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)

Stock Code : 03968

2016 Annual Report

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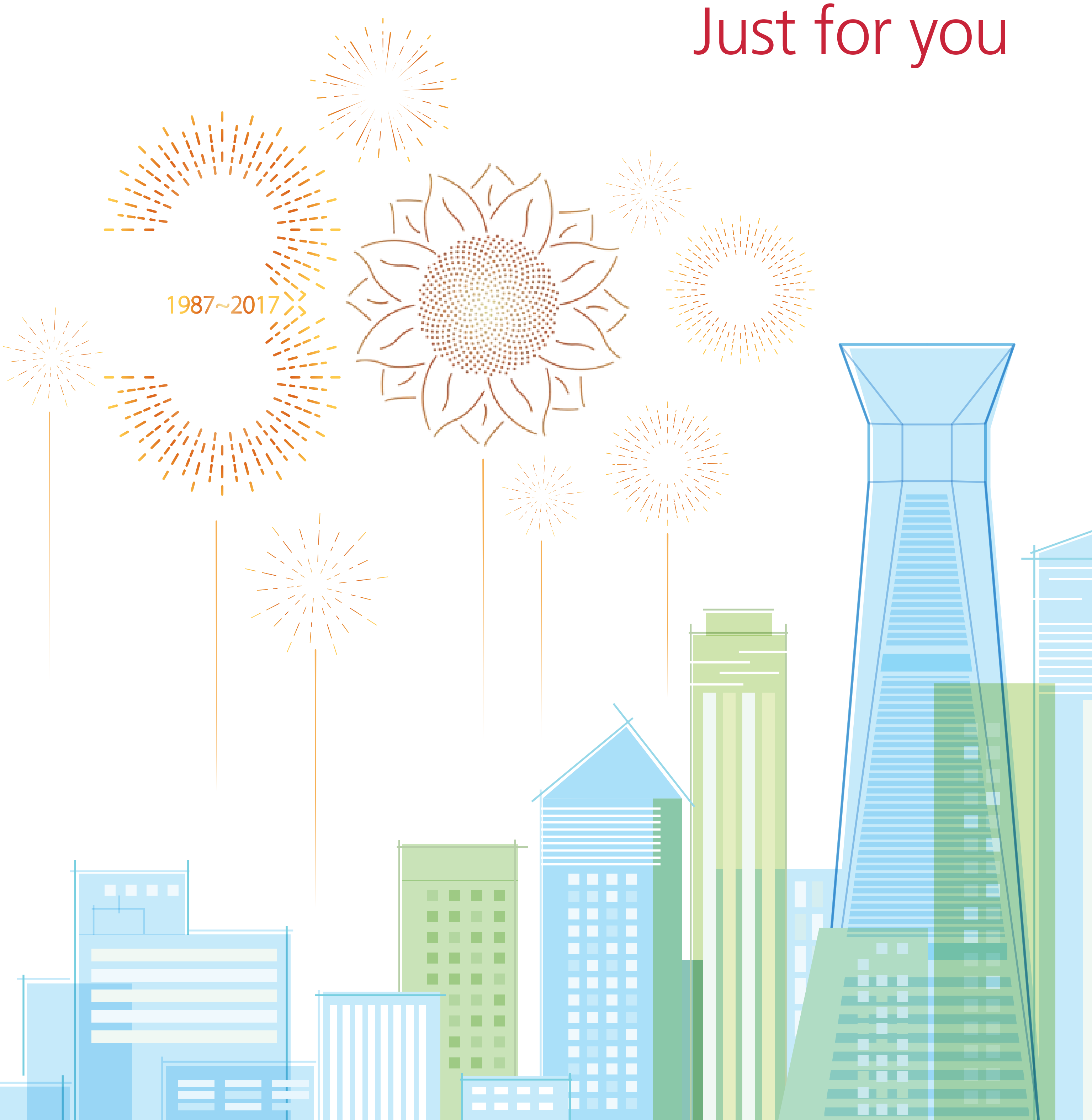


Contents

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 10th meeting of the Tenth Session of the Board of Directors of the Company was held at its Shekou Training Center on 24 March 2017. The meeting was presided by Li Jianhong, Chairman of the Board. 15 out of 16 eligible directors attended the meeting in person. Li Xiaopeng (Vice Chairman) was unable to attend the meeting because of other business appointments, and entrusted Hong Xiaoyuan (Non-Executive Director) to attend and exercise his voting right at the meeting. 9 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 2016 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.

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

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

6. Proposal of profit appropriation: As stated in the audited PRC financial statements of the Company for 2016, 10% of the profit after tax of RMB56.990 billion, equivalent to RMB5.699 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the risk assets, equivalent to RMB3.102 billion, was 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 proposed to declare a cash dividend of RMB0.74 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The retained profit will be carried forward to the next year. In 2016, 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 2016 Annual General Meeting of the Company.

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

Definitions

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

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

China Banking Regulatory Commission or CBRC:
China Banking Regulatory Commission

China Securities Regulatory Commission or CSRC:
China Securities Regulatory Commission

China Insurance Regulatory Commission or CIRC:
China Insurance Regulatory Commission

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

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

Wing Lung Bank or WLB:
Wing Lung Bank Limited

Wing Lung Group:
Wing Lung Bank and its subsidiaries

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

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

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

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

CM Securities:
China Merchants Securities Co., Ltd.

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

PBOC:
People's Bank of China

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 V for the details in relation to risk management.

Company Information

1.1 Company Profile

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

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

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

1.1.4 **Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Customer service hotline: 95555

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

1.1.6 **Share Listing:**

A Shares:	Shanghai Stock Exchange Abbreviated Name of A Shares: CMB Stock Code: 600036
H Shares:	SEHK Abbreviated Name of H Shares: CM BANK Stock Code: 03968

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:	Liu Minghua, Zeng Hao
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 **Depository for A Shares:**
China Securities Depository & Clearing Corporation Ltd., Shanghai Branch

1.1.10 **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

1.1.11 **Websites and Newspapers designated by the Company for Information Disclosure:**

Mainland China:	*"China Securities Journal", "Securities Times", "Shanghai Securities News"* website of Shanghai Stock Exchange (www.sse.com.cn), website of the Company (www.cmbchina.com)
Hong Kong:	website of SEHK (www.hkex.com.hk), website of the Company (www.cmbchina.com)

Place of maintenance of annual reports: Office of the Board of Directors of the Company

1.1.12 **Other Information about the Company:**
Initial registration date: 31 March 1987
Initial registration place: Shenzhen Administration for Industry and Commerce, Shekou Branch
Unified Social Credit Code: 9144030010001686XA

1.2 Corporate 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 more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. For details, please refer to the section headed "Distribution channels" and the section headed "Branches and representative offices". As at the end of the reporting period, the Company has 1,921 domestic and overseas correspondent banks in 113 countries (including China) and regions. The Company was listed on the Shanghai Stock Exchange in April 2002 and on the SEHK in September 2006.

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

In 2016, the Company proactively adapted to changes in external environment, steadily pushed forward its strategic transformation and made concerted effort to maintain a moderate growth momentum. For further details, please refer to the sections headed "Chairman's Statement" and "President's Statement".

1.3 Development Strategies, Investment Value and Core Competitiveness

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

Strategic objective: Closely adhering to the transformation objective of building a"Light-operation Bank", realising balanced development among efficiency, quality 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, and equipping retail business with significant competitive edges and corporate business with distinguished features.

Development Strategies:

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

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

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

Investment Value and Core Competitiveness:

– The Company persistently follows the operation concept of "keeping balance among efficiency, quality and scale", and has built up a professional team, which boasts good execution and strong capabilities in business innovation. In addition, it has established a sound corporate culture of "compliant operation, scientific management and steady development". The operation management of the Bank remains "reasonable, effective, healthy and stable".

– The Company has established a sound corporate governance mechanism and a scientific decision-making system, which are working effectively and in line with the development of the operation and management of commercial banks.

– The Company has a leading position in retail finance business with unique competitive advantage. Our retail finance has formed structural advantages in customers, products, channels and brand, etc., and is growing stronger and bigger.

– The Company has featured corporate finance business up to professional management standard. Our transaction banking business maintains obvious competitive advantages while our investment banking business is gaining competitive strength.

– The financial institutions finance has formed new profit drivers through the dual-engines of macro asset management and financial market transactions. Various businesses such as bills business, asset management business, custody business and financial market business have all achieved healthy development.

– The "three-in-one" cross-border finance platform, comprising overseas institutions (Wing Lung Bank and overseas branches) undergoing relatively complete global penetration and gradual business expansion, offshore finance units and domestic branches, is producing new growth drivers and competitive edges.

- The comprehensive operation system has been initially established, and cross-segment product innovation and business coordination have been actively promoted, therefore the benefits of strategic synergy and financial synergy have been revealed.

- 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.

- The Company has been constantly improving its organisational management system, optimising its operation process, and improving its management and operation efficiency. Guided by the goals of "professionalism, delayering and intensification", the Company has made initial achievements in the structural reform of branches, effectively improving the seamless structural integration between our headquarters and branches.

- The powerful IT team and IT capability as well as the leading IT platform have enabled us to embrace internet development, constantly innovate products, services, channels and business model, and improve the efficiency and quality of customer services and reduce operating costs.

- Leading quality financial service in the industry.

- Sound customer base and rapidly increasing high-value customers.

- Continuously growing brand influence.

1.4 Awards and Honors Received in 2016

In 2016, the Company won a number of honors in the awarding activities organised by organisations both at home and abroad, including:

- On 11 January 2016, the Company's Concept Branch of Future Banking was awarded the "Best Space Design Award in Finance" at the award ceremony of the "21st Century Golden Stone" jointly organised by *21st Century Business Review* and Continuum (a financial design consultant firm). The Customer Service of the Direct Banking Center of the Company was awarded the "Best Customer Service System Award in Finance".

- In February 2016, the Company was named the "Best Private Bank in China", the "Best Ultra-high Net Worth Customer Service" and the "Best International Customer Service" by *Euromoney*.

- In the Top 500 Banking Brands released by *The Banker* in February 2016, the Company ranked 13th worldwide with a brand value of USD13.239 billion, up by 12 places from 2015. In the list of global top 1000 banks published by *The Banker* on 30 June, the Company ranked 27th worldwide with its Tier 1 capital of USD53.535 billion. On 7 December, the Company was awarded the "Best Chinese Bank in 2016" by *The Banker* for the first time.

