211,167
Outside Mainland China		
– Banks	72,769	61,565
– Other financial institutions	18	2
Subtotal	72,787	61,567
Total	202,974	272,734

36. Financial liabilities at fair value through profit or loss

	2018	2017
Financial liabilities held for trading(a)	18,962	11,389
Financial liabilities designated at fair value through profit or loss(b)	25,138	15,230
Interest payable	44	N/A
Total	44,144	26,619

(a) Financial liabilities held for trading

	2018	2017
Precious metal relevant financial liabilities	17,872	11,325
Short selling securities	1,090	64
Total	18,962	11,389

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

	2018	2017
In Mainland China		
– Precious metal contracts with other banks	9,663	7,688
– Others	2,879	118
Outside Mainland China		
– Certificates of deposit issued	2,619	3,185
– Debt securities issued	9,977	4,239
Total	25,138	15,230

As at 31 December 2018 and 2017, the difference between the fair values of the Group's financial liabilities designated at fair value through profit or loss and the contractual payable at maturity is not significant. The amounts of changes in the fair value that are attributable to changes in credit risk of these liabilities are not significant during the years ended 31 December 2018 and 2017 and as at 31 December 2018 and 2017.

37. Amounts sold under repurchase agreements

	2018	2017
Principal (a) (b)	78,029	125,620
Interest payable	112	N/A
Total	78,141	125,620

(a) Analysed by nature of counterparties

	2018	2017
In Mainland China		
– Banks	69,089	114,955
– Other financial institutions	1,171	5,468
Subtotal	70,260	120,423
Outside Mainland China		
– Banks	7,769	5,162
– Other financial institutions	–	35
Subtotal	7,769	5,197
Total	78,029	125,620

(b) Analysed by assets type

	2018	2017
Debt securities		
– PRC government bonds	41,391	31,900
– Bonds issued by policy banks	21,399	48,273
– Bonds issued by commercial banks and other financial institutions	5,469	4,470
– Other debt securities	1,917	928
Subtotal	70,176	85,571
Discounted bills	7,853	40,049
Total	78,029	125,620

38. Deposits from customers

	2018	2017
Principal (a)	4,400,674	4,064,345
Interest payable	26,892	N/A
Total	4,427,566	4,064,345

(a) Analysed by nature of counterparties

	2018	2017
Corporate customers		
– Demand deposits	1,815,427	1,581,802
– Time deposits	1,022,294	1,144,021
Subtotal	2,837,721	2,725,823
Retail customers		
– Demand deposits	1,059,923	972,291
– Time deposits	503,030	366,231
Subtotal	1,562,953	1,338,522
Total	4,400,674	4,064,345

(b) Customer deposits including deposits for guarantees are as follows:

	2018	2017
Guarantee for acceptance bills	64,919	78,123
Guarantee for loans	20,908	27,931
Guarantee for issuing letters of credit	12,974	19,035
Deposit for letters of guarantee	46,107	44,429
Others	19,054	20,417
Total	163,962	189,935

39. Interest payable

	2017
Issued debt securities	1,820
Customer deposits and others	34,681
Total	36,501

As at 31 December 2018, the interests accrued on financial instruments of the Group are included in the carrying amounts of the corresponding financial liabilities.

40. Staff welfare scheme

(a) Salaries and welfare payable

	2018			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	7,756	39,473	(38,932)	8,297
Post-employment benefits – defined contribution plans (ii)	228	3,543	(3,642)	129
Other long-term employee benefits(iii)	36	30	(17)	49
Total	8,020	43,046	(42,591)	8,475

	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

(i) Short-term employee benefits

	2018			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	5,858	30,126	(29,872)	6,112
Welfare expense	62	3,534	(3,523)	73
Social insurance				
– Medical insurance	42	2,108	(2,112)	38
– Injury insurance	3	29	(28)	4
– Maternity insurance	4	81	(80)	5
Housing reserve	171	2,309	(2,282)	198
Labour union and employee education expenses	1,616	1,286	(1,035)	1,867
Total	7,756	39,473	(38,932)	8,297

40. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(i) Short-term employee benefits *(continued)*

	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

(ii) Post-employment benefits-defined contribution plans

	2018			
	Beginning balance	**Charge for the year**	**Payment/ Transfers in the year**	**Ending balance**
Basic retirement security	**61**	**2,134**	**(2,130)**	**65**
Supplementary pension	**149**	**1,356**	**(1,462)**	**43**
Unemployment insurance	**18**	**53**	**(50)**	**21**
Total	**228**	**3,543**	**(3,642)**	**129**

	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

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 2018, the Group's contributions to the schemes are determined by local governments and vary at a range of 12% to 20% (2017: 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 2018, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2017: 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.

40. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits

	2018			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Cash settled share-based transactions	36	30	(17)	49

	2017			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Cash settled share-based transactions	45	46	(55)	36

As at 31 December 2018, 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 linked 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 2018 (in millions)	Exercise conditions	Contract period of share appreciation rights
Share appreciation rights granted on 4 May 2012 (Phase V)	0.096	3 years after the grant date	10 years
Share appreciation rights granted on 22 May 2013 (Phase VI)	0.192	3 years after the grant date	10 years
Share appreciation rights granted on 7 Jul 2014 (Phase VII)	1.020	3 years after the grant date	10 years
Share appreciation rights granted on 22 Jul 2015 (Phase VIII)	1.560	3 years after the grant date	10 years
Share appreciation rights granted on 24 Aug 2016 (Phase IX)	1.410	3 years after the grant date	10 years
Share appreciation rights granted on 25 Aug 2017 (Phase X)	1.580	3 years after the grant date	10 years

(2) The number and weighted average exercise prices of share appreciation rights are as follows:

	2018		2017	
	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	19.32	7.24	15.81	11.44
Granted during the year	–	–	28.60	1.80
Exercised during the year	12.34	(0.08)	13.43	(3.30)
Forfeited during the year	16.06	(1.30)	14.26	(2.70)
Outstanding at the end of the year	19.00	5.86	19.32	7.24
Exercisable at the end of the year	14.13	0.96	12.05	0.53

The share appreciation rights outstanding at 31 December 2018 had a weighted average exercise price of HKD19.00 (2017: HKD19.32) and a weighted average remaining contractual life of 7.10 years (2017: 7.81 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.

40. 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.

	2018					
	Phase V	**Phase VI**	**Phase VII**	**Phase VIII**	**Phase IX**	**Phase X**
Fair value at measurement date (in RMB)	**16.06**	**15.04**	**14.51**	**10.19**	**10.70**	**7.20**
Share price (in HKD)	**29.15**	**29.15**	**29.15**	**29.15**	**29.15**	**29.15**
Exercise price (in HKD)	**10.70**	**11.26**	**11.33**	**18.48**	**17.05**	**27.59**
Expected volatility	**32.46%**	**32.46%**	**32.46%**	**32.46%**	**32.46%**	**32.46%**
Share appreciation rights life (year)	**3.33**	**4.42**	**5.50**	**6.58**	**7.67**	**8.67**
Expected dividends rate	**3.39%**	**3.39%**	**3.39%**	**3.39%**	**3.39%**	**3.39%**
Risk-free interest rate	**1.43%**	**1.43%**	**1.43%**	**1.43%**	**1.43%**	**1.43%**

	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%

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.

40. 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:

	2018							
	Phase V (in thousands)	Phase VI (in thousands)	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised (in thousands)
Li Hao	50	100	180	240	270	300	1,140	991
Tang Zhi Hong	46	92	158	210	210	240	956	947
Tian Hui Yu	–	–	225	300	300	330	1,155	75
Liu Jian Jun	–	–	158	210	210	240	818	52
Wang Liang	–	–	150	210	210	240	810	–
Xu Shi Qing	–	–	150	180	–	–	330	–
Xiong Liang Jun	–	–	–	210	210	240	660	–
Total	96	192	1,021	1,560	1,410	1,590	5,869	2,065

	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)	Total (in thousands)	Exercised (in thousands)
Ma Wei Hua	307	307	–	–	–	–	614	1,269
Li Hao	50	100	180	240	270	300	1,140	991
Tang Zhi Hong	46	92	158	210	210	240	956	947
Tian Hui Yu	–	–	300	300	300	330	1,230	–
Liu Jian Jun	–	–	158	210	210	240	818	52
Wang Liang	–	–	150	210	210	240	810	–
Lian Bo Lin	–	–	113	180	180	210	683	37
Xu Shi Qing	–	–	150	180	–	–	330	–
Xiong Liang Jun	–	–	–	210	210	240	660	–
Total	403	499	1,209	1,740	1,590	1,800	7,241	3,296

Note: In 2018, senior management had exercised 0.75 million shares of appreciation rights and the weighted average exercise price is HKD11.33. (2017: HKD13.43).

(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 12 February 2019 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 110% (2017: 138%).

40. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The amounts recognised in the statement of financial position as at 31 December 2018 are analysed as follows:

	2018	2017
Fair value of the Plan assets	357	394
Present value of the funded defined benefit obligation	(326)	(285)
Net asset recognised in the statement of financial position	31	109

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 2018.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2018 and 2017.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2018	2017
Current service cost	(10)	(11)
Net interest income	2	1
Net expense for the year included in retirement benefit costs	(8)	(10)

The actual loss on the Plan assets for the year ended 31 December 2018 was RMB39 million (2017: actual profit RMB78 million).