- On 16 March 2016, the Company was consecutively awarded the "Best Retail Bank in China" and "Best Joint Stock Retail Bank in China" for the seventh and twelfth time respectively at the award ceremony of "Excellence in Retail Financial Services Award in the Asia Pacific Region for 2016" organised by *The Asian Banker*. On 11 May, the Company was awarded the "Best Transaction Bank in China" at the award ceremony of "International Transaction Bank Achievement Award in 2016" organised by *The Asian Banker*. On 23 June, the Company was once again the recipient of the "Best Wealth Management Business in China" awarded by *The Asian Banker*.

- On 27 April 2016, the Company was awarded the "Best Universal Bank for Investment Banking in China" and the "Best Bank for Bond Underwriting in China" at the award ceremony of "Excellent Investment Bank Award in China in 2016" by *Securities Times*.

- On 31 May 2016, the Company was awarded the "Best Financial Innovation Award" at the award ceremony of the "China Financial Innovation Award in 2016" organised by *The Chinese Banker* (a PRC magazine).

- In June 2016, the Company was awarded the "Best Asset Custodian Bank in China" by *The Asset*.
- On 24 June 2016, the Company was once again the recipient of the "Best Charitable Contribution Award for the Year" and "Outstanding Charitable Project for the Year" by China Banking Association.
- On 6 July 2016, the Company received three awards in the category of the "2016 All-Asia Strategy Management Team" from *Institutional Investor*. In particular, the Company ranked first in the "Best Analyst Day" among Asian Banks for 2016, while Li Hao, first executive vice president, executive director, and chief financial officer, ranked second in both lists of "Best CFO" and "Buyers' Choice" for Asian Banks in 2016. The Company was the only Bank in the Greater China Region that received the above awards in 2016.
- In July 2016, the Company was awarded the "Best Cash Management Bank in China" for the eleventh time by *Asia Money*.
- On 26 October 2016, the Company won the "Best Private Bank of China" for the 6th consecutive time at the award ceremony of the "2016 Global Private Banking" organised by *Financial Times*.
- On 2 December 2016, the Company was awarded the "2016 Outstanding Enterprise in Corporate Social Responsibility in China" at the award ceremony of the "2016 China Social Responsibility" organised by xinhuanet.com.

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

Operating Results

(in millions of RMB)	2016	2015	Changes +/(-)%
Net operating income (Note)	210,270	202,302	3.94
Profit before tax	78,963	75,079	5.17
Net profit attributable to the Bank's shareholders	62,081	57,696	7.60

Per Share

(RMB)	2016	2015	Changes +/(-)%
Basic earnings attributable to the Bank's shareholders	2.46	2.29	7.42
Diluted earnings attributable to the Bank's shareholders	2.46	2.29	7.42
Year-end net assets attributable to the Bank's shareholders	15.95	14.31	11.46

Volume Indicators

(in millions of RMB)	31 December 2016	31 December 2015	Changes +/(-)%
Total assets	5,942,311	5,474,978	8.54
of which: total loans and advances to customers	3,261,681	2,824,286	15.49
Total liabilities	5,538,949	5,113,220	8.33
of which: total deposits from customers	3,802,049	3,571,698	6.45
Total equity attributable to the Bank's shareholders	402,350	360,806	11.51

Note: 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.

2.2 Financial Ratios

(%)	2016	2015 (restated)	Changes
Profitability indicators			
Return on average assets (after tax) attributable to the Bank's shareholders	1.09	1.13	Decreased by 0.04 percentage point
Return on average equity (after tax) attributable to the Bank's shareholders	16.27	17.09	Decreased by 0.82 percentage point
Net interest spread	2.37	2.61	Decreased by 0.24 percentage point
Net interest margin	2.50	2.77	Decreased by 0.27 percentage point
As percentage of net operating income			
— Net interest income	64.01	68.01	Decreased by 4.00 percentage points
— Net non-interest income	35.99	31.99	Increased by 4.00 percentage points
Cost-to-income ratio (excluding taxes and surcharges)	27.84	27.55	Increased by 0.29 percentage point

(%)	31 December 2016	31 December 2015	Changes
Capital adequacy indicators under the weighted approach(1)			
Tier 1 capital adequacy ratio	10.09	9.93	Increased by 0.16 percentage point
Capital adequacy ratio	12.00	11.91	Increased by 0.09 percentage point
Equity to total assets	6.79	6.61	Increased by 0.18 percentage point
Asset quality indicators			
Non-performing loan ratio	1.87	1.68	Increased by 0.19 percentage point
Allowance coverage ratio of non-performing loans(2)	180.02	178.95	Increased by 1.07 percentage points
Allowance ratio of loans(3)	3.37	3.00	Increased by 0.37 percentage point

Notes: (1) As at 31 December 2016, calculated in accordance with the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in June 2012, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio were 13.33% and 11.54%, respectively, up by 1.33 percentage points and 1.45 percentage points respectively as compared with those calculated in accordance with the weighted approach.

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

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

(4) The Group has re-classified the income and expense from leasing of precious metal from net non-interest income to net interest income since 2016. The relevant financial indicators have been restated.

2.3 Five-year Financial Summary

(in millions of RMB)	2016	2015	2014	2013	2012
Results for the year					
Net operating income	**210,270**	202,302	166,525	133,118	113,818
Operating expenses	**64,900**	67,670	61,081	54,144	48,356
Impairment losses on assets	**66,159**	59,266	31,681	10,218	5,583
Profit before tax	**78,963**	75,079	73,431	68,425	59,558
Net profit attributable to the Bank's shareholders	**62,081**	57,696	55,911	51,743	45,268
(RMB)					
Per share					
Dividend	**0.74**	0.69	0.67	0.62	0.63
Basic earnings attributable to the Bank's shareholders	**2.46**	2.29	2.22	2.30	2.10
Diluted earnings attributable to the Bank's shareholders	**2.46**	2.29	2.22	2.30	2.10
Year-end net assets attributable to the Bank's shareholders	**15.95**	14.31	12.47	10.53	9.28
(in millions of RMB)					
Year end					
Share capital	**25,220**	25,220	25,220	25,220	21,577
Total shareholders' equity	**403,362**	361,758	315,060	265,956	200,401
Total liabilities	**5,538,949**	5,113,220	4,416,769	3,750,443	3,207,698
Deposits from customers	**3,802,049**	3,571,698	3,304,438	2,775,276	2,532,444
Total assets	**5,942,311**	5,474,978	4,731,829	4,016,399	3,408,099
Net loans and advances to customers (note)	**3,151,649**	2,739,444	2,448,754	2,148,330	1,863,325
(%)					
Key financial ratios					
Return on average assets (after tax) attributable to the Bank's shareholders	**1.09**	1.13	1.28	1.39	1.46
Return on average equity (after tax) attributable to the Bank's shareholders	**16.27**	17.09	19.28	22.22	24.78
Cost-to-income ratio (excluding taxes and surcharges)	**27.84**	27.55	30.42	34.23	35.85
Non-performing loan ratio	**1.87**	1.68	1.11	0.83	0.61
Tier 1 capital adequacy ratio under the weighted approach	**10.09**	9.93	9.60	9.27	8.34
Capital adequacy ratio under the weighted approach	**12.00**	11.91	11.74	11.14	11.41

Note: Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

Chairman's Statement

In 1987, China Merchants Bank, the first domestic joint stock commercial bank entirely held by enterprise legal persons in China, was established in Shekou. After nearly 30 years of development, the Bank has become a nationwide joint stock commercial bank with sizeable domestic market influence and is listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. In the list of Global Top 1000 Banks published by *The Banker* (a British magazine) in 2016, the Bank ranked 27th worldwide; and in the list of Fortune Global Top 500 Companies released by *Fortune* in 2016, the Company ranked 189th. As at the end of 2016, the Group realised a net profit attributable to shareholders of the Bank of RMB62.081 billion, representing a year-on-year increase of 7.60%. Return on average equity (ROAE) and return on average asset (ROAA) attributable to shareholders of the Bank were 16.27% and 1.09%, respectively. The Bank has provided a wide range of banking and non-banking financial services for nearly 60,000 large- and medium-sized enterprises, more than 1,180,000 small-sized enterprises, 91,060,000 retail customers and approximately 60,000 private banking customers in nearly 140 cities and regions across the world.

In 2017, the Bank will celebrate its 30th anniversary. At this critical time of the upcoming 30th anniversary, the Bank has achieved satisfactory results, laid foundation, strengthened pillars and well-prepared itself for future development.

Firstly, we built our success on retail finance. In 2016, the comprehensive capability of the Bank in terms of retail finance further improved, and a number of measures were taken to reinforce the retail customer base, and as a result, the number of retail customers and total assets under management (AUM) from our retail customers increased by 19.32% and 16.44% respectively as compared with the previous year. The Bank continuously optimised its credit structure, the proportion of retail loans with low capital consumption to total loans increased to 47.23% (calculated on the Group's statistical calibre); the profit contribution from retail finance continued to increase, and the percentage of profit before tax from retail business increased to 52.97% (calculated on the Group's statistical calibre) of the total profit before tax of business lines. Various indicators in relation to retail business of the Bank constantly ranked top among its peers, and our relevant results also received wide recognition from the industry, as the Bank has been consecutively awarded the "Best Retail Bank in China" and "Best Private Bank in China" by media for many years.

Secondly, we developed our business based upon sound risk and capital management. In 2016, the Group continued to adhere to its risk aversion culture of prudent operation, the "ratio of non-performing loans to loans overdue for more than 90 days" was 1.28, and the classification of non-performing loans has become more prudent and strict. The Bank constantly enhanced its asset portfolio management, and the balance of non-performing loans and the growth rate of non-performing loans both declined. The non-performing loan ratio increased by 0.19 percentage point as compared with the beginning of the year, representing a year-on-year decrease of 0.38 percentage point in terms of growth; and the non-performing loan allowance coverage ratio increased by 1.07 percentage points against the unfavourable market trend and was kept at a relatively high level of 180.02%. The capital adequacy ratios remained stable, the capital adequacy ratio and Tier 1 capital adequacy ratio at the end of the year both increased as compared with those at the beginning of the year, and organic growth of capital has been achieved for three consecutive years.

Thirdly, the Bank committed sustainable returns to shareholders. Since its listing in 2002, the Bank has accumulated cash dividend distribution of approximately RMB100 billion, with cash dividend payment ratio consistently higher than 20%, and the payment ratio has been maintained at a level above 30% since 2012, thus securing remarkable returns for shareholders. Accordingly, the Bank has received extensive recognition from investors in the capital market. In 2016, the market valuation of A Shares and H Shares of CMB maintained a leading position among large- and medium-sized listed banks.