The movements in the defined benefit obligation during the year are as follows:

	2018	2017
Present value of obligation at 1 January	285	320
Current service cost	10	11
Interest cost	5	5
Actual benefits paid	(18)	(28)
Actuarial profit or losses due to liability experience	10	3
Actuarial profit or losses due to financial assumption changes	11	(3)
Actuarial gain or losses due to demographic assumption changes	7	–
Exchange difference	16	(23)
Actual obligation at 31 December	326	285

The movements in the fair value of the Plan assets during the year are as follows:

	2018	2017
Fair value of the Plan assets at 1 January	394	373
Interest income	7	6
Expected return on the Plan assets other than interest profit or losses	(46)	72
Actual benefits paid	(18)	(28)
Exchange difference	20	(29)
Fair value of the Plan assets at 31 December	357	394

40. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The major categories of the Plan assets are as follows:

	2018		2017	
	Amount	%	Amount	%
Equities	216	60.6	267	67.8
Bonds	63	17.6	64	16.2
Cash	78	21.8	63	16.0
Total	357	100.0	394	100.0

Deposit with the Bank included in the amount of the Plan assets was RMB56 million(2017: Nil).

The principal actuarial assumptions adopted in the valuation are as follows:

	2018 %	2017 %
Discount rate		
– Defined benefit scheme	1.9	1.7
– Defined benefit pension scheme	1.8	1.3
Long-term average rate of salary increase for the Plan	5.0	4.3
Pension increase rate for the defined benefit pension plan	–	–

As at 31 December 2017 and 2018, there is no significant change of the amount in the liabilities of the retirement benefit plan due to the above mentioned actuarial assumptions.

41. Tax payable

	2018	2017
Corporate income tax	16,229	21,841
Value added tax	3,137	3,831
Others	1,045	1,029
Total	20,411	26,701

42. Contract liabilities

	2018
Credit card points	4,799
Others deferred fee and commission income	808
Total	5,607

43. Provision

	2018	2017
Expected credit loss provision	4,565	N/A
Other estimated liabilities	1,100	450
Total	5,665	450

Expected credit loss provision as for loan commitments and financial guarantee contracts follows:

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Expected credit loss provision	2,934	1,221	410	4,565

44. Debt securities issued

	Notes	2018	2017
Subordinated notes issued	(a)	45,714	33,977
Long-term debt securities issued	(b)	104,483	63,376
Negotiable interbank certificates of deposit		245,406	178,189
Certificates of deposit issued		26,724	20,935
Interest payable		2,599	N/A
Total		424,926	296,477

44. 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	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	7,106	–	(106)	(7,000)	–
Fixed rate bond	180 months	28 Dec 2012	5.20	RMB11,700	11,689	–	4	–	11,693
Fixed rate bond	120 months	18 Apr 2014	6.40	RMB11,300	11,289	–	(4)	–	11,285
Fixed rate bond	120 months	15 Nov 2018	4.65	RMB20,000	–	19,996	(3)	–	19,993
Total					30,084	19,996	(109)	(7,000)	42,971

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)	Discount or premium amortisation (RMB in million)	Exchange rate fluctuation (RMB in million)	Repayment for the year (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	1,293	9	18	(1,320)	–
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	2,600	1	142	–	2,743
Total					3,893	10	160	(1,320)	2,743

* T represents the 5 years US Treasury rate.

44. Debt securities issued *(continued)*

(b) Long-term debt securities issued

As at the end of 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)	Exchange rate fluctuation (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	22 May 2017	4.20	RMB18,000	17,979	–	5	–	17,984
Medium term note	36 months	12 Jun 2017	3M Libor+0.825	USD800	5,206	–	4	286	5,496
Fixed rate bond	36 months	14 Sep 2017	4.30	RMB12,000	11,985	–	5	–	11,990
Fixed rate bond	36 months	17 Aug 2018	3.95	RMB30,000	–	29,966	(2)	–	29,964
Total					35,170	29,966	12	286	65,434

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)	Exchange rate fluctuation (RMB in million)	Repayment for the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (i))	60 months	26 Jun 2013	5.08	RMB1,000	996	–	4	–	(1,000)	–
Fixed rate bond (note (i))	60 months	24 Jul 2013	4.98	RMB1,000	996	–	4	–	(1,000)	–
Fixed rate bond	60 months	11 Aug 2014	3.25	USD500	3,268	–	2	161	–	3,431
Fixed rate bond	36 months	7 Dec 2015	3.75	RMB200	200	–	–	–	(200)	–
Fixed rate bond (note (ii))	36 months	11 Mar 2016	3.27	RMB3,800	3,795	–	3	–	–	3,798
Leased asset backed securities	74.5 months	5 May 2016	2.98/3.09/R-1.35**	RMB4,110	253	–	–	–	(253)	–
Fixed rate bond (note (iii))	36 months	29 Nov 2016	2.63	USD300	1,956	–	4	96	–	2,056
Fixed rate bond (note (iii))	60 months	29 Nov 2016	3.25	USD900	5,862	–	7	288	–	6,157
Leased asset backed securities	31 months	21 Feb 2017	4.3/4.5/4.73	RMB4,930	2,186	–	3	–	(1,483)	706
Fixed rate bond	36 months	15 Mar 2017	4.50	RMB4,000	3,988	–	4	–	–	3,992
Fixed rate bond (note (iv))	36 months	5 Jul 2017	4.80	RMB1,500	1,496	–	1	–	–	1,497
Fixed rate bond (note (v))	36 months	20 Jul 2017	4.89	RMB2,500	2,494	–	2	–	–	2,496
Fixed rate bond	36 months	3 Aug 2017	4.60	RMB2,000	1,995	–	2	–	–	1,997
Fixed rate bond (note (vi))	36 months	14 Mar 2018	5.24	RMB4,000	–	3,987	2	–	–	3,989
Fixed rate bond (note (vii))	36 months	9 May 2018	4.80	RMB4,000	–	3,988	1	–	–	3,989
Fixed rate bond	36 months	16 Jul 2018	4.50	RMB4,000	–	3,988	1	–	–	3,989
Total					29,485	11,963	40	545	(3,936)	38,097

** 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 2018 and 2017.

44. Debt securities issued *(continued)*

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

Note:

(i) The Bank holds financial bonds issued by CMBFLC amounted to 0 as of 31 December 2018 (31 December 2017: RMB382 million).

(ii) The Bank holds financial bonds issued by CMBFLC amounted to 0 as of 31 December 2018(31 December 2017: RMB200 million).

(iii) The Bank holds financial bonds issued by CMBIL amounted to USD30 million as of 31 December 2018(31 December 2017: USD30 million).

(iv) The Bank holds financial bonds issued by CMBIL amounted to RMB300 million as of 31 December 2018(31 December 2017: RMB300 million).

(v) The Bank holds financial bonds issued by CMBIL amounted to RMB200 million as of 31 December 2018(31 December 2017: RMB200 million).

(vi) The Bank holds financial bonds issued by CMBIL amounted to RMB260 million as of 31 December 2018.

(vii) The Bank holds financial bonds issued by CMBIL amounted to RMB140 million as of 31 December 2018.

As at the end of the reporting period, long-term debt securities issued by CMBI 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)
Fixed rate bond	36 months	9 Jul 2018	3.72	USD300	–	2,007	–	–	53	2,060
Total						2,007	–	–	53	2,060

45. Other liabilities

	2018	2017
Clearing and settlement accounts	7,661	21,990
Salary risk allowances (note)	16,000	13,000
Insurance liabilities	1,832	1,711
Payment and collection account	2,532	1,394
Cheques and remittances returned	70	44
Others	41,223	41,757
Total	69,318	79,896

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.

46. Share capital

By type of share:

	2018 and 2017 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 2018 and at 31 December 2018	**25,220**	**25,220**

47. Preference shares

(a) Preference Shares

	31 December 2018		31 December 2017	
	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 CBIRC, 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.

(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.

47. Preference shares *(continued)*

(a) Preference Shares *(continued)*

(ii) *(continued)*

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 CBIRC, 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 and Insurance Regulatory Commission (the "CBIRC") 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 CBIRC 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 2018	At 31 December 2017
Equity attributed to shareholders of the bank	**540,118**	480,210
– Equity attributed to ordinary shareholders of the bank	**506,053**	446,145
– Equity attributed to other equity holders of the bank	**34,065**	34,065
Equity attributed to non-controlling interests	**3,487**	3,182
– Equity attributed to non-controlling holders of ordinary shares	**2,329**	2,012
– Equity attributed to non-controlling holders of other equity instrument (note 63)	**1,158**	1,170

48. 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.

	2018
At 1 January and 31 December	**67,523**

49. Investment revaluation reserve

	2018	2017
Debt instruments measured at fair value through other comprehensive income: investment revaluation reserve	**3,688**	N/A
Fair value gain on equity instruments measured at fair value through other comprehensive income	**1,857**	N/A
Remeasurement of defined benefit liability	**29**	91
Equity-accounted investees share of other comprehensive income	**(42)**	(6)
Available-for-sale financial assets: investment revaluation reserve	**N/A**	(3,897)
Total	**5,532**	(3,812)

50. 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 4(5).

51. 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.

	2018	2017
At 1 January	**46,159**	39,708
Statutory surplus reserve	**7,523**	6,451
At 31 December	**53,682**	46,159

52. 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. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the requirements as of 31 December 2018.

	2018	2017
At 1 January	**70,921**	67,838
Statutory surplus reserve	**7,621**	3,083
At 31 December	**78,542**	70,921

53. Profit appropriations

(a) Dividends approved/declared by shareholders

	2018	2017
Dividends in 2017, approved and to be declared RMB0.84 per shares	**21,185**	–
Dividends in 2016, approved and to be declared RMB0.74 per shares	–	18,663

(b) Proposed profit appropriations

	2018	2017
Statutory surplus reserve	**7,523**	6,451
Regulatory general reserve	**7,621**	3,083
Dividends		
– cash dividend: RMB0.94 per shares (2017: RMB0.84 per shares)	**23,707**	21,185
Total	**38,851**	30,719

2018 dividends profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 22 March 2019 and will be submitted to the 2018 annual general meeting for approval.

54. Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of operations outside Mainland China.

55. The bank's statement of financial position and changes in the bank's reserves

	2018	2017
Assets		
Cash	14,997	15,724
Precious metals	6,573	9,243
Balances with central bank	474,380	583,692
Balances with banks and other financial institutions	68,501	43,189
Placements with banks and other financial institutions	299,981	165,511
Amounts held under resale agreements	199,555	252,464
Loans and advances to customers	3,471,874	3,159,655
Interest receivable	N/A	27,216
Financial assets at fair value through profit or loss	315,000	57,902
Derivative financial assets	33,582	17,691
Debt investments at amortised cost	915,410	N/A
Debt investments at fair value through other comprehensive income	380,971	N/A
Equity investments designated at fair value through other comprehensive income	3,465	N/A
Available-for-sale financial assets	N/A	341,571
Held-to-maturity investments	N/A	557,942
Debt securities classified as receivables	N/A	570,175
Investments in subsidiaries	43,901	43,901
Interest in joint ventures	4,797	3,095
Investment properties	1,262	621
Property and equipment	23,169	23,145
Intangible assets	8,157	6,354
Deferred tax assets	56,866	48,734
Other assets	25,174	15,550
Total assets	6,347,615	5,943,375
Liabilities		
Borrowing from central bank	405,314	414,838
Deposits from banks and other financial institutions	452,305	421,251
Placements from banks and other financial institutions	116,072	189,825
Financial liabilities at fair value through profit or loss	40,175	26,437
Derivative financial liabilities	35,795	21,194
Amounts sold under repurchase agreements	77,064	125,585
Deposits from customers	4,237,430	3,890,024
Interest payable	N/A	34,398
Salaries and welfare payable	6,697	6,245
Tax payable	19,512	25,942
Contract liabilities	5,607	N/A
Provision	5,638	450
Debt securities issued	375,625	260,560
Other liabilities	55,918	65,352
Total liabilities	5,833,152	5,482,101
Equity		
Share capital	25,220	25,220
Other equity instruments – Preference Shares	34,065	34,065
Capital reserve	76,681	76,681
Investment revaluation reserve	5,540	(4,093)
Hedging reserve	(27)	(86)
Surplus reserve	53,682	46,159
Regulatory general reserve	75,818	69,790
Retained profits	219,622	192,431
Proposed profit appropriations	23,707	21,185
Exchange reserve	155	(78)
Total equity	514,463	461,274
Total equity and liabilities	6,347,615	5,943,375

55. The bank's statement of financial position and changes in the bank's reserves *(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	Subtotal
At 31 December 2017	25,220	34,065	76,681	(4,093)	(86)	46,159	69,790	192,431	21,185	(78)	461,274
Adjustments of application of accounting policy changes	–	–	–	2,490	–	–	–	(9,124)	–	–	(6,634)
At 1 January 2018	25,220	34,065	76,681	(1,603)	(86)	46,159	69,790	183,307	21,185	(78)	454,640
Changes in equity for the year	–	–	–	7,143	59	7,523	6,028	36,315	2,522	233	59,823
Net profit for the year	–	–	–	–	–	–	–	75,232	–	–	75,232
Other comprehensive income for the year	–	–	–	7,143	59	–	–	–	–	233	7,435
Total comprehensive income for the year	–	–	–	7,143	59	–	–	75,232	–	233	82,667
Profit appropriations	–	–	–	–	–	7,523	6,028	(38,917)	2,522	–	(22,844)
Appropriations to statutory surplus reserve	–	–	–	–	–	7,523	–	(7,523)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	–	6,028	(6,028)	–	–	–
Dividends paid for the year 2017	–	–	–	–	–	–	–	–	(21,185)	–	(21,185)
Proposed dividends for the year 2018	–	–	–	–	–	–	–	(23,707)	23,707	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	(1,659)	–	–	(1,659)
At 31 December 2018	25,220	34,065	76,681	5,540	(27)	53,682	75,818	219,622	23,707	155	514,463

	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
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	–	–
At 31 December 2017	25,220	34,065	76,681	(4,093)	(86)	46,159	69,790	192,431	21,185	(78)	461,274

56. Notes to consolidated cash flow statements

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

	2018	2017
Cash and balances with central bank	52,302	84,424
Balance with banks and other financial institutions	84,517	58,814
Placements with banks and other financial institutions	200,326	61,872
Amounts held under resale agreements	191,923	249,992
Debt securities investments	14,615	5,323
Total	543,683	460,425

(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	Dividend payable	Other financial liabilities	Total
At 1 January 2018	178,189	24,120	101,592	1,820	26	–	305,747
Cash changes:							
Proceeds from the issue	407,328	32,300	73,029	–	–	2,921	515,578
Repayment	(342,201)	(28,389)	(15,590)	–	–	(431)	(386,611)
Interest/dividend paid	(6,659)	–	–	(5,154)	(22,912)	–	(34,725)
Non-cash changes:							
Accrued interest	–	–	–	5,933	–	–	5,933
Dividend declared	–	–	–	–	22,912	–	22,912
Discount or premium amortisation	8,588	56	(47)	–	–	–	8,597
Fair value adjustments	–	10	4	–	–	389	403
Foreign exchange	161	1,246	1,186	–	–	–	2,593
At 31 December 2018	245,406	29,343	160,174	2,599	26	2,879	440,427

	Negotiable interbank certificates of deposit	Certificates of deposit issued	Debt securities issued	Interest payable	Dividend payable	Total
At 1 January 2017	188,248	18,114	81,253	1,413	103	289,131
Cash changes:						
Proceeds from the issue	559,795	19,086	52,449	–	–	631,330
Repayment	(569,088)	(11,916)	(30,186)	–	–	(611,190)
Interest/dividend paid	(9,872)	–	–	(4,611)	(18,692)	(33,175)
Non-cash changes:						
Accrued interest	–	–	–	5,018	–	5,018
Dividend declared	–	–	–	–	18,692	18,692
Dividend cancelled	–	–	–	–	(77)	(77)
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 31 December 2017	178,189	24,120	101,592	1,820	26	305,747

(c) Significant non-cash transactions

There are no significant non-cash transactions during the year.

57. 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.

(1) 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.

(2) 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.

(3) Other Business

Other business includes: property leasing and businesses operated by subsidiaries other than WLB, and associates and joint ventures. 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.

As listed in Note (4), 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 2018 and 2017. Internal transactions are conducted at fair value.

57. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale financial business		Retail financial business		Other business		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
External net interest income	**24,466**	28,441	**100,299**	89,674	**35,619**	26,737	**160,384**	144,852
Internal net interest income/(expense)	**52,553**	44,084	**(17,681)**	(18,716)	**(34,872)**	(25,368)	**–**	–
Net interest income	**77,019**	72,525	**82,618**	70,958	**747**	1,369	**160,384**	144,852
Net fee and commission income	**20,095**	23,871	**42,700**	36,390	**3,685**	3,757	**66,480**	64,018
Other net income	**12,181**	6,619	**525**	1,035	**7,565**	3,515	**20,271**	11,169
Operating income	**109,295**	103,015	**125,843**	108,383	**11,997**	8,641	**247,135**	220,039
Operating expenses								
– Depreciation	**(1,527)**	(1,542)	**(2,255)**	(2,368)	**(1,488)**	(1,152)	**(5,270)**	(5,062)
– Others	**(29,683)**	(24,863)	**(43,803)**	(37,863)	**(2,354)**	(2,643)	**(75,840)**	(65,369)
Reportable segment profit before impairment losses	**78,085**	76,610	**79,785**	68,152	**8,155**	4,846	**166,025**	149,608
Expected credit losses and impairment losses on other assets	**(38,171)**	(39,826)	**(21,522)**	(19,737)	**(1,144)**	(363)	**(60,837)**	(59,926)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**1,309**	998	**1,309**	998
Reportable segment profit before tax	**39,914**	36,784	**58,263**	48,415	**8,320**	5,481	**106,497**	90,680
Capital expenditure (note(i))	**3,291**	2,930	**4,858**	4,494	**9,256**	8,926	**17,405**	16,350

	Wholesale financial business		Retail financial business		Other business		Total	
	31 December 2018	31 December 2017 (Restated)	**31 December 2018**	31 December 2017 (Restated)	**31 December 2018**	31 December 2017 (Restated)	**31 December 2018**	31 December 2017
Reportable segment assets	**2,831,765**	2,824,662	**2,045,530**	1,814,963	**1,794,697**	1,592,575	**6,671,992**	6,232,200
Reportable segment liabilities	**3,526,129**	3,459,039	**1,598,208**	1,359,453	**1,007,225**	901,122	**6,131,562**	5,719,614
Interest in associates and joint ventures	**–**	–	**–**	–	**8,871**	5,203	**8,871**	5,203

Note:

(i) Capital expenditure represents the amount incurred for acquiring long-term segment assets.

57. Operating segments *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets, liabilities and other material items

	For the year ended 31 December 2018	2017
Total operating income for reportable segments	**247,135**	220,039
Total profit before income tax for reportable segments	**106,497**	90,680

	31 December 2018	31 December 2017
Assets		
Total assets for reportable segments	**6,671,992**	6,232,200
Goodwill	**9,954**	9,954
Intangible assets	**735**	737
Deferred tax assets	**58,374**	50,120
Other unallocated assets	**4,674**	4,627
Consolidated total assets	**6,745,729**	6,297,638
Liabilities		
Total liabilities for reportable segments	**6,131,562**	5,719,614
Tax payable	**20,411**	26,701
Other unallocated liabilities	**50,151**	67,931
Consolidated total liabilities	**6,202,124**	5,814,246

57. 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, CMFM, etc.