The farsighted strategies of the Bank have played a fundamental role in enabling it to rank always in the forefront of the domestic banking sector and continue to create value for its shareholders. The Bank has continuously put forward far reaching strategies such as "accelerating the development of retail business, intermediary business and SME business" in the "Strategic Transformation", and "improving capital efficiency, loan risk pricing, cost efficiency, high-value customers and risk control level" in the "Second Transformation", as well as "One Body with Two Wings" and "Light-operation Bank", all of which were forward-looking and consistent. In 2016, the Bank adhered to its strategic positioning and continued to optimise its business and customer structure. The Bank realised relatively rapid profit growth while keeping the expansion of risk assets under control, thus remarkably accomplishing the task of "outperforming the market and peers" as required by the Board of Directors.

Li Jianhong
Chairman

Our employees are the core center for value creation. Thanks to the continuous efforts for nearly 30 years, the Bank has developed a set of "market-oriented and specialised" talent cultivation systems and formed an energetic, cohesive and innovative talent team. In 2016, the Bank has seen steady improvement in its per-capita performance, and outperformed the operating goal set by the Board of Directors despite the tough external business environment.

Sound corporate governance provided strong security for value creation. Starting from its inception, the Bank has established a modern corporate governance structure, and has constantly improved and enhanced its corporate governance since its listing. In 2016, the Bank held a total of 61 important meetings, including shareholders' general meetings, and meetings of the Board of Directors and the Board of Supervisors; considered 234 resolutions; listened to or reviewed 60 reports, reinforcing management and setting direction for the development of the Bank. The shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management have fully performed their respective roles in supporting and monitoring the work of each other with mutual trust, giving full play to the advantages of the modern corporate governance mechanism of the Bank.

In 2017, the banking sector will continue to confront with tough business environment. With deepening of the supply-side structural reform, the initiatives of "Three Cuts, One Reduction and One Reinforcement" (i.e. cutting overcapacity, inventory level and leverage ratio, reducing costs and reinforcing weak growth areas) will be gradually rolled out, financial regulation will become more cautious and comprehensive, and competition from the banking sector and other sectors will further intensify. How can the Bank maintain its leading position and continue to create value for its shareholders in such volatile and complicated external business environment? The answer is "innovation-driven development" which has been proven by the Bank in the course of development over the past 29 years.

The Bank will continuously increase investments in innovation to embrace the opportunities brought about by Fintech, thus taking the lead in the Fintech-dominated reform of the banking sector. The Bank will be able to offer more convenient services to its customers, provide more effective tools for risk management and save more costs for the Bank with the latest technology.

The Bank will enhance product and business innovation. It will, on the premise of compliance, fully utilise Fintech to make major breakthroughs in the development of new key products and featured business by always focusing on meeting customers' needs, improving customers' experience and increasing customers' value.

The Bank will promote the innovation of business models. By taking into consideration a series of crucial factors, including Fintech application, customer segmentation, customer positioning, business process, product service, income source, cost structure, cooperating partners and resources capability, it will take an overall approach to design and forge a value chain and ecological circle, so as to achieve win-win cooperation.

The Bank will constantly explore the innovation of its mechanisms and systems. It will continue to uphold the market-oriented approach, continue the experiment on promoting the employee long-term incentives mechanism, transform the innovation of mechanisms and systems into market competitiveness, and foster a good working environment with the people-centric concept.

In 2017, the business environment will remain tough and challenging. However, I believe that, with strong support from all shareholders, the Bank will increase its effort in innovation to realise innovation-driven development, maintain the excellent operating results of "outperforming the market and peers", create more value for its employees, customers, shareholders, the society and various stakeholders, and present an admirable gift for celebrating the 30th anniversary of the Bank and the 145th anniversary of China Merchants Group.

China Merchants Bank Co., Ltd.
Chairman

President's Statement

The Bank will be celebrating its 30th anniversary in 2017. Over the years, the Bank has stayed in top gear on its way towards business transformation, starting from the "first transformation" 12 years ago when we took a bold step to go for retail banking, followed by the "second transformation" 7 years ago where we kicked off organic growth, to the confirmation of a "Light-operation Bank" 3 years ago as the goal of the deepened "second transformation". Our inborn "Shekou gene" is a tribute to the exciting era in which China launched its reform and opening-up policy, and in the course of our business development, we have adhered to the service concept of "We are here just for you", and we are very grateful to this great and ever-changing era.

With the Chinese economy entering into the "New Normal", coupled with the combined adverse impact of the four distinctive factors of the Chinese economy, namely "slowdown in macroeconomic growth rate, financial disintermediation, interest rate liberalisation and impact from internet finance, the banking industry is currently trudging through the "Historic Three-Gorges". Based on our trials over the past years, we are confident that the transformation towards the "Light-operation Bank" and the strategic positioning of "One Body with Two Wings" are the most suitable comprehensive countermeasures we need to confront challenges and survive hard times.

As at the end of 2016, the Bank had RMB5.94 trillion in total assets (calculated on the Group's statistical calibre) with a growth rate of 8.54%. Despite the slowdown in asset expansion, we managed to maintain strong profitability. In 2016, our net operating income amounted to RMB210.270 billion (calculated on the Group's statistical calibre), representing a year-on-year growth of 3.94%. After making full provisions, our net profit amounted to RMB62.380 billion (calculated on the Group's statistical calibre), representing a year-on-year growth of 7.52%, leading the banking industry in terms of growth rate. Our return on average asset (ROAA) and return on average equity (ROAE) attributable to shareholders of the Bank were 1.09% and 16.27%, respectively, ranking in the forefront of listed banks.

We proactively decelerated asset expansion by shifting our focus away from sheer "asset scale" and "growth rate", and placed more attention on operation efficiency and quality development. While the ranking of banks in terms of business scale remains a hot topic, we have changed our mindset, and resolved to stride towards a "Light-operation Bank" with determination. We hope that we will become less vulnerable to the "cyclical impact" of this industry. This demonstrates our courage, attitude and pursuit.

The "Light-operation Bank" model has not only relieved us from the "scale-driven" pattern, but also improved our organic growth of capital. As at the end of 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 12.00% and 10.09%, respectively, representing an increase of 0.09 percentage point and 0.16 percentage point respectively as compared with those at the end of the previous year. Even without the replenishment of external capital, the Bank managed to replenish its capital through its own profitability, and the capital adequacy ratio has kept improving over the past few years.

Tian Huiyu
President

We strived to explore an integrated and organic path of development with low capital consumption and "light-operation" features, freed ourselves from the traditional businesses of commercial banks such as "deposits, loans and payments" and built a service model based on "investment banking + commercial banking", and upgraded from financing to wisdom pooling.

Therefore, it can be seen that cross-border merger and acquisition business has become the new strength of the Bank, and our privatisation projects of China concept stocks had become the largest delisting projects of the Hong Kong stock market and US stock market in terms of scale. The Bank private banking business, which commenced business just ten years ago, ranked among the world's top 20 in 2016 and now competes with the most prestigious international banks with over a hundred years of history in Europe and US. Moreover, our featured "light-operation"-oriented businesses such as wealth management, asset management, credit cards, transaction banking, investment banking, custody service, bills and notes and financial market services, are bursting with new impetus under the incentives of differentiated development. This was the tip for the Bank's net non-interest income which accounted for 35.99% of the income book in 2016 (calculated on the Group's statistical calibre) and ranked top among listed banks.

Leveraging on the systematic advantage of our retail business, we positioned "One Body with Two Wings" as the core strategy of our "Second Transformation". The role of retail finance as the strategic pivot of "One Body" became increasingly significant. In 2016, the respective proportion of three indicators, namely the loan balance, net operating income and profit before tax of retail finance, all accounted for over 50%, making retail business our cornerstone to withstand fluctuations in economic cycles, as well as our capital and courage to confront future challenges.

We are very pleased to share with our shareholders that, after the transformation in recent years, the wholesale business of the "Two Wings" covering corporate finance and financial institutions finance had achieved initial success. We managed customers at different levels such as corporate customers, financial institutions customers, strategic customers and small-sized enterprise customers, and provided support with professional "light-operation" products in investment banking and financial market. Hopefully, through the next 3 to 5 years of self-improvement, our wholesale finance could establish its systematic service capabilities and featured brands similar to our retail finance, so as to reinforce our comprehensive foundation. This is our vision and future target, and without hesitation, we are determined to achieve it with hard work and unbreakable faith.

This ideal and belief is derived from our "customer-centric" service philosophy. We believe that customer is the foundation of all operations, and also believe that demand creates value. We are determined to reject business opportunism, and will not go after short-term commercial interests at the expense of our customers' interests. We also strongly believe that, to stay persistently in the right path is the only way that we can provide sustained and stable returns to shareholders and investors, and safeguard the stability of the financial environment. This is deemed our top-most principle, our fundamental business logic, and also our social responsibility.

So, what can be seen is that the financial institutions business of the Bank had evolved away from "regulatory arbitrage" and returned to the fundamentals of customer service and value creation. Focusing on integrated management of strategic customers, we gradually roll out our business top-down from head office to branch offices, which spread like a single spark igniting a prairie fire. With the systemic reform of "customer-centric" and "delayering, professionalism and intensification" starting to bear fruits, the process modification focusing on the channel "from the needs of the customers all the way back to the needs of customers "is also in smooth progress. This is the key to open the gate of wholesale finance transformation.

Riding on the opportunities arising from our continuous reform over the past 30 years, we have every reason to be proud of our achievements while at the same time remaining alert against potential crisis. To the best of our knowledge, the biggest enemy is always ourselves and the biggest rival is the time we are in. We often ponder whether the achievements we have made today will be brushed off in the future.

There is no doubt that mobile internet will become the most significant factor profoundly changing the way of our life in the next decade and financial technology will redefine the ways that commercial banks operate. Though we prefer to observe quietly, we will never be a by-stander and take no action. In fact, we have gradually found our path amid anxiety.

Focusing on the strategy of "mobile priority", we have embraced Fintech. Despite the fact that CMB Mobile Banking and CMB Life (掌上生活) App have become the biggest success in the banking industry, we believe what we have done is far from enough. All the members across the Bank must put their utmost effort to push forward the Fintech strategy targeting "networking", "informationisation" and "intelligence". Not only should we take full advantage of our own retail customer base, and innovate traditional products and service process with "mobile priority", initiating a round of channel revolution and service upgrades, but also fully exploit data resources from within and outside the Bank. Guided by the precise big data that has been put into customer marketing and internal management, we have to bring about a mindset revolution and equipment upgrades. We should, with no upper limit, relentlessly seek data and IT talents, accelerate the innovative application of agile development and cloud technology, set up specialised investment funds and nurture projects relating to Fintech. Ensuring our success in the future and seizing opportunities whenever they may arise have consistently been our motto and solution to greater success.