	Total assets		Total liabilities		Non-current assets		Profit before tax		Operating income	
Geographical information	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017 (Restated)	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ended 31 December 2017
Headquarter	3,129,174	2,908,217	2,739,929	2,557,785	34,056	29,628	12,017	15,387	91,577	76,680
Yangtze River Delta region	777,607	761,970	759,258	745,677	2,948	2,849	24,040	19,659	34,386	32,517
Bohai Rim region	526,143	492,441	513,813	484,410	2,015	2,131	16,383	12,080	26,946	25,116
Pearl River Delta and West Coast region	693,830	645,313	679,961	632,515	2,137	2,074	19,279	15,998	31,936	29,758
Northeast region	144,367	151,548	146,060	150,447	1,125	1,162	(1,320)	1,555	6,349	6,610
Central region	389,081	358,334	380,025	352,226	2,524	2,573	11,930	8,108	16,925	15,181
Western region	380,152	360,547	371,913	355,602	2,389	2,490	10,790	6,745	17,491	16,015
Overseas	240,080	199,836	234,741	196,693	145	165	3,041	2,071	4,285	3,399
Subsidiaries	465,295	419,432	376,424	338,891	38,903	30,764	10,337	9,077	17,240	14,763
Total	6,745,729	6,297,638	6,202,124	5,814,246	86,242	73,836	106,497	90,680	247,135	220,039

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

58. Assets Pledged as Security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	2018	2017
Borrowing from central bank	405,314	414,838
Amounts sold under repurchase agreements	78,141	125,620
Subtotal	483,455	540,458
Assets pledged		
– Financial assets at fair value through profit or loss	18,925	5,316
– Debt investments at amortised cost	280,262	N/A
– Debt investments at fair value through other comprehensive income	71,196	N/A
– Available-for-sale financial assets	N/A	95,828
– Held-to-maturity investments	N/A	409,092
– Other assets	109,757	75,946
Total	480,140	586,182

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

59. 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.

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Contractual amount				
Irrevocable guarantees	234,373	370	357	235,100
Of which: Financial guarantees	142,937	288	3	143,228
Non-financial guarantees	91,436	82	354	91,872
Irrevocable letters of credit	66,198	1,038	6	67,242
Bills of acceptances	234,681	2,134	12	236,827
Irrevocable loan commitments	96,741	137	12	96,890
– with an original maturity within 1 year (inclusive)	42,790	54	12	42,856
– with an original maturity over 1 year	53,951	83	–	54,034
Credit card commitments	836,924	8,497	81	845,502
Others	74,918	5	–	74,923
Total	1,543,835	12,181	468	1,556,484

59. Contingent Liabilities and Commitments *(continued)*

(a) Credit commitments *(continued)*

As at 31 December 2018, the Group`s irrevocable letters of credit includes sight letters of credit of RMB8,679 million, usance letters of credit of RMB5,640 million, other commitments of RMB52,923 million.

	2017
Contractual amount	
Irrevocable guarantees	251,683
Of which: Financial guarantees	161,407
Non-financial guarantees	90,276
Irrevocable letters of credit	70,724
Of which: Sight letters of credit	9,658
Usance letters of credit	6,586
Other payment commitments(note)	54,480
Bills of acceptances	245,007
Irrevocable loan commitments	80,469
– with an original maturity within 1 year (inclusive)	1,908
– with an original maturity over 1 year	78,561
Credit card commitments	690,898
Others	68,227
Total	1,407,008

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

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

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 RMB2,236,875 million at 31 December 2018 (31 December 2017: RMB2,042,851 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.

	2018	2017
Credit risk weighted amounts of contingent liabilities and commitments	**373,397**	355,050

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 CBIRC. The amount within the scope approved by the CBIRC in April 2014 is calculated using the internal rating-based approach, and the risk-weighted approach is used to calculate those not eligible to the internal rating-based approach.

(b) Capital commitments

Authorised capital commitments were as follows:

	2018	2017
– Contracted for	**1,885**	6,325
– Authorised but not contracted for	**394**	740
Total	**2,279**	7,065

59. Contingent Liabilities and Commitments *(continued)*

(c) Operating lease commitments

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

	2018	2017
Within 1 year (inclusive)	**3,874**	3,701
1 year to 5 years (inclusive)	**8,933**	8,925
Over 5 years	**1,741**	1,845
Total	**14,548**	14,471

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 2018, the Group was a defendant in certain outstanding litigations with gross claims of RMB515 million (2017: RMB728 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:

	2018	2017
Redemption obligations	**25,568**	25,182

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

60. 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:

	2018	2017
Entrusted loans	**417,263**	489,351
Entrusted funds	**(417,263)**	(489,351)

(b) Wealth management services

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

At the end of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	2018	2017
Funds received from customers under wealth management services	**1,851,964**	1,730,847

Notes: In current period, funds received from customers under wealth management services are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services, and has restated the corresponding comparative figures.

61. Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the Board of Directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group formulates credit policy guideline, and enhances credit acceptance and exit policies for corporate and institutional clients, and implements limit control measures to improve the quality of credit exposure.

With respect to the credit risk management of retail financial business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or credit risk offset. Collateral structures and legal covenants are reviewed regularly to ensure that they can still cover the given risks and be consistent with market practices.

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 risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated the quota limit management policy to monitor and analyse the loan portfolio.

Analysis of loans and advances by industry and loan portfolio are stated in Note 22.

61. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Internal credit risk rating

The Group classifies credit risk based on probability of default. The Group classifies credit risk into 25 grades. The internal credit risk rating is based on the predicted default risk. Internal credit risk ratings are based on qualitative and quantitative factors. For customers of wholesale business include net profit growth rate, sales growth rate, industry, etc. For customers of retail business include maturity, ageing, mortgage rate, etc.

(ii) Significant increase in credit risk

As describe in Note 4, the Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument and other items as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 61(a)(i)), as well as internal warning signal, the result of 5-tier classification and overdue information. The Group regularly reviews whether the evaluation criteria are applicable to the current situation.

For wholesale business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special mention; more than 30 days (inclusive) overdue; the internal credit risk rating of the customer has met the standard of downgrading; the early warning signal of the customer has reached a certain level; or the customer has other significant risk signals identified by the Group etc.

For retail business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special mention; more than 30 days (inclusive) overdue; or the customer has other significant risk signals identified by the Group etc.

For credit card business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special mention; more than 30 days (inclusive) overdue; the customer has early credit risk warning signals; or the customer has other significant risk signals identified by the Group etc.

A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment.

The Group considers that a debt instrument has been credit impaired when its 5-tier loan classification is substandard, doubtful or loss or is more than 90 days overdue.

61. Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD): is an estimate of the likelihood of default over 12 months or lifetime horizon;
- loss given default (LGD): is the proportion of the loss arising on default to the exposure at default;
- exposure at default (EAD): is the risk exposure on a debt instrument.

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information.

(iv) Incorporation of forward-looking information

According to the different risk characteristics of assets, the Group divides assets into different asset groups, identifies macro indicators related to credit risks, and establishes regression models.

The Group uses forward-looking information that is available without undue cost or effort, and predict the macroeconomic assumptions. External information includes macroeconomic data, forecast information issued by government or regulatory agencies, for example, GDP, fixed asset investment, total social consumption, etc. The Group assigns different scenarios to different possibilities.

During the reporting period, the Group did not make any changes to the predicted technology and important assumptions.

(v) Groupings based on shared risk characteristics

The Group divides the primary business into credit card business, retail business, wholesale business. According to the type of business, the Group divides the retail business into housing mortgage loans, consumer loans, etc. The Group divides the wholesale business into different types according to the scale.

(vi) Maximum exposure

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the contract amount of the off balance sheet items disclosed in Note 59(a). At 31 December 2018, the amount of the Group's maximum credit risk exposure is RMB10,371,303 million (2017: RMB9,597,033 million).

(vii) Renegotiated loans and advances to customers

The carrying amount of loans and advances that were impaired and the terms been renegotiated was RMB22,766 million as at 31 December 2018 (31 December 2017: RMB18,009 million).

61. Risk management *(continued)*

(a) Credit risk *(continued)*

(viii) 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:

	2018	2017
Impaired gross amount of debt investments	968	1,083
Impairment allowances	(455)	(802)
Subtotal	513	281
Neither overdue nor impaired		
AAA	295,565	189,250
AA- to AA+	70,199	38,110
A- to A+	597,066	517,664
Lower than A-	27,649	23,417
Unrated	214,019	206,881
Impairment allowances	(3,575)	(480)
Subtotal	1,200,923	974,842
Total	1,201,436	975,123

Note: Bonds issued by the governments, central banks and policy banks held by the Group amounted to RMB932,143 million (2017: RMB755,473 million) are included.

(ix) 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:

	2018	2017
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	20,618	13,460

(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.

61. 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.