At thirty years old, a symbol of being mature and sophisticated, the Bank is embarking on a journey to future success.

China Merchants Bank Co., Ltd.
President

Liu Yuan
Chairman of the Board of Supervisors

Report of the Board of Directors

5.1 Analysis of the Overall Operation

In 2016, under the background of interest rate liberalisation and faster opening up of the financial industry, the Group continued to implement its transformation strategies of "Light-operation Bank" and "One Body with Two Wings", forged forward with structural adjustments and generally maintained a sound development momentum, which are reflected in the following aspects:

Earnings increased steadily. In 2016, the Group realised a net profit attributable to the shareholders of the Bank of RMB62.081 billion, representing a year-on-year increase of 7.60%, and realised a net interest income of RMB134.595 billion, representing a year-on-year decrease of 2.17%; the net non-interest income was RMB75.675 billion, representing a year-on-year increase of 16.93%. The return on average asset (ROAA) and return on average equity (ROAE) attributable to the shareholders of the Bank were 1.09% and 16.27%, respectively, down by 0.04 percentage point and 0.82 percentage point from the previous year, respectively.

The balance sheet expanded steadily. As at the end of 2016, the Group's total assets amounted to RMB5,942.311 billion, representing an increase of 8.54% as compared with that at the end of the previous year. The total loans and advances to customers amounted to RMB3,261.681 billion, representing an increase of 15.49% as compared with that at the end of the previous year. Total liabilities amounted to RMB5,538.949 billion, representing an increase of 8.33% as compared with that at the end of the previous year. Total deposits from customers amounted to RMB3,802.049 billion, representing an increase of 6.45% as compared with that at the end of the previous year.

The non-performing loans increased while the allowance coverage ratio remained solid. As at the end of 2016, the Group had a balance of non-performing loans of RMB61.121 billion, representing an increase of RMB13.711 billion as compared with the end of the previous year. The non-performing loan ratio was 1.87%, up by 0.19 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 180.02%, representing an increase of 1.07 percentage points as compared with the end of the previous year.

5.2 Analysis of Income Statement

5.2.1 Financial highlights

In 2016, the Group realised a profit before tax of RMB78.963 billion, representing a year-on-year increase of 5.17%. The effective income tax rate was 21.00%, representing a year-on-year decrease of 1.72 percentage points. The following table sets out the changes in major income/loss items of the Group for 2016.

(in millions of RMB)	2016	2015 (restated)	Fluctuation
Net interest income	134,595	137,586	(2,991)
Net fee and commission income	60,865	53,009	7,856
Other net income	14,489	11,571	2,918
Operating expenses	(64,900)	(67,670)	2,770
Provision for insurance claims	(248)	(287)	39
Share of profits of associates and joint ventures	321	136	185
Impairment losses on assets	(66,159)	(59,266)	(6,893)
Profit before tax	78,963	75,079	3,884
Income tax	(16,583)	(17,061)	478
Net profit	62,380	58,018	4,362
Net profit attributable to the Bank's shareholders	62,081	57,696	4,385

5.2.2 Net operating income

In 2016, the net operating income of the Group was RMB210.270 billion, representing a year-on-year increase of 3.94%. The net interest income accounted for 64.01% of the total net operating income; the net non-interest income accounted for 35.99% of the total net operating income, representing a year-on-year increase of 4.00 percentage points.

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

(%)	2016	2015 (restated)	2014	2013	2012
Net interest income	64.01	68.01	70.38	74.30	77.65
Net fee and commission income	28.95	26.20	23.72	21.92	17.34
Other net income	6.89	5.72	5.81	3.71	4.96
Share of profits of associates and joint ventures	0.15	0.07	0.09	0.07	0.05
Total	100.00	100.00	100.00	100.00	100.00

5.2.3 Interest income

In 2016, the Group recorded an interest income of RMB215.481 billion, representing a decrease of 8.69% as compared with that of the previous year, mainly due to the re-pricing of interest-earning assets after the interest rate cuts in 2015 and the impact of change from business tax to value-added tax with price and tax separated and other factors, leading to a decrease in the average yield of interest-earning assets. Interest income from loans and advances continued to be the biggest component of the interest income of the Group.

Interest income from loans and advances

In 2016, the interest income from loans and advances of the Group was RMB151.236 billion, representing a year-on-year decrease of 6.05%.

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

	2016			2015 (restated)		
(in millions of RMB, excluding percentages)	Average balance	Interest Income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,526,315	64,829	4.25	1,483,592	78,033	5.26
Retail loans	1,362,929	82,573	6.06	1,087,562	78,076	7.18
Discounted bills	186,367	3,834	2.06	120,304	4,866	4.04
Loans and advances	3,075,611	151,236	4.92	2,691,458	160,975	5.98

In 2016, from the perspective of the tenor structure of loans and advances of the Company, the average balance of short-term loans was RMB1,371.835 billion, with the interest income amounting to RMB73.063 billion, and the average yield reached 5.33%; the average balance of medium- to long-term loans was RMB1,462.894 billion, with the interest income amounting to RMB69.864 billion, and the average yield reached 4.78%. The average yield of short-term loans was higher than that of medium- to long-term loans; the difference was mainly attributable to the relatively higher yield of credit card overdrafts and small and micro loans among short-term loans.

Interest income from investments

In 2016, the interest income from investments of the Group was RMB45.721 billion, down by 5.09% as compared with the previous year, and the average yield of investments was 3.52%, down by 0.58 percentage point as compared with the previous year.

Interest income from placements with banks and other financial institutions

In 2016, the interest income from placements with banks and other financial institutions of the Group was RMB10.354 billion, down by 43.20% as compared with the previous year, and the average yield for placements with banks and other financial institutions was 2.29%, down by 1.37 percentage points as compared with the previous year, which was primarily attributable to the decrease in the volume of financial assets held under resale agreements and the yield of inter-bank lending.

5.2.4 Interest expense

In 2016, the interest expense of the Group was RMB80.886 billion, down by 17.79% as compared with the previous year, which was primarily attributable to the decrease in the cost ratio of interest-bearing liabilities and the constant increase in the proportion of demand deposits.

Interest expense on deposits from customers

In 2016, the Group's interest expense on deposits from customers was RMB46.000 billion, down by 23.90% as compared with the previous year, which was primarily attributable to the impact of re-pricing upon the interest rate cuts in 2015 and the optimisation of the structure of deposits from customers, resulting in a decrease of 0.53 percentage point in the average cost ratio as compared with the previous year.

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

	2016			2015		
(in millions of RMB, excluding percentages)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Deposits from corporate customers						
Demand	1,324,457	8,805	0.66	1,027,006	6,965	0.68
Time	1,080,128	26,233	2.43	1,211,447	39,038	3.22
Subtotal	2,404,585	35,038	1.46	2,238,453	46,003	2.06
Deposits from retail customers						
Demand	875,029	3,275	0.37	711,460	2,971	0.42
Time	340,089	7,687	2.26	400,385	11,474	2.87
Subtotal	1,215,118	10,962	0.90	1,111,845	14,445	1.30
Total deposits from customers	3,619,703	46,000	1.27	3,350,298	60,448	1.80

Interest expense on placements from banks and other financial institutions

In 2016, the interest expense on placements from banks and other financial institutions of the Group amounted to RMB20.168 billion, representing a decrease of 30.68% as compared with the previous year, which was primarily attributable to the decrease in the interest rate of inter-bank borrowing.

Interest expense on debt securities issued

In 2016, the interest expense on debt securities issued of the Group amounted to RMB9.925 billion, representing an increase of 38.81% as compared with the previous year, which was primarily attributable to the increase in the volume of debt securities issued.

5.2.5 Net interest income

In 2016, the Group's net interest income amounted to RMB134.595 billion, representing a year-on-year decrease of 2.17%.

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

	2016			2015 (restated)		
(in millions of RMB, except for percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances	3,075,611	151,236	4.92	2,691,458	160,975	5.98
Investments	1,300,604	45,721	3.52	1,174,151	48,173	4.10
Balances with the Central Bank	557,347	8,170	1.47	604,403	8,598	1.42
Placements with banks and other financial institutions	451,820	10,354	2.29	498,585	18,230	3.66
Total	5,385,382	215,481	4.00	4,968,597	235,976	4.75

(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	3,619,703	46,000	1.27	3,350,298	60,448	1.80
Placements from banks and other financial institutions	873,695	20,168	2.31	1,020,698	29,096	2.85
Debt securities issued	301,430	9,925	3.29	171,336	7,150	4.17
Borrowings from the Central Bank	177,449	4,793	2.70	60,110	1,696	2.82
Total	4,972,277	80,886	1.63	4,602,442	98,390	2.14
Net interest income	/	134,595	/	/	137,586	/
Net interest spread	/	/	2.37	/	/	2.61
Net interest margin	/	/	2.50	/	/	2.77

Note: In 2016, the Group started to reclassify its liabilities on the repurchases of rediscounted bills and the bond repurchases made by the Central Bank in the open market from the "Amounts sold under repurchase agreements" to "Borrowings from the Central Bank", and the breakdown of "Interest expenses" was also reclassified accordingly. As such, the relevant financial indicators were restated.

In 2016, the average yield of the interest-earning assets was 4.00%, while the average cost ratio of interest-bearing liabilities was 1.63%, down by 75 basis points and 51 basis points respectively as compared with the previous year. Although the liabilities structure was constantly optimised, the average yield of the interest-earning assets declined remarkably due to re-pricing upon the interest rate cuts and the impact of change from business tax to value-added tax with price and tax separated. In 2016, the net interest spread and net interest margin of the Group were 2.37% and 2.50% respectively, down by 24 basis points and 27 basis points respectively as compared with the previous year.

The following table sets forth, for the periods indicated, the breakdown of changes in interest income and interest expenses due to changes in volumes and interest rates of the Group. Changes in volumes are measured by changes in average balances (daily average balances), while changes in interest rates are measured by changes in average interest rates; changes in interest income and expenses caused by changes in volumes and interest rates together are accounted for as the amount of changes in interest income and expenses caused by changes in volumes.