61. 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:

	2018						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and balances with central bank	468,309	18,266	4,680	1,880	493,135	2,660	5,338
Amounts due from banks and other financial institutions	414,598	166,478	18,866	11,244	611,186	24,247	21,517
Loans and advances to customers	3,377,558	191,839	130,064	41,801	3,741,262	27,941	148,339
Investments (including derivatives)	1,574,122	73,659	23,497	12,263	1,683,541	10,729	26,798
Other assets (note(i))	158,173	43,612	12,925	1,895	216,605	6,353	14,741
Total	5,992,760	493,854	190,032	69,083	6,745,729	71,930	216,733
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,025,703	103,989	13,116	7,348	1,150,156	15,146	14,959
Deposits from customers	3,903,972	316,770	142,793	37,139	4,400,674	46,137	162,857
Financial liabilities at fair value through profit or loss (including derivatives)	49,376	29,138	1,964	13	80,491	4,244	2,240
Debt securities issued	373,113	38,382	7,923	2,909	422,327	5,590	9,036
Other liabilities (note(i))	131,311	7,313	5,671	4,181	148,476	1,065	6,466
Total	5,483,475	495,592	171,467	51,590	6,202,124	72,182	195,558
Net position	509,285	(1,738)	18,565	17,493	543,605	(252)	21,175
Net off-balance sheet position:							
Credit commitments (note(ii)	1,384,833	119,708	28,089	23,854	1,556,484	17,435	32,036
Derivatives:							
– forward purchased	515,342	586,568	52,220	25,454	1,179,584	85,433	59,557
– forward sold	(542,869)	(543,114)	(24,796)	(45,387)	(1,156,166)	(79,104)	(28,280)
– net currency option position	(60,782)	64,568	364	(650)	3,500	9,404	415
Total	(88,309)	108,022	27,788	(20,583)	26,918	15,733	31,692

61. 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: ***(continued)***

	2017						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and balances with central bank	569,550	27,997	16,665	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	5,588,413	429,224	216,064	63,937	6,297,638	65,912	259,319
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,141,054	103,011	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	134,726	8,308	6,631	2,973	152,638	1,276	7,958
Total	5,097,833	503,578	170,606	42,229	5,814,246	77,331	204,760
Net position	490,580	(74,354)	45,458	21,708	483,392	(11,419)	54,559
Net off-balance sheet position:							
Credit commitments (note(ii)	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)

Note:

(i) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

(ii) Credit commitments generally expire before they are drawn, therefore the above net position does not represent the future cash outflows.

61. 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 2018 and 31 December 2017.

	2018		2017	
	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	177	(177)	364	(364)
Increase/(decrease) in annualised equity	177	(177)	364	(364)

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 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.

61. 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 2018 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.

61. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) ***Banking book*** *(continued)*

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.

	2018					
	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	493,135	477,321	–	–	–	15,814
Amounts due from banks and other financial institutions	611,186	518,613	84,679	268	1,214	6,412
Loans and advances to customers (note (i))	3,741,262	1,665,384	1,846,122	170,453	59,303	–
Investments (including derivatives)	1,683,541	439,396	173,454	665,013	360,022	45,656
Other assets (note (ii))	216,605	–	–	–	–	216,605
Total assets	6,745,729	3,100,714	2,104,255	835,734	420,539	284,487
Liabilities						
Amounts due to banks and other financial institutions	1,150,156	802,236	327,266	10,792	4,683	5,179
Deposits from customers	4,400,674	3,485,761	484,156	417,315	2,597	10,845
Financial liabilities at fair value through profit or loss (including derivatives)	80,491	206	2,667	9,511	213	67,894
Debt securities issued	422,327	77,883	197,850	101,780	44,814	–
Other liabilities (note (ii))	148,476	19	–	–	–	148,457
Total liabilities	6,202,124	4,366,105	1,011,939	539,398	52,307	232,375
Asset-liability gap	543,605	(1,265,391)	1,092,316	296,336	368,232	52,112

61. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book (continued)

	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 (i))	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

Note:

(i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2018 and 31 December 2017, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

(ii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

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 2018 and 31 December 2017.

	2018		2017	
	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	**(1,966)**	**1,966**	(2,010)	2,010
(Decrease)/increase in equity	**(3,544)**	**3,756**	(3,152)	3,174

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.

61. 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.

61. Risk management *(continued)*

(c) Liquidity risk *(continued)*

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

	2018								
	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	Overdue	Total
Cash and balances with central bank (note (i))	31,621	–	–	–	–	–	461,514	–	493,135
Amounts due from banks and other financial institutions	81,344	410,287	31,664	85,447	1,230	–	1,214	–	611,186
Loans and advances to customers	–	414,154	275,758	1,097,315	964,517	970,623	–	18,895	3,741,262
Investments (note (ii))									
– Financial assets at fair value through profit or loss (including derivatives)	3,045	191,652	62,960	33,898	42,361	25,549	1,827	275	361,567
– Debt investments at amortised cost	–	9,809	75,329	106,912	467,555	240,250	–	3,413	903,268
– Debt investments at fair value through other comprehensive income	434	21,042	16,391	74,532	204,145	97,770	–	377	414,691
– Equity investments designated at fair value through other comprehensive income	–	–	–	–	–	–	4,015	–	4,015
Other assets (note (iv))	23,800	6,524	7,010	11,418	3,053	200	164,600	–	216,605
Total assets	140,244	1,053,468	469,112	1,409,522	1,682,861	1,334,392	633,170	22,960	6,745,729
Amounts due to banks and other financial Institutions	328,999	269,494	184,328	334,596	25,383	5,744	1,612	–	1,150,156
Deposits from customers (note (iii))	3,029,478	217,170	246,113	486,450	418,866	2,597	–	–	4,400,674
Financial liabilities at fair value through profit or loss (including derivatives)	14,564	13,725	8,400	16,859	17,200	9,530	213	–	80,491
Debt securities issued	–	13,343	68,339	194,051	101,780	44,814	–	–	422,327
Other liabilities (note (iv))	65,131	45,029	9,438	19,273	5,517	766	3,322	–	148,476
Total liabilities	3,438,172	558,761	516,618	1,051,229	568,746	63,451	5,147	–	6,202,124
(Short)/long position	(3,297,928)	494,707	(47,506)	358,293	1,114,115	1,270,941	628,023	22,960	543,605

61. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	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	Overdue	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	–	358,319	268,551	1,006,228	880,201	887,849	–	13,464	3,414,612
Investments (note (ii))									
– 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	4,277	420	383,101
– Held-to-maturity investments	–	3,418	6,444	31,217	306,655	210,484	–	–	558,218
– Debt securities classified as receivables	–	216,900	33,083	161,336	119,267	40,287	100	1,268	572,241
Other assets	15,299	18,040	3,048	2,793	1,292	505	137,166	7,096	185,239
Total assets	143,532	909,814	378,025	1,415,820	1,494,604	1,256,972	676,623	22,248	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 (iii))	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	(2,791,639)	49,175	(262,629)	411,036	1,170,989	1,213,662	670,550	22,248	483,392

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) 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.

(iii) The deposits from customers that are repayable on demand include matured time deposits which are pending for customers' instructions.

(iv) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

61. 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.

	2018									
	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	Overdue
Non-derivative financial assets										
Cash and balances with central bank	493,135	493,135	31,621	–	–	–	–	–	461,514	–
Amounts due from banks and other financial institutions	611,186	664,376	92,117	425,647	42,522	99,309	3,567	–	1,214	–
Loans and advances to customers	3,741,262	4,485,884	–	429,359	305,185	1,224,946	1,225,783	1,281,883	–	18,728
Investments										
– Financial assets at fair value through profit or loss	327,643	340,529	3,045	188,738	59,383	23,145	34,099	29,990	1,853	276
– Debt investments at amortised cost	903,268	1,059,887	–	11,876	79,543	126,478	539,495	298,966	–	3,529
– Debt investments at fair value through other comprehensive income	414,691	469,935	434	22,104	18,406	83,448	232,981	112,052	–	510
– Equity investments designated at fair value through other comprehensive income	4,015	4,017	–	–	–	–	–	–	4,017	–
Other assets	70,824	70,949	24,066	6,397	6,963	11,143	3,003	200	19,177	–
Total	6,566,024	7,588,712	151,283	1,084,121	512,002	1,568,469	2,038,928	1,723,091	487,775	23,043
Non-derivative financial liabilities										
Amounts due to banks and other financial institutions	1,150,156	1,225,600	342,929	305,526	197,112	344,251	27,644	6,526	1,612	–
Deposits from customers	4,400,674	4,523,601	3,072,330	220,813	251,698	504,660	470,186	3,914	–	–
Financial liabilities at fair value through profit or loss	44,100	45,108	21,532	5,765	1,999	5,320	10,279	213	–	–
Debt securities issued	422,327	454,141	–	23,224	68,511	224,268	88,801	49,337	–	–
Other liabilities	117,228	117,734	35,565	44,540	9,085	17,487	7,224	1,863	1,970	–
Total	6,134,485	6,366,184	3,472,356	599,868	528,405	1,095,986	604,134	61,853	3,582	–
Gross loan commitments		942,392	942,392	–	–	–	–	–	–	–

Note: Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

61. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	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	–	–	–	–	–	–

61. 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 CBIRC. The Group and the Bank file required information to CBIRC 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 2018, 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, etc.

61. Risk management *(continued)*

(e) Capital management *(continued)*

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. On 18 April 2014, the CBIRC approved the Bank to adopt the advanced capital management approach. Within the scope of approval of the CBIRC, 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 CBIRC 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.

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 transaction volume that has not been delivered at the end of the reporting period, not representing amounts at risk.

61. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2018						
	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 at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	636,827	1,804,827	1,922,312	3,323	4,367,289	15,929	(14,748)
Currency derivatives							
Forwards	55,071	28,237	148	11,172	94,628	1,104	(867)
Foreign exchange swaps	450,164	604,153	9,767	–	1,064,084	13,748	(12,551)
Options	185,109	253,869	5,377	–	444,355	2,766	(7,903)
Subtotal	690,344	886,259	15,292	11,172	1,603,067	17,618	(21,321)
Other derivatives							
Equity options purchased	1,160	–	55,926	–	57,086	169	–
Equity options written	1,160	–	55,926	–	57,086	–	(169)
Commodity trading	121	171	11	–	303	69	(69)
Credit default swap	–	570	137	–	707	4	(1)
Bond Forwards	481	618	343	–	1,442	198	(198)
Subtotal	2,922	1,359	112,343	–	116,624	440	(437)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	52	2,103	6,864	339	9,358	118	(2)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	624	735	4,707	–	6,066	103	(62)
Currency derivatives							
Foreign exchange swaps	–	2,164	618	–	2,782	12	–
Subtotal	624	2,899	5,325	–	8,848	115	(62)
Total						34,220	(36,570)

There was no ineffective portion of cash flow hedge during the year ended 31 December 2018 and 2017.

61. 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)
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 credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken the effects of bilateral netting arrangements into account.

	2018	2017
Credit risk weighted assets of counterparties		
Interest rate derivatives	**272**	1,190
Currency derivatives	**7,728**	8,357
Other derivatives	**4,236**	3,467
Credit valuation adjustment risk weighted assets	**17,606**	18,836
Total	**29,842**	31,850

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 CBIRC, covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets. The amount within the scope approved by CBIRC 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.

61. 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.

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.

61. 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 without interests, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	10,237	108,682	746	119,665
– Long position in precious metal contracts	111	–	–	111
– Equity investments	125	58	1,378	1,561
– Investments in funds	2,004	14,514	336	16,854
– Wealth management products	–	–	1,060	1,060
– Non-standard assets -Bills	–	173,988	–	173,988
– Others	–	1,147	73	1,220
Subtotal	12,477	298,389	3,593	314,459
Investments designated at FVTPL				
– Debt securities	4,940	8,203	41	13,184
Derivative financial assets	–	34,220	–	34,220
Loans and advances to customers at FVTPL	–	–	403	403
Debt investments at FVTOCI	78,551	336,140	–	414,691
Loans and advances to customers at FVTOCI	–	156,683	20,684	177,367
Equity investments designated at FVTOCI	1,475	–	2,540	4,015
Total	97,443	833,635	27,261	958,339
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	17,872	–	–	17,872
– Short selling securities	1,090	–	–	1,090
Subtotal	18,962	–	–	18,962
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	9,663	–	–	9,663
– Certificates of deposit issued	–	2,619	–	2,619
– Debt securities issued	9,977	–	–	9,977
– Others	–	365	2,514	2,879
Subtotal	19,640	2,984	2,514	25,138
Derivative financial liabilities	–	36,570	–	36,570
Total	38,602	39,554	2,514	80,670

61. 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)*

	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	10,424	44,991	–	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	91,664	372,983	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	11,325	64	–	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	11,927	3,303	–	15,230
Derivative financial liabilities	–	21,857	–	21,857
Total	23,252	25,224	–	48,476

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

61. 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 currency 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 in market is used as the basis of determining the market price for recurring fair value.

The fair value of loans and advances to customers at FVTOCI in Mainland China is measured based on the transaction interest rate of rediscounted bills announced by Shanghai Commercial Paper Exchange; the Group uses 10-day average of the transaction interest rate as the basis for calculating the value of discounted bills. The fair value of loans and advances to customers at FVTOCI outside Mainland China is measured by discounted cash flow approach. The discount rates used are determined by factors such as credit rating of the loan customer provided by S&P, Moody's or Fitch, customer industry, term to maturity of the loan, loan currency and the issuer credit spread.

The fair value of non-standard bills at FVTPL in Mainland China is measured based on the transaction interest rate of rediscounted bills announced by Shanghai Commercial Paper Exchange; the Group uses 10-day average of the transaction interest rate as the basis for calculating the value of discounted bills.

The fair value of certificates of deposit issued is measured by using the comprehensive valuations issued by Bloomberg.

61. 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 below:*

	Fair value as at 31 December 2018	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	1,031	Market approach	Liquidity discount
Equity investments designated at FVTOCI	1,509	Net asset value approach	Book net assets, liquidity discount
Loans and advances to customers at FVTPL	403	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Loans and advances to customers at FVTOCI	20,684	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Investments measured at FVTPL			
– Debt securities	746	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,373	Market approach	Liquidity discount
– Equity investments	5	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Investments in funds	292	Market approach	Liquidity discount
– Investments in funds	44	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Wealth management products	1,060	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Others	15	Market approach	Liquidity discount
– Others	58	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Investments designated at FVTPL	41	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	2,514	Net fund value approach	Book net assets, liquidity discount

	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

61. 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 below** (continued)*

1) Valuation of financial instruments with significant unobservable inputs

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

Assets	Financial assets at fair value through profit or loss	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Available-for-sale financial assets	Total
At 31 December 2017	–	–	–	–	2,166	2,166
Adjustments under IFRS 9	2,171	–	14,909	2,380	(2,166)	17,294
At 1 January 2018	2,171	–	14,909	2,380	–	19,460
Profit or loss						
– In profit or loss	376	5	–	–	N/A	381
– In other comprehensive income	–	–	26	86	N/A	112
Purchases	3,457	388	31,732	101	N/A	35,678
Transfer to Level 3	279	–	–	–	N/A	279
Disposals or settlement on maturity	(2,349)	–	(25,983)	–	N/A	(28,332)
Exchange difference	(300)	10	–	(27)	N/A	(317)
At 31 December 2018	3,634	403	20,684	2,540	N/A	27,261
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	376	5	–	–	N/A	381

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)

61. 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 below:** (continued)*

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

Liabilities	Financial liabilities at fair value through profit or loss
At 1 January 2018	–
In profit or loss	251
Issues	2,263
Disposals and settlement on maturity	–
At 31 December 2018	2,514
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	251
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	–

2) 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 2018, there were no significant transfers between different levels for financial instruments which are measured at fair value on an on-going basis.

3) Changes in valuation technique and the reasons for making the changes

During the year ended 31 December 2018, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on an on-going basis.

61. 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 22). 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.

Debt investments at amortised cost 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 24(b) and 24(f).

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.

	2018					2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Debt investments at amortised cost	903,268	925,363	4,777	663,110	257,476	N/A	N/A	N/A	N/A	N/A
Held-to-maturity investments	N/A	N/A	N/A	N/A	N/A	558,218	542,664	2,967	539,697	–

(2) Financial Liabilities

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, sold under repurchase agreements, 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:

	2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	45,714	46,191	–	46,191	–
Long-term debt securities issued	104,483	104,712	–	104,712	–
Total	150,197	150,903	–	150,903	–

	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	–

62. 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	RMB16,700 million	7,559,427,375	29.97% (note (i)(viii))	–	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	RMB7,000 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	Xu Xin
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	Xu Xin
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
Anbang Insurance Group Co., Ltd	Beijing	RMB61,900 million	2,934,094,716	11.63% (note(iii))	–	Investing and establishing insurance companies, supervising and managing various domestic and international businesses of holding investment enterprises, and investment business permitted by national laws and regulations, etc.	Shareholder's parent company	Joint stock limited company	He Xiaofeng

62. 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 Property & Casualty Insurance Co., Ltd.	Shenzhen	RMB37,000 million	416,196,445	1.65%	–	Property damage insurance, liability insurance, credit insurance and guarantee insurance, short-term health insurance and accident insurance, etc.	Shareholder	Joint stock limited company	He Xiaofeng
Anbang Life Insurance Co.,Ltd	Beijing	RMB30,790 million	1,258,949,100	4.99%	–	Life insurance, health insurance, accident insurance, and other personal insurance services, etc.	Shareholder	Joint stock limited company	He Xiaofeng
Hexie Health Insurance Co.,Ltd	Chengdu	RMB13,900 million	1,258,949,171	4.99%	–	Various RMB and foreign currency health insurance business, accidental injury insurance business, supporting the national medical security policy, and health insurance business entrusted by the government, etc.	Shareholder	Joint stock limited company	Gu Hongmei
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	RMB3.191 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited company	Shou Jian
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guangzhou	RMB2 million	103,552,616	0.41%	–	Business services	Shareholder	Limited company	Huang Biao
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
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	–

62. 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
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	Ren Zhaoping
China Communications Construction Group LTD	Beijing	RMB5,855 million	571,845,625	2.27% (note(vi))	–	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	310,125,822	1.23% (note(vii))	–	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	310,125,822	1.23%	–	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
Hebei Port Group Co., Ltd.	Qin Huangdao	RMB8,000 million	305,434,127	1.21% (note(v))	–	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited company	Cao Ziyu
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	Shi Shunhua
CMB 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

62. Material related-party transactions *(continued)*

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

Notes:

(i) CMG holds 29.97% of the Bank (2017: 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 2018 (2017: 13.04%).

(iii) Anbang Insurance Group Company Ltd. ("AIGC") holds 11.63% of the Bank (2017:11.63%) through its subsidiary.

(iv) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (2017: 9.97%) through its subsidiaries.

(v) Hebei Port Group Company Ltd. directly holds 1.21% of the Bank (2017: 1.21%).

(vi) China Communications Construction Group LTD ("China Communications Construction Group") holds 2.27% of the bank through its subsidiaries (2017: 2.27%).

(vii) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.23% of the bank through its subsidiary (SAIC Motor Corporation Limited) (2017 ： 1.71%).

(viii) 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.