	2016 compared with 2015		
	Increase (decrease) due to		Net increase
(in millions of RMB)	Volume	Interest rate	(decrease)
Assets			
Loans and advances	18,890	(28,629)	(9,739)
Investments	4,445	(6,897)	(2,452)
Balances with the Central Bank	(690)	262	(428)
Placements with banks and other financial institutions	(1,072)	(6,804)	(7,876)
Changes in interest income	21,573	(42,068)	(20,495)
Liabilities			
Deposits from customers	3,424	(17,872)	(14,448)
Placements from banks and other financial institutions	(3,393)	(5,535)	(8,928)
Debt securities issued	4,284	(1,509)	2,775
Borrowings from the Central Bank	3,169	(72)	3,097
Changes in interest expense	7,484	(24,988)	(17,504)
Changes in net interest income	14,089	(17,080)	(2,991)

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

(in millions of RMB, except for percentages)	July to September 2016			October to December 2016		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances	3,055,179	37,717	4.91	3,284,034	37,243	4.51
Investments	1,221,058	10,657	3.47	1,291,162	11,487	3.54
Balances with the central bank	530,818	2,034	1.52	558,304	2,077	1.48
Placements with banks and other financial institutions	451,443	2,665	2.35	511,006	2,744	2.14
Total	**5,258,498**	**53,073**	**4.01**	**5,644,506**	**53,551**	**3.77**

(in millions of RMB, except for percentages)	July to September 2016			October to December 2016		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
Interest-bearing liabilities						
Deposits from customers	3,525,154	11,238	1.27	3,789,125	11,201	1.18
Placements from banks and other financial institutions	862,190	5,105	2.36	901,650	4,394	1.94
Debt securities issued	310,518	2,411	3.09	286,992	2,473	3.43
Borrowings from the Central Bank	163,305	1,074	2.62	229,086	1,610	2.80
Total	**4,861,167**	**19,828**	**1.62**	**5,206,853**	**19,678**	**1.50**
Net interest income	/	33,245	/	/	33,873	/
Net interest spread	/	/	2.39	/	/	2.27
Net interest margin	/	/	2.52	/	/	2.39

In the fourth quarter of 2016, due to the impact of change from business tax to value-added tax with price and tax separated, a decrease in the market demand for corporate loans, a decline in the pricing of new loans, a relatively slow increase in deposits and other factors on interest income, the net interest spread of the Group was 2.27%, down by 12 basis points as compared with the third quarter of 2016. The annualised average yield of the interest-earning assets was 3.77%, down by 24 basis points as compared with the third quarter of 2016 while the annualised average cost ratio of interest-bearing liabilities was 1.50%, down by 12 basis points as compared with the third quarter of 2016.

In the fourth quarter of 2016, the net interest margin of the Group was 2.39%, down by 13 basis points as compared with the third quarter of 2016.

5.2.6 Net non-interest income

In 2016, the Group recorded a net non-interest income of RMB75.675 billion, representing an increase of 16.93% as compared with the previous year. The components are as follows:

Net fees and commission income amounted to RMB60.865 billion, representing an increase of 14.82% as compared with the previous year. Among which, bank card fees increased by RMB1.521 billion or 15.91% as compared with the previous year, which was primarily attributable to the increase in UnionPay POS agency service income; remittance and settlement fees rose by RMB2.694 billion or 70.30% as compared with the previous year, which was primarily attributable to the increase in the income of e-payment; commissions on trust and fiduciary activities increased by RMB5.813 billion or 33.13% as compared with the previous year. Among which, income from entrusted wealth management amounted to RMB14.333 billion for 2016, up by 60.81% as compared with the previous year; income from custody business amounted to RMB4.307 billion, up by 20.51% as compared with the previous year.

Other net income amounted to RMB14.489 billion, representing an increase of 25.22% as compared with the previous year. Among which, investment (loss)/income was RMB11.632 billion, increased by RMB5.088 billion or 77.75% as compared with the previous year, which was primarily attributable to the increase in the spread of spot precious metal transaction, the investment gains from available-for-sale financial assets and bills spread income; other net income amounted to RMB2.511 billion, increased by RMB1.198 billion or 91.24% as compared with the previous year, which was primarily attributable to the increase in the income from leasing and insurance businesses; the net gains/(losses) from fair value changes was RMB-2.511 billion, representing a decrease of RMB3.827 billion as compared with the previous year, which was primarily attributable to the decrease in valuation gains/(losses) of bonds, spot precious metal positions and relevant derivatives.

Among the business segments, the net non-interest income from wholesale finance amounted to RMB35.547 billion, representing an increase of 8.70% over the previous year and accounting for 46.97% of the Group's net non-interest income; the net non-interest income from retail finance amounted to RMB32.697 billion, representing an increase of 19.76% over the previous year and accounting for 43.21% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB7.431 billion, representing an increase of 57.70% over the previous year and accounting for 9.82% 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)	2016	2015 (restated)
Fees and commission income	66,003	57,100
– Bank card fees	11,083	9,562
– Remittance and settlement fees	6,526	3,832
– Agency service fees	13,121	13,549
– Commissions from credit commitment and loan business	4,038	4,215
– Commissions on trust and fiduciary activities	23,358	17,545
– Others	7,877	8,397
Less: fees and commission expense	(5,138)	(4,091)
Net fee and commission income	60,865	53,009
Other net non-interest income	14,810	11,707
– Other net income	14,489	11,571
– Net gains/(losses) from fair value changes	(2,511)	1,316
– Investment (loss)/income	11,632	6,544
– Exchange gain	2,857	2,398
– Other net operating income	2,511	1,313
– Share of profits of associates and joint ventures	321	136
Total net non-interest income	75,675	64,716

5.2.7 Operating expense

In 2016, the Group's operating expense amounted to RMB64.900 billion, representing a year-on-year decrease of 4.09%. The cost-to-income ratio (excluding taxes and surcharges) was 27.84%, representing an increase of 0.29 percentage point as compared with the previous year, which is mainly attributable to the impact of change from business tax to value-added tax with price and tax separated. Excluding the impact of change from business tax to value-added tax, the cost-to-income ratio (excluding taxes and surcharges) of the Company was 26.45%, representing a year-on-year decrease of 0.83 percentage point.

By taking various measures such as improvement of budgeting method for expenses, optimisation of resources allocation and enhancement of daily expense management, the Group further enhanced expense management, effectively improved cost efficiency and better utilised operating expenses for business development. As such, the expense maintained a steady growth. During the reporting period, staff costs of the Group increased by 4.51% as compared with the previous year. Other general and administrative expenses increased by 5.53% as compared with the previous year. Depreciation charges and rental expenses increased by 4.92% and 7.05% respectively as compared with the previous year. The Company has always attached great importance to investments in research and development. In 2016, our research and development expenses amounted to RMB4.360 billion, representing an increase of 5.49% as compared with the previous year.

Due to the impact of change from business tax to value-added tax where business tax was abolished, the taxes and surcharges of the Group decreased by RMB5.567 billion or 46.67% 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)	2016	2015
Staff costs	32,811	31,394
Taxes and surcharges	6,362	11,929
Depreciation of fixed assets and investment properties	4,287	4,086
Rental expenses	4,113	3,842
Other general and administrative expenses	17,327	16,419
Total operating expenses	**64,900**	67,670

5.2.8 Impairment losses

In 2016, impairment losses on assets of the Group were RMB66.159 billion, representing an increase of 11.63% as compared with the previous year. The following table sets forth, for the periods indicated, the principal components of impairment losses on the assets of the Group.

(in millions of RMB)	2016	2015
– Loans and advances	64,560	57,507
– Investments	(607)	1,002
– Amounts due from banks and other financial institutions	507	257
– Other assets	1,699	500
Total impairment losses	**66,159**	59,266

Impairment losses on loans and advances were the largest component of impairment losses on assets. In 2016, impairment losses on loans and advances of the Group were RMB64.560 billion, representing an increase of 12.26% as compared with the previous year, which was mainly due to increased provision for deteriorated assets and additional provision for the heightened credit risks associated with overcapacity industries. For details of the provision for impairment losses on loans, please refer to the section headed "Analysis of Loan Quality" in this chapter.

5.3 Analysis of Balance Sheet

5.3.1 Assets

As at 31 December 2016, the total assets of the Group amounted to RMB5,942.311 billion, representing an increase of 8.54% as compared with the end of the previous year, which was mainly attributable to the increase in loans and advances to customers, bond investments and other businesses of the Group.

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

	31 December 2016		31 December 2015	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	3,261,681	54.89	2,824,286	51.59
Provision for impairment losses on loans	(110,032)	(1.85)	(84,842)	(1.55)
Net loans and advances to customers	3,151,649	53.04	2,739,444	50.04
Investment securities and other financial assets	1,463,322	24.63	1,440,803	26.32
Cash, precious metals and balances with Central Bank	600,510	10.11	600,441	10.97
Balances with banks and other financial institutions	103,013	1.73	63,779	1.16
Placements with banks and other financial institutions and amounts held under resale agreement	478,950	8.06	529,617	9.67
Goodwill	9,954	0.17	9,954	0.18
Other assets (note)	134,913	2.26	90,940	1.66
Total assets	5,942,311	100.00	5,474,978	100.00

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

5.3.1.1 Loans and advances

As at 31 December 2016, total loans and advances of the Group amounted to RMB3,261.681 billion, representing an increase of 15.49% as compared with the end of the previous year; total loans and advances accounted for 54.89% of the total assets, representing an increase of 3.30 percentage points as compared with the end of the previous year. For details of the loans and advances of the Group, please refer to "Analysis of Loan Quality" in this chapter.

5.3.1.2 Investment Securities and Other Financial Assets

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

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

	31 December 2016		31 December 2015	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Financial assets at fair value through profit or loss	55,972	3.82	59,081	4.10
Available-for-sale financial assets	389,138	26.59	299,559	20.79
Held-to-maturity investments	477,064	32.60	353,137	24.51
Debt securities classified as receivables	528,748	36.13	716,064	49.70
Interest in joint ventures and associates	3,712	0.27	2,786	0.19
Derivative financial assets	8,688	0.59	10,176	0.71
Total investment securities and other financial assets	1,463,322	100.00	1,440,803	100.00

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss was RMB55.972 billion for the year ended 31 December 2016, decreased by 5.26% as compared with the end of last year. Such investments were made mainly to seize the opportunities for transactions in the bond market. As a result of favourable macro-economic situations, expected rebound of inflation and the moderately prudent monetary policy implemented by the Central Bank at the end of 2016, the market value of bonds held for trading was affected to a certain extent. The Group, through strengthening market research, adopted a robust trading strategy that was aligned with market situations. Scaling down the duration and size for trading accounts in a proactive manner, the Group adopted interest rates derivatives for hedging purpose. The Group proactively conducted spread transactions of bonds and interest rate swaps while moderately reducing trading exposure. Therefore, the overall impact was controllable. For details, please refer to Note 21(a) to the financial report "Financial assets at fair value through profit or loss".

Available-for-sale financial assets

As at 31 December 2016, the net value of available-for-sale financial assets of the Group was RMB389.138 billion, representing an increase of 29.90% as compared with that at the end of the previous year. This category of investments was made mainly for the purpose of improving operation performance. In 2016, in response to the market trend, the Group proactively took opportunities to increase its investments primarily in PRC government bonds and local government bonds, and moderately extended the bond duration, thus optimising the structure of assets and liabilities allocation. For details, please refer to Note 21(b) to the financial report "Available-for-sale financial assets".

Held-to-maturity investments

As at 31 December 2016, the net value of held-to-maturity investments of the Group was RMB477.064 billion, representing an increase of 35.09% as compared with that at the end of the previous year. This category of investments was held on a long-term basis for the strategic allocation of assets and liabilities of the Group, based on the requirements of interest rate risk management of bank accounts and liquidity management, while taking into account the benefits and risks. The bond investments were made mainly in the bonds issued by the government, policy banks, etc. For details, please refer to Note 21(c) to the financial report "Held-to-maturity investments".

Debt securities classified as receivables

Debt securities classified as receivables are bond investments without active market prices and investments in non-standard debt securities held by the Group. As at 31 December 2016, the Group's net debt securities classified as receivables amounted to RMB528.748 billion, representing a decrease of 26.16% as compared with the end of the previous year, which was mainly attributable to a decrease in the investment in non-standard debt securities. For details, please refer to Note 21(d) to the financial report "Debt securities classified as receivables". Please refer to Section 5.9.1 of this report for details of the investment in non-standard debt securities of the Company.

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

(in millions of RMB)	31 December 2016	31 December 2015
Official authorities (note)	428,932	284,145
Policy banks	264,317	248,208
Commercial banks and other financial institutions	139,628	98,118
Others (note)	68,291	108,663
Total bond investment	901,168	739,134

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

Analysis on investments in foreign currency bonds

As at 31 December 2016, the Group had a balance of investments in foreign currency bonds of USD13.806 billion, among which, USD7.569 billion was held by the Company and USD6.237 billion was held by Wing Lung Group.

Interest in joint ventures and associates

As at 31 December 2016, the Group had interest of RMB3.630 billion in joint ventures, representing an increase of RMB898 million or 32.87% as compared with that at the end of the previous year, which was mainly attributable to the additional capital investment of RMB675 million in a joint venture, CIGNA & CMB Life Insurance, made by the Group in 2016. The Group had interest in associates of RMB82 million. As at the end of the reporting period, the Group's balance of provision for impairment losses on interest in joint ventures and associates was zero. For details, please refer to Note 23 to the financial report "Interest in joint ventures" and Note 24 "Interest in associates".

Derivative financial instruments

The major categories and amounts of derivative financial instruments held by the Group as at 31 December 2016 are shown in the following table. For details, please refer to Note 55(f) to the financial report "Risk Management – Use of derivatives".

	31 December 2016			31 December 2015		
	Nominal amount	Fair value		Nominal amount	Fair value	
(in millions of RMB)		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	1,410,276	599	(450)	1,195,623	839	(538)
Currency derivatives	1,257,163	8,022	(10,634)	1,141,846	9,332	(7,035)
Other derivatives	335	67	(68)	217	5	(2)
Total	2,667,774	8,688	(11,152)	2,337,686	10,176	(7,575)

In 2016, with the accelerated marketisation of RMB exchange rates, the exchange rate regime was basically determined based on the adjustments with reference to a basket of currencies, and due to increased volatility between RMB central parity rate and transaction price, customers have an increasing demand in using derivatives to hedge exchange rate risks, leading to the increasingly active transactions in the interbank foreign exchange market. The Group continued to capitalise on the professional advantages of exchange rates and derivative transactions, and grasped the appropriate trading timing for exchange rate fluctuations so that the profits from foreign exchange trading, the trading volume of RMB-denominated options and profitability achieved a substantial growth.

5.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of 2016, the Group conducted an impairment test on the goodwill arising from the acquisition of WLB, China Merchants Fund and other companies and determined that provision for impairment was not necessary for the current period. As at 31 December 2016, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

5.3.2 Liabilities

As at 31 December 2016, the total liabilities of the Group amounted to RMB5,538.949 billion, representing an increase of 8.33% as compared with the end of the previous year, which was primarily due to the steady growth in deposits from customers, borrowings from the Central Bank, amounts sold under repurchase agreements and debt securities issued.

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

	31 December 2016		31 December 2015 (restated)	
(in millions of RMB, excluding percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	3,802,049	68.64	3,571,698	69.85
Deposits from banks and other financial institutions	555,607	10.03	711,561	13.92
Borrowings from the Central Bank	330,108	5.96	86,639	1.69
Placements from banks and other financial institutions	248,876	4.49	178,771	3.50
Financial liabilities at fair value through profit or loss	23,576	0.43	20,227	0.39
Derivative financial liabilities	11,152	0.20	7,575	0.15
Amounts sold under repurchase agreements	162,942	2.94	161,613	3.16
Debt securities issued	275,082	4.97	251,507	4.92
Other liabilities(1)	129,557	2.34	123,629	2.42
Total liabilities	5,538,949	100.00	5,113,220	100.00

Note: (1) Including salaries and welfare payable, taxes payable, interest payable, deferred income tax liabilities and other liabilities.

(2) In 2016, the Group started to reclassify its liabilities on the repurchases of rediscounted bills and the bond repurchases made by the Central Bank in the open market from the "Amounts sold under repurchase agreements" to "Borrowings from the Central Bank", and the breakdown of "Interest expenses" was also reclassified accordingly. As such, the relevant financial indicators were restated.

Deposits from customers

As at 31 December 2016, total deposits from customers of the Group amounted to RMB3,802.049 billion, representing an increase of 6.45% as compared with the end of the previous year. Deposits from customers accounted for 68.64% of the total liabilities of the Group, being the major funding source of the Group.

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

(in millions of RMB, excluding percentages)	31 December 2016 Amount	31 December 2016 Percentage of the total (%)	31 December 2015 Amount	31 December 2015 Percentage of the total (%)
Deposits from corporate customers				
Demand	1,441,225	37.91	1,167,467	32.69
Time	1,076,266	28.30	1,194,064	33.43
Subtotal	2,517,491	66.21	2,361,531	66.12
Deposits from retail customers				
Demand	951,615	25.03	835,062	23.38
Time	332,943	8.76	375,105	10.50
Subtotal	1,284,558	33.79	1,210,167	33.88
Total deposits from customers	3,802,049	100.00	3,571,698	100.00

As at 31 December 2016, the percentage of demand deposits to total deposits from customers of the Group was 62.94%, representing an increase of 6.87 percentage points as compared with the end of the previous year. Among the figures, the corporate demand deposits accounted for 57.25% of the corporate deposits, representing an increase of 7.81 percentage points as compared with that at the end of the previous year, and the retail demand deposits accounted for 74.08% of the retail deposits, representing an increase of 5.08 percentage points as compared with that at the end of the previous year.

5.3.3 Shareholders' equity

As at 31 December 2016, the shareholders' equity of the Group was RMB403.362 billion, representing an increase of 11.50% as compared with the end of the previous year. Equity attributable to shareholders of the Bank was RMB402.350 billion, representing an increase of 11.51% as compared with the end of the previous year. Among which, retained profits amounted to RMB199.110 billion, representing an increase of 21.94% as compared with the end of the previous year due to realised net profits for the year and the profit appropriation factors. Investment revaluation reserve amounted to RMB1.454 billion, representing a decrease of 76.50% as compared with the end of the previous year due to a decrease of valuation in the bond market.

5.4 Analysis of Loan Quality

During the reporting period, the Group saw a steady growth in the volume of credit assets and an increase in non-performing loan ratio. The allowance coverage ratio remained solid, and our risk loss endurance capability improved further. As at 31 December 2016, total loans and advances to customers of the Group were RMB3,261.681 billion, representing an increase of 15.49% as compared with the end of the previous year; the non-performing loan ratio was 1.87%, up by 0.19 percentage point from the end of the previous year; the non-performing loan allowance coverage ratio was 180.02%, representing an increase of 1.07 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.37%, representing an increase of 0.37 percentage point as compared with the end of the previous year.

5.4.1 Distribution of loans by 5-tier loan classification

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

	31 December 2016		31 December 2015	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Normal	3,132,460	96.04	2,703,082	95.71
Special mention	68,100	2.09	73,794	2.61
Substandard	24,309	0.74	31,233	1.11
Doubtful	22,296	0.68	11,050	0.39
Loss	14,516	0.45	5,127	0.18
Total loans and advances to customers	3,261,681	100.00	2,824,286	100.00
Total non-performing loans	61,121	1.87	47,410	1.68

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB61.121 billion, representing an increase of 28.92% as compared with the end of the previous year. In particular, the increase of non-performing loans was mainly due to the increase of doubtful loans and loss loans. As at the end of the period, the proportion of doubtful loans increased by 0.29 percentage point to 0.68%; and the proportion of loss loans increased by 0.27 percentage point to 0.45%. As at the end of the period, the special mention loans amounted to RMB68.100 billion, representing a decrease of 7.72% as compared with that at the end of the previous year, and accounting for 2.09% of the total loans, representing a decrease of 0.52 percentage point as compared with that at the end of the previous year.

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

(in millions of RMB, except for percentages)	31 December 2016				31 December 2015			
	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	1,566,570	48.03	45,719	2.92	1,507,770	53.39	34,333	2.28
Working capital loans	794,577	24.36	29,064	3.66	768,942	27.23	19,220	2.50
Fixed asset loans	363,802	11.15	5,304	1.46	370,599	13.12	3,810	1.03
Trade finance	192,801	5.91	3,433	1.78	219,706	7.78	3,406	1.55
Others(2)	215,390	6.61	7,918	3.68	148,523	5.26	7,897	5.32
Discounted bills(3)	154,517	4.74	–	–	89,815	3.18	–	–
Retail loans	1,540,594	47.23	15,402	1.00	1,226,701	43.43	13,077	1.07
Micro enterprise loans	283,502	8.69	4,629	1.63	310,777	11.00	4,744	1.53
Residential mortgage loans	728,328	22.32	3,023	0.42	499,455	17.69	2,258	0.45
Credit card loans	409,198	12.55	5,717	1.40	313,244	11.09	4,296	1.37
Others(4)	119,566	3.67	2,033	1.70	103,225	3.65	1,779	1.72
Total loans and advances to customers	3,261,681	100.00	61,121	1.87	2,824,286	100.00	47,410	1.68

Notes: (1) Represents the percentage of the non-performing loan to the total loans of a certain 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 under new calibre 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 2016, the Group steadily developed its retail loan business, adjusted the loan structure, increased the granting of residential mortgage loans and credit card loans and moderately slowed down the granting of micro loans. As a result, the percentage of retail loans increased by 3.80 percentage points to 47.23%. As at the end of the reporting period, the non-performing retail loan ratio was 1.00%, down by 0.07 percentage point as compared with the end of the previous year.