The information of registered capital of the related parties as at 31 December 2018 and 2017 is as below:

Name of related party	2018	2017
CMG	RMB16,700,000,000	RMB13,750,000,000
CMSNCL	RMB7,000,000,000	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
Hexie Health Insurance Co.,Ltd	RMB13,900,000,000	RMB8,900,000,000
Anbang Life Insurance Co.,Ltd	RMB30,790,000,000	RMB30,790,000,000
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
China Communications Construction Group LTD	RMB5,855,423,830	RMB5,855,423,830
China Communications Construction Co., Ltd	RMB16,174,735,425	RMB16,174,735,425
Shanghai Automotive Industry Corporation (Group)	RMB21,599,175,737	RMB21,599,175,737
SAIC Motor Corporation Limited	RMB11,683,461,365	RMB11,683,461,365
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	RMB1,310,000,000

62. Material related-party transactions *(continued)*

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

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 2018	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
Change	–	–	–	–	–	–	–	–	–	–
At 31 December 2018	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

	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

(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:

	2018	2017
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 credit impaired loans and advances granted to related parties during the year.

62. Material related-party transactions *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMG holds 29.97% (2017: 29.97%) shares of the Bank through its subsidiaries as at 31 December 2018 (among them 13.04% shares is held by CMSNCL (2017: 13.04%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2018	2017
On-balance sheet:		
– Loans and advances to customers	12,151	11,122
– Investments	4,526	5,109
– Deposits from customers	59,156	53,686
Off-balance sheet:		
– Irrevocable guarantees	1,868	1,489
– Irrevocable letters of credit	434	91
– Bills of acceptances	146	36
– Factoring	161	–
Interest income	718	707
Interest expense	728	758
Net fee and commission income	398	404
Operating expenses	(47)	(31)
Other net income	3	34

(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 62(c) above

	2018	2017
On-balance sheet:		
– Loans and advances to customers	13,489	6,955
– Investments	3,549	1,063
– Deposits from customers	32,269	25,327
Off-balance sheet:		
– Irrevocable guarantees	5,017	673
– Irrevocable letters of credit	97	–
– Bills of acceptances	2,056	–
– Factoring	1,628	–
Interest income	672	536
Interest expense	470	634
Net fee and commission income	562	700
Operating expenses	(1,436)	(1,178)
Other net income	(87)	22

62. Material related-party transactions *(continued)*

(e) Associates and joint ventures other than those under Note 62(c) above

	2018	2017
On-balance sheet:		
– Loans and advances to customers	2,748	2,665
– Deposits from customers	1,696	902
– Placements	9,500	2,700
Off-balance sheet:		
– Irrevocable guarantees	8,701	8,700
Interest income	11	37
Interest expense	17	16
Net fee and commission income	1,123	928
Operating expenses	10	11
Other net income	–	1

(f) Other shareholders holding more than 5% shares

	2018	2017
On-balance sheet:		
– Loans and advances to customers	22,306	5,848
– Investments	934	200
– Deposits from customers	27,601	13,880
Off-balance sheet:		
– Irrevocable guarantees	16,144	5,898
– Irrevocable letters of credit	30	–
– Bills of acceptances	360	–
– Factoring	11	–
Interest income	267	43
Interest expense	971	274
Net fee and commission income	1,360	905
Other net income	55	13

62. Material related-party transactions *(continued)*

(g) Subsidiaries

	2018	2017
On-balance sheet		
– Balances with banks and other financial institutions	**2,545**	1,078
– Placements with banks and other financial institutions	**25,689**	25,782
– Loans and advances to customers	**3,237**	2,196
– Investments	**1,142**	1,330
– Deposits from banks and other financial institutions	**12,859**	7,973
– Deposits from customers	**1,036**	2,835
Off-balance sheet		
– Irrevocable guarantees	**3,433**	3,256
– Bills of acceptances	**573**	–
Interest income	**91**	699
Interest expense	**413**	800
Net fee and commission	**1,419**	1,596
Operating expenses	**13**	12
Other net income	**1**	16

All significant balances and transactions between the Bank and its subsidiaries have been eliminated in the consolidated financial statements.

(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.

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**51,472**	47,557
Discretionary bonuses (Note 11(i))	**–**	–
Share-based payment	**29,444**	46,494
Contributions to defined contribution retirement schemes	**1,312**	5,543
Total	**82,228**	99,594

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 40(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 4(17); 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 2018 and 31 December 2017.

63. 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 2018	1,170	–	1,170
Distributions in 2018	–	64	64
Paid in 2018	–	(64)	(64)
Exchange difference	(12)	–	(12)
At 31 December 2018	1,158	–	1,158

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 in 2018.

64. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. Except for those finance leases receivable mentioned below, during the year 2018 the Group has transferred the ownership of the loans amounted to RMB45,071 million (2017: RMB73,698 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 2018, the carrying amount of such transferred but not derecognised finance leases receivable amounted to RMB1,415 million (31 December 2017: RMB3,668 million) and correspondently the carrying amount of recognised financial liabilities is RMB706 million (31 December 2017: RMB2,439 million).

Transactions of credit assets

During the year 2018, the Group has transferred credit assets to third party institutions directly amounted to RMB79,544 million (2017: RMB46,338 million); RMB77,607 million of these transferred credit assets are transferred to structured entities (2017: RMB45,817 million). The Group carried out an assessment based on the criteria as detailed in Note 4(5), 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.

65. 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 2018 and 31 December 2017 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 2018 and 31 December 2017 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	31 December 2018				
	Carrying amount				
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	96,204	151,481	–	247,685	247,685
Trust beneficiary rights	–	82,457	–	82,457	82,457
Asset backed securities	1,469	855	1,214	3,538	3,538
Investment in funds	16,854	–	–	16,854	16,854
Total	114,527	234,793	1,214	350,534	350,534

	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	21,051	–	–	21,452	21,452
Total	1,048	401	24,488	563	545,023	571,523	571,523

The maximum exposures held by the Group in the subordinated tranches of assets backed securities, investments in funds, the wealth management products, asset management schemes, trust beneficiary rights, senior tranches of assets backed securities are the carrying amount 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.

(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 2018, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,052,183 million (31 December 2017: RMB2,177,856 million).

As at 31 December 2018, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB382,772 million (31 December 2017: RMB392,292 million).

As at 31 December 2018, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB271,239 million (31 December 2017: RMB264,591 million).

65. Interests in unconsolidated structured entities *(continued)*

(b) Interest in the unconsolidated structured entities sponsored by the Group *(continued)*

As at 31 December 2018, 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 RMB87,903 million (31 December 2017: RMB201,641 million) and RMB60,591 million (31 December 2017: RMB9,013 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During year ended 31 December 2018, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB8,972 million (2017: RMB14,000 million).

During the year ended 31 December 2018, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB1,448 million (2017: RMB1,533 million).

During the year ended 31 December 2018, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB762 million (2017: RMB1,027 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2018 with a maturity date before 31 December 2018 was RMB3,008,657 million (2017: RMB3,289,090 million).

66. Non-adjusting events after the reporting period

On 11 March 2019, the Bank redeemed its subordinated debt of RMB3,800 million issued on 11 March 2016.

Up to the date of approval of the financial report, the Group has no other material events that require disclosure in or adjustments of the financial report after 31 December 2018.

67. Comparative figures

During the year ended 31 December 2018, the Group divided industry sector and category according to the newly revised "Industrial Classification for National Economic Activities" (GB/T 4754-2017) standards issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China in note 22(b) and has restated the corresponding comparative figures.

During the year ended 31 December 2018, the Group reclassified the profit or loss related to precious metal to from "investment income" to "Profit (loss) from fair value change" in the note 9, and has restated the corresponding comparative figures.

During the year ended 31 December 2018, funds received from customers under wealth management services in note 60(b) are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services, and has restated the corresponding comparative figures.

During the year ended 31 December 2018, the Group reclassified the joint venture Hong Kong Life Insurance Limited from assets held for sale under other assets to investment in the joint ventures due to the termination of the sale transaction, and has restated the corresponding comparative figures.

During the year ended 31 December 2018, in note 8, the Group reclassified finance lease fee reclassified from "Others" to "Commissions from credit commitment and lending business", reclassified cross-border financing business services fee from "Remittance and settlement fees" to "Commissions from credit commitment and lending business", reclassified subsidiary fund management fee from "Agency services fees" and "Others" to "Commissions on trust and fiduciary activities". The comparative figures has restated respectively.

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 CBIRC'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 CBIRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2018	2017
Core tier-1 capital adequacy ratio	11.78%	12.06%
Tier-1 capital adequacy ratio	12.62%	13.02%
Capital adequacy ratio	15.68%	15.48%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	25,220	25,220
Qualifying portion of capital reserve	67,149	63,272
Surplus reserves	53,648	46,131
Regulatory general reserve	78,543	70,907
Retained profits	272,510	239,560
Qualifying portion of non-controlling interests	207	208
Others (note (i))	6,858	(817)
Total core tier-1 capital	504,135	444,481
Regulatory deductions from core tier-1 capital	21,795	18,792
Net core tier-1 capital	482,340	425,689
Additional tier-1 capital (note (ii))	34,093	34,093
Net tier-1 capital	516,433	459,782
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	43,000	30,000
Surplus provision for loans impairment	82,393	54,586
Qualifying portion of non-controlling interests	55	2,166
Total tier-2 capital	125,448	86,752
Regulatory deductions from core tier-2 capital	–	–
Net tier-2 capital	125,448	86,752
Net capital	641,881	546,534
Total risk-weighted assets	4,092,890	3,530,745

Notes:

(i) : Others represent exchange reserve of foreign currency consolidated financial statements under CBIRC'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 2018, in accordance with the advanced capital management approach approved by CBIRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 11.39%, tier-1 capital adequacy ratio is 12.25%, capital adequacy ratio is 15.52%, net capital is RMB573,466 million and total risk-weighted assets is RMB3,694,893 million.