The Group further optimised its corporate loan portfolio and promoted the development of strategic businesses such as M&A loans, cross-border loans and supply chain loans. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.92%.

5.4.3 Distribution of loans and non-performing loans by industry

(In millions of RMB, except for percentages)	31 December 2016				31 December 2015			
	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	1,566,570	48.03	45,719	2.92	1,507,770	53.39	34,333	2.28
Manufacturing	297,442	9.12	18,970	6.38	332,147	11.77	15,238	4.59
Wholesale and retail	228,751	7.01	10,589	4.63	251,373	8.90	10,279	4.09
Property development	227,564	6.98	2,292	1.01	213,080	7.54	1,174	0.55
Transportation, storage and postal services	193,829	5.94	1,587	0.82	159,349	5.64	1,387	0.87
Construction	84,673	2.60	1,671	1.97	101,270	3.59	772	0.76
Production and supply of electric power, heat, gas and water	108,669	3.33	1,088	1.00	112,337	3.98	78	0.07
Mining	49,479	1.52	8,163	16.50	58,308	2.06	3,923	6.73
Leasing and commercial services	102,469	3.14	129	0.13	84,240	2.98	186	0.22
Water conservancy, environment and public utilities	35,243	1.08	216	0.61	33,531	1.19	125	0.37
Information transmission, software and IT service	77,492	2.38	225	0.29	30,101	1.07	134	0.45
Others(2)	160,959	4.93	789	0.49	132,034	4.67	1,037	0.79
Discounted bills	154,517	4.74	–	–	89,815	3.18	–	–
Retail loans	1,540,594	47.23	15,402	1.00	1,226,701	43.43	13,077	1.07
Total loans and advances to customers	3,261,681	100.00	61,121	1.87	2,824,286	100.00	47,410	1.68

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

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

In 2016, the Group continued to support the development of the real economy, constantly optimised its risk asset portfolio, and gave priority to non-cyclical industries related with consumer consumption, national strategic emerging industries, information technology and other hi-tech industries. The differential risk prevention and control strategy was formulated for key areas such as industries with overcapacity, real estate, local government financing platforms and trade financing. The Group also optimised the allocation of credit resources so as to maintain an overall balance among risks, revenues and costs.

During the reporting period, 70% of the formation in non-performing corporate loans was related primarily to two industries, i.e. manufacturing and mining. Thanks to continued structural optimization of assets, total loans granted to the abovementioned industries were reduced by 11.15%. Among which, loans related to manufacturing decreased by 10.45% from RMB332.147 billion to RMB297.442 billion; and loans related to mining decreased by 15.14% from RMB58.308 billion to RMB49.479 billion.

5.4.4 Distribution of loans and non-performing loans by region

(in millions of RMB, except for percentages)	31 December 2016 Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%)(Note)	31 December 2015 Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%)(Note)
Head Office	499,102	15.30	5,993	1.20	381,327	13.50	4,790	1.26
Yangtze River Delta	674,209	20.67	11,134	1.65	539,925	19.12	10,733	1.99
Bohai Rim	398,961	12.23	6,427	1.61	368,137	13.03	4,274	1.16
Pearl River Delta and West Side of Taiwan Strait	561,539	17.21	7,082	1.26	463,440	16.41	5,071	1.09
North-east China	137,171	4.21	2,987	2.18	140,913	4.99	3,012	2.14
Central China	311,713	9.56	10,128	3.25	292,361	10.35	9,956	3.41
Western China	332,342	10.19	15,999	4.81	345,113	12.22	8,862	2.57
Overseas	99,149	3.04	–	–	57,773	2.05	–	–
Subsidiaries	247,495	7.59	1,371	0.55	235,297	8.33	712	0.30
Total loans and advances to customers	3,261,681	100.00	61,121	1.87	2,824,286	100.00	47,410	1.68

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

Given differences in economic patterns and customer bases of various regions, in 2016, the Group implemented differentiated supervisory management by category for branches and sub-branches in different regions. For the risk concentrated regions, the Group selectively raised the credit access standard and dynamically adjusted the credit authorisation so as to prevent the occurrence of regional systematic risks. As at the end of the reporting period, the percentages of the balances of loans extended to Yangtze River Delta, the Pearl River Delta and West Side of Taiwan Strait recorded a relatively large increase mainly due to rapid growth of mortgage loans and discounted bills of the Bank.

As at 31 December 2016, the regions where the Company incurred a large volume of non-performing loans are Western China, Yangtze River Delta and Central China, where the non-performing loan ratios of the Company increased by 2.24 percentage points, decreased by 0.34 percentage point and decreased by 0.16 percentage point, respectively as compared with the end of the previous year. During the reporting period, 52% of the formation in non-performing loans of the Group was related primarily to Western China. The non-performing loans of the Company were mainly related to coal mine, iron and steel, nonferrous metal and other industries in Western China where companies struggled in the quagmire of serious overcapacity, leading to an increase in the non-performing loan ratio. Due to active adjustment to credit structure by the Group, total loans granted to the abovementioned regions were reduced by 3.70% during the reporting period.

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

(in millions of RMB, except for percentages)	31 December 2016 Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%)(Note)	31 December 2015 Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%)(Note)
Credit loans	850,482	26.07	9,223	1.08	671,321	23.77	7,999	1.19
Guaranteed loans	430,410	13.20	23,009	5.35	444,698	15.75	19,587	4.40
Collateralised loans	1,428,313	43.79	22,024	1.54	1,241,633	43.96	16,250	1.31
Pledged loans	397,959	12.20	6,865	1.73	376,819	13.34	3,574	0.95
Discounted bills	154,517	4.74	–	–	89,815	3.18	–	–
Total loans and advances to customers	3,261,681	100.00	61,121	1.87	2,824,286	100.00	47,410	1.68

Note: Represents the percentage of the non-performing loan 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 12.84% as compared with the end of the previous year. Guaranteed loans decreased by 3.21% as compared with the end of the previous year while the credit loans increased by 26.69% as compared with the end of the previous year, which was mainly due to the increase of credit card loans.

5.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan amount as at 31 December 2016	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
(in millions of RMB)				
A	Transportation, storage and postal services	9,800	2.18	0.30
B	Information transmission, software and IT services	9,729	2.17	0.30
C	Wholesale and retail	8,402	1.87	0.25
D	Information transmission, software and IT services	6,710	1.49	0.21
E	Property development	6,248	1.39	0.19
F	Wholesale and retail	6,050	1.35	0.19
G	Transportation, storage and postal services	5,433	1.21	0.16
H	Transportation, storage and postal services	4,629	1.03	0.14
I	Transportation, storage and postal services	4,541	1.01	0.14
J	Public administration, social security and social organisations	4,474	1.00	0.14
Total		**66,016**	**14.70**	**2.02**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB9.800 billion, representing 2.18% of the Group's net capital under the advanced approach. The loan balance of the top ten single borrowers totalled RMB66.016 billion, representing 14.70% of the Group's net capital under the advanced approach, 14.27% of the Group's net capital under the weighted approach, and 2.02% of the Group's total loan balance, respectively.

5.4.7 Distribution of loans by overdue term

(in millions of RMB, except for percentages)	31 December 2016		31 December 2015	
	Loan amount	Percentage of the total (%)	Loan amount	Percentage of the total (%)
Overdue within 3 months	**22,006**	**0.68**	35,396	1.25
Overdue from 3 months up to 1 year	**24,280**	**0.74**	32,247	1.14
Overdue from 1 year up to 3 years	**21,580**	**0.66**	11,847	0.42
Overdue more than 3 years	**2,013**	**0.06**	878	0.03
Total overdue loans	**69,879**	**2.14**	80,368	2.84
Total loans and advances to customers	**3,261,681**	**100.00**	2,824,286	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB69.879 billion, down by RMB10.489 billion from the end of the previous year and accounting for 2.14% of its total loans, representing a decrease of 0.70 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 44.04%, guaranteed loans accounted for 33.87%, while credit loans accounted for 22.09% (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 increased to 1.28 from 1.05 at the end of the previous year.

5.4.8 Restructured loans

(in millions of RMB, except for percentages)	31 December 2016 Loan amount	31 December 2016 Percentage of the total (%)	31 December 2015 Loan amount	31 December 2015 Percentage of the total (%)
Restructured loans(Note)	16,671	0.51	4,531	0.16
Of which: restructured loans overdue more than 90 days	8,605	0.26	2,506	0.09

Note: Represents the restructured non-performing loans.

The Group imposed strict and prudent control over loan restructuring. As at the end of the reporting period, the percentage of the Group's restructured loans to total loans was 0.51%, representing an increase of 0.35 percentage point as compared with the end of the previous year. The Group supported the development of real economy and promoted loan restructuring proactively, thus resulting in an increase in the volume of restructured non-performing loans.

5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the balance of repossessed assets of the Group amounted to RMB1.572 billion. After deduction of allowances for impairment losses of RMB708 million, the net repossessed assets amounted to RMB864 million.

5.4.10 Changes in the allowances for impairment losses on loans

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

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

(in millions of RMB)	2016	2015
Balance at the beginning of the period	84,842	65,165
Charge for the period	67,188	59,486
Release for the period	(2,628)	(1,979)
Transfer into/out for the period	(5,700)	–
Unwinding of discount on impaired loans(Note)	(1,001)	(1,137)
Recovery of loans and advances to customers previously written off	2,893	1,464
Write-offs	(35,942)	(38,383)
Foreign exchange rate movements	380	226
Balance at the end of the period	110,032	84,842

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

The Group continued to adopt a stable and prudent policy in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans amounted to RMB110.032 billion, representing an increase of RMB25.190 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 180.02%, representing an increase of 1.07 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.37%, representing an increase of 0.37 percentage point as compared with the end of the previous year.