In 2018, 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 10.31%, tier-1 capital adequacy ratio is 11.04%, capital adequacy ratio is 13.06%, net capital is RMB611,025 million and total risk-weighted assets is RMB4,677,967 million.

In 2018, 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 9.82%, tier-1 capital adequacy ratio is 10.55%, capital adequacy ratio is 12.66%, net capital is RMB542,610 million and total risk-weighted assets is RMB4,286,653 million.

(B) Leverage ratio

In accordance with the CBIRC'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:

	2018	2017
Total consolidated assets as per published financial statements	6,745,729	6,297,638
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(9,608)	(6,304)
Adjustments for fiduciary assets	–	–
Adjustments for derivative financial instruments	8,744	30,435
Adjustment for securities financing transactions	34,953	28,849
Adjustment for off-balance sheet items	1,054,031	977,930
Other adjustments	(21,795)	(18,792)
Balance of adjusted on-balance sheet and off-balance sheet assets	7,812,054	7,309,756

(B) Leverage ratio *(continued)*

Leverage ratio, net tier-1 capital, on-balance sheet and off-balance sheet exposures and other information:

	2018	2017
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	6,502,515	6,019,868
Less: Asset amounts deducted in determining Basel III Tier 1 capital	(21,795)	(18,792)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**6,480,720**	6,001,076
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	17,420	18,088
Add-on amounts for potential future exposure associated with all derivatives transactions	24,590	29,748
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	954	1,515
Less: Adjusted effective notional deductions for written credit derivatives	–	–
Total derivative exposures	**42,964**	49,351
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	199,386	252,550
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
Counterparty credit risk exposure for SFT assets	34,953	28,849
Agent transaction exposures	–	–
Total securities financing transaction exposures	**234,339**	281,399
Off-balance sheet exposure at gross notional amount	1,964,539	1,754,836
Less: Adjustments for conversion to credit equivalent amounts	(910,508)	(776,906)
Balance of adjusted off-balance sheet assets	**1,054,031**	977,930
Net tier-1 capital	**516,433**	459,782
Balance of adjusted on-balance sheet and off-balance sheet assets	**7,812,054**	7,309,756
Leverage ratio	**6.61%**	6.29%

(C) Liquidity coverage ratio

In accordance with CBIRC'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 2018, the Group's liquidity coverage ratio was as follows:

	Quarter ended 31 December 2018		Quarter ended 31 December 2017	
	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)		745,738		596,666
Cash outflows				
Retail deposits and small business funding, of which:				
– Stable deposits	358,911	17,946	322,474	16,124
– Less stable deposits	1,234,633	123,463	1,154,427	115,443
Unsecured wholesale funding, of which:				
– Business relations deposits (excluding correspondent banks operations)	1,649,778	411,011	1,636,910	406,679
– Non-business relations deposits (including all the counterparties)	1,199,128	616,297	1,192,084	647,894
– Liabilities and obligations arising from unsecured funding	15,738	15,738	63,258	63,258
– Secured funding		13,954		42,401
Additional requirements, of which:				
– Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	318,937	318,937	52,145	52,134
– Cash outflows arising from secured debt instruments funding	–	–	–	–
– Committed credit facilities and committed liquidity facilities	898,776	49,820	743,527	42,699
Other contractual lending obligations	34,114	34,114	19,230	19,230
Other contingent funding obligations	4,376,071	76,864	2,668,869	18,562
Total cash outflows		1,678,144		1,424,424
Cash inflows				
Secured lending transactions (including reverse repurchase agreements and securities borrowed)	241,925	241,902	175,291	175,291
Cash inflows from fully honoured payments	902,066	617,257	868,522	611,834
Other cash inflows	303,041	302,573	53,418	51,686
Total cash inflows		1,161,732		838,811
		Adjusted value		Adjusted value
TOTAL HQLA		745,738		596,666
TOTAL NET CASH OUTFLOWS		516,412		585,613
LCR (%)(i)		144.41%		101.90%

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

	2018			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	464,106	34,567	77,376	576,049
Spot liabilities	453,891	21,100	78,093	553,084
Forward purchased	569,876	15,866	96,770	682,512
Forward written	552,660	18,007	98,857	669,524
Net option position	(4,703)	(107)	511	(4,299)
Net long position	22,728	11,219	(2,292)	31,655
Net structural position	8,208	32,039	547	40,794

	2017			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	417,418	55,164	75,178	547,760
Spot liabilities	463,514	37,867	59,902	561,283
Forward purchased	484,274	16,083	60,313	560,670
Forward written	414,026	23,742	74,085	511,853
Net option position	(4,326)	(190)	117	(4,399)
Net long position	19,826	9,447	1,621	30,894
Net structural position	8,241	31,898	522	40,661

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.

	2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	111,457	5,976	60,589	178,022
Asia Pacific excluding Mainland China	49,092	22,016	162,613	233,721
– of which attributed to Hong Kong	26,210	20,720	143,855	190,785
Europe	18,219	732	17,117	36,068
North and South America	43,707	18,407	57,912	120,026
Total	222,475	47,131	298,231	567,837

	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

(F) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	2018		2017	
	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	262,323	56	188,822	62
Manufacturing	255,683	31	251,979	33
Transportation, storage and postal services	248,815	34	204,322	35
Wholesale and retail	157,984	37	205,884	42
Production and supply of electric power, heating power, gas and water	138,773	32	121,900	38
Leasing and commercial services	124,094	28	123,768	30
Construction	84,475	28	74,804	31
Financial concerns	61,963	40	46,276	51
Telecommunications, software and IT services	60,703	33	67,964	31
Water, environment and public utilities management	55,890	61	61,920	63
Mining	35,349	44	39,136	44
Others	59,021	38	56,721	38
Corporate loans and advances subtotal	1,545,073	38	1,443,496	41
Discounted bills	149,766	100	115,888	100
Residential mortgage	921,500	100	825,797	100
Credit cards	575,299	–	491,179	–
Micro-finance loans	349,009	92	310,969	94
Others	141,835	54	136,410	70
Retail loans and advances subtotal	1,987,643	66	1,764,355	69
Gross loans and advances to customers	3,682,482	56	3,323,739	58

(F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	2018		2017	
	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	54,167	66	63,209	58
Financial concerns	52,174	36	47,198	40
Transportation, storage and postal services	38,212	65	14,221	58
Manufacturing	26,860	45	11,371	44
Wholesale and retail	12,505	51	25,613	90
Telecommunications, software and IT services	9,309	68	13,444	35
Production and supply of electric power, heating power, gas and water	7,889	16	7,065	49
Construction	5,635	25	4,211	89
Mining	2,196	97	1,937	81
Leasing and commercial services	2,001	89	13,934	73
Water, environment and public utilities management	26	7	419	17
Others	17,882	72	17,743	67
Corporate loans and advances subtotal	228,856	54	220,365	58
Residential mortgage	7,260	100	7,613	100
Credit cards	191	–	204	–
Micro-finance loans	1,525	99	1,747	98
Others	12,720	88	11,376	83
Retail loans and advances subtotal	21,696	92	20,940	90
Gross loans and advances to customers	250,552	57	241,305	61

(F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

When the amount of loans and advances to customers for an industry/variety accounts for 10% or above of the total amount of loans and advances to customers, the amount of overdue loans, impaired loans and credit impairment allowances in each expected credit loss stage are disclosed as follows:

	2018				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)
Residential mortgage	3,614	2,610	7,655	435	2,054
Credit card	12,595	6,394	4,213	12,895	6,044

	2017			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Residential mortgage	3,869	2,734	–	11,273
Credit card	9,787	5,467	–	16,701

As at 31 December 2018, for corporate loans and advances measured at amortised cost, the fair value of collateral held against impaired loans and advances is RMB 6,868 million (31 December 2017: RMB 5,404 million) .

(G) Overdue loans and advances to customers

(i) By geographical segments

	2018	2017
Headquarters	6,025	4,495
Yangtze River Delta region	7,834	7,813
Bohai Rim region	7,798	5,990
Pearl River Delta and West Coast region	6,020	7,758
Northeast region	3,922	4,061
Central region	4,003	5,119
Western region	5,460	9,334
Outside Mainland China	248	42
Subsidiaries	962	1,067
Total	42,272	45,679

(ii) By overdue period

	2018	2017
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)	7,057	6,570
– between 6 and 12 months (inclusive)	9,390	10,254
– over 12 months	25,825	28,855
Total	42,272	45,679
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	0.18%	0.18%
– between 6 and 12 months (inclusive)	0.24%	0.29%
– over 12 months	0.66%	0.81%
Total	1.08%	1.28%

(G) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	2018	2017
Secured portion of overdue loans and advances	9,277	11,494
Unsecured portion of overdue loans and advances	32,978	34,185
Value of collateral held against overdue loans and advances	19,137	13,239
Provision of overdue loans and advances for which impairment losses are individually assessed	N/A	28,088

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2018 was RMB1 million (2017: 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

	2018		2017	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Rescheduled loans and advances to customers (Note)	22,766	0.58%	18,009	0.51%
Less:				
– rescheduled loans and advances overdue more than 90 days	16,218	0.41%	11,293	0.32%
Rescheduled loans and advances overdue less than 90 days	6,548	0.17%	6,716	0.19%

Note: Represents the restructured non-performing loans.

The amount of the Group's rescheduled loans and advances to financial institutions as at 31 December 2018 was 1 million (2017: 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 2018 and 31 December 2017, 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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