5.5 Analysis of Capital Adequacy Ratio

As at 31 December 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 13.33% and 11.54% respectively, representing an increase of 1.33 percentage points and 1.45 percentage points respectively as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	31 December 2016	31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
The Group			
Capital adequacy ratios under the advanced approach(1)			
1. Net core Tier 1 capital	**388,762**	347,434	11.90
2. Net Tier 1 capital	**388,780**	347,444	11.90
3. Net capital	**449,116**	403,409	11.33
4. Risk-weighted assets (without taking into consideration the minimum requirements during the transition period)	**3,209,980**	3,009,265	6.67
Of which: Credit risk weighted assets	**2,813,611**	2,657,383	5.88
Market risk weighted assets	**38,073**	36,972	2.98
Operational risk weighted assets	**358,296**	314,910	13.78
5. Risk-weighted assets (having taken into consideration the minimum requirements during the transition period)	**3,368,990**	3,208,152	5.01
6. Core Tier 1 capital adequacy ratio	**11.54%**	10.83%	up by 0.71 percentage point
7. Tier 1 capital adequacy ratio	**11.54%**	10.83%	up by 0.71 percentage point
8. Capital adequacy ratio	**13.33%**	12.57%	up by 0.76 percentage point
Information on leverage ratio(2)			
9. Adjusted balance of on- and off-balance sheet assets	**6,758,093**	6,275,592	7.69
10. Leverage ratio	**5.75%**	5.54%	up by 0.21 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. Under the advanced approach, the core Tier 1 capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group and the Company remain consistent at present. In accordance with the requirements of the advanced approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank. As at 31 December 2016, the Group's subsidiaries for calculating its capital adequacy ratio include Wing Lung Bank, CMB International Capital, CMB Financial Leasing and China Merchants Fund. During the transition period that the advanced capital measurement approaches were implemented, a commercial bank shall use the capital floor adjustment co-efficients to adjust the result of its risk weighted assets multiplying the sum of its minimum capital amount and reserve capital amount, total amount of capital deductions and the provision for excessive loan loss which can be included into capital. The capital floor adjustment co-efficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third and subsequent years during the transition period. 2016 is the second year of implementation of the capital rules during the transition period.

2. Since 2015, the leverage ratio has been calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" issued by the CBRC on 12 February 2015.

As at the end of the reporting period, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 12.99% and 11.11%, respectively, representing an increase of 1.40 percentage points and 1.48 percentage points respectively as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	**31 December 2016**	31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
The Company			
Capital adequacy ratios under the advanced approach			
1. Net core Tier 1 capital	**339,976**	307,888	10.42
2. Net Tier 1 capital	**339,976**	307,888	10.42
3. Net capital	**397,649**	360,460	10.32
4. Risk-weighted assets (without taking into consideration the minimum requirements during the transition period)	**2,887,494**	2,765,712	4.40
Of which: Credit risk weighted assets	**2,516,838**	2,436,307	3.31
Market risk weighted assets	**32,258**	31,699	1.76
Operational risk weighted assets	**338,398**	297,706	13.67
5. Risk-weighted assets (having taken into consideration the minimum requirements during the transition period)	**3,061,019**	2,966,543	3.18
6. Core Tier 1 capital adequacy ratio	**11.11%**	10.38%	up by 0.73 percentage point
7. Tier 1 capital adequacy ratio	**11.11%**	10.38%	up by 0.73 percentage point
8. Capital adequacy ratio	**12.99%**	12.15%	up by 0.84 percentage point

As at 31 December 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 12.00% and 10.09% respectively, representing an increase of 0.09 percentage point and 0.16 percentage point, respectively as compared with those at the end of the previous year.

(in millions of RMB, except for percentages)	**31 December 2016**	31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
The Group			
Capital adequacy ratios under the weighted approach(note)			
1. Net core Tier 1 capital	**388,762**	347,434	11.90
2. Net Tier 1 capital	**388,780**	347,444	11.90
3. Net capital	**462,493**	416,834	10.95
4. Risk-weighted assets	**3,852,894**	3,499,231	10.11
5. Core Tier 1 capital adequacy ratio	**10.09%**	9.93%	up by 0.16 percentage point
6. Tier 1 capital adequacy ratio	**10.09%**	9.93%	up by 0.16 percentage point
7. Capital adequacy ratio	**12.00%**	11.91%	up by 0.09 percentage point

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

As at the end of the reporting period, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.59% and 9.63%, respectively, representing an increase of 0.13 percentage point and 0.19 percentage point respectively as compared with the end of the previous year.

(in millions of RMB, except for percentages)	31 December 2016	31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
The Company			
Capital adequacy ratios under the weighted approach			
1. Net core Tier 1 capital	339,976	307,888	10.42
2. Net Tier 1 capital	339,976	307,888	10.42
3. Net capital	408,962	373,886	9.38
4. Risk-weighted assets	3,529,142	3,261,357	8.21
5. Core Tier 1 capital adequacy ratio	9.63%	9.44%	up by 0.19 percentage point
6. Tier 1 capital adequacy ratio	9.63%	9.44%	up by 0.19 percentage point
7. Capital adequacy ratio	11.59%	11.46%	up by 0.13 percentage point

Balance of credit risk exposures

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

Unit: RMB million	Type of risk exposure	Legal person	Group
Portion covered by the IRB approach	Financial institution	898,059	898,059
	Corporate	1,444,056	1,444,056
	Retail	1,823,298	1,823,298
	Of which: Residential mortgage exposures	721,314	721,314
	Qualified revolving retail	733,331	733,331
	Other retail	368,653	368,653
Portion not covered by the IRB approach	On-balance sheet	2,403,937	2,764,136
	Off-balance sheet	174,025	184,448
	Counterparty	6,281	8,080

Market risk capital measurement

The Group uses mixed approaches to calculate its market risk capital requirements. Specifically, it uses the internal model approach to calculate the general market risk capital of the Head Office in Mainland China, and uses the standardised approach to calculate the specific market risk capital of the Head Office in Mainland China as well as the general market risk capital and specific market risk capital of overseas institutions and affiliated companies. As at the end of 2016, the market risk capital of the Group was RMB3.046 billion, and its risk-weighted assets were RMB38.073 billion. Of which, the general market risk capital calculated under the internal model approach was RMB2.226 billion, and the market risk capital calculated under the standardised approach was RMB820 million.

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 2016:

Unit: RMB million

No.	Item	Distressed risk value during the reporting period	General risk value during the reporting period
1	Average value	328	309
2	Maximum value	661	562
3	Minimum value	183	119
4	Value at the end of the period	311	274

5.6 Results of Operating Segments

Business segments

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

Item (in millions of RMB)	2016 Profit before tax by segment	2015 (restated) Profit before tax by segment
Wholesale finance	**40,040**	38,055
Retail finance	**45,099**	36,654
Other businesses	**(6,176)**	370
Total	**78,963**	75,079

During the reporting period, the percentage of profit from retail finance of the Group continued to grow. Profit before tax amounted to RMB45.099 billion, up by 23.04% from the previous year, accounting for 52.97% of the total profit before tax of business lines, and representing a year-on-year increase of 3.91 percentage points. At the same time, the cost-to-income ratio of retail finance business (excluding tax and surcharges) was 34.56%, representing a decrease of 1.39 percentage points as compared with the previous year.

Geographical segments

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

	Total assets		Total liabilities		Total profit before tax	
	31 December 2015		31 December 2015		2015	
(in millions of RMB, except for percentages)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	2,105,486	38	1,808,257	35	31,968	42
Yangtze River Delta	762,902	14	761,795	15	3,572	5
Bohai Rim	511,402	9	503,469	10	11,163	15
Pearl River Delta and West Side of Taiwan Strait	607,634	11	597,665	12	13,218	18
North-eastern China	201,537	4	199,294	4	2,990	4
Central China	385,401	7	382,889	7	3,683	5
Western China	421,469	8	422,455	8	431	1
Overseas	142,219	3	140,900	3	1,791	2
Subsidiaries	336,928	6	296,496	6	6,263	8
Total	5,474,978	100	5,113,220	100	75,079	100

5.7 Others

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

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. The credit commitment is the primary component. As at the end of 2016, the balance of credit commitments was RMB1,167.224 billion. For details of the contingent liabilities and commitments, please refer to "Contingent liabilities and commitments" in "Notes to the Financial Report".

5.7.2 Outstanding overdue debts

As at the end of 2016, the Group did not have any outstanding overdue debts.

The contents and data in section 5.8 and below are analysed from the Company's perspective.

5.8 Business Development Strategies

5.8.1 Strategic direction and positioning – "Light-operation Bank", "One Body with Two Wings"

Building a "Light-operation Bank" is a necessary choice for the Company to stay competitive under the current economic situation, which is objectively required by the changes in China's economic structure and the trend of developing a "Light-operation Bank" in the financial industry, and is also a feasible approach to the accomplishment of the Company's transformation and transcendence. In the next five years, the Company will promote its transformation into the "Light-operation Bank" in the following aspects: 1. "Light" capital: the Company will realise organic growth of capital, vigorously develop the "light" capital businesses and significantly improve capital efficiency, so as to raise the profit growth rate with lesser capital consumption; 2. "Light" assets: the Company will optimise the industrial distribution and customer structure of credit assets to improve the capital utilisation ratio and avoid the integrated and systematic risks, vigorously develop investment banking, asset management, custody, wealth management and other businesses and raise the asset turnover ratio; 3. "Light" liabilities: the Company will vigorously develop such services as payments and settlements, custody and transaction banking to attract more demand deposits and provide low-cost funding; 4. "Light" operation: the Company will build digital channels and leverage on cutting-edge technologies such as artificial intelligence and smart devices to improve operation efficiency, and will optimise business operations and prevent wastes in manpower, processes and systems to lower the cost-income ratio.

The Company has established the "One Body with Two Wings" business structure under which retail finance is the mainstay business supported by corporate finance and financial institutions finance, which has led to mutual integration, mutual coordination and mutual promotion between "One Body" and "Two Wings". On one hand, the Company will promote retail finance as "One Body" to play a more important role in driving the development of corporate finance and financial institutions finance, fully capitalise on the marketing advantages of its strong retail channels to promote the development of custody, investment banking and asset management services, vigorously explore the potential corporate resources of Diamond-class customers such as business owners and senior management to proactively solicit referrals of corporate customers, and fully tap on the advantages of retail finance and private banking services to further improve the one-stop comprehensive financial services for strategic customers of the Company. On the other hand, the Company will make use of its "Two Wings" of corporate finance and financial institutions finance to play a more important role in supporting the development of retail finance. The Company will enhance the offering of wealth management products and quality underlying assets by proactively developing asset management and investment banking businesses, and fully support the expansion of the customer base of retail finance by vigorously developing payroll, corporate card and pension services. The Company will vigorously promote construction of new channels for retail finance by realising close coordination of supply chain finance and retail finance, and develop corporate liabilities business to offer adequate funding support for the development of retail assets business. By establishing the sound business structure of "One Body with Two Wings", the Company will be in a better position to overcome the challenges of interest rate liberalisation and periodic economic fluctuations.

5.8.2 Analysis of Achievements in Promoting Strategic Transformation

In 2016, the Company expedited its strategic transformation and sought development opportunities in proactively supporting the supply-side structural reforms. The Company made remarkable achievements even in the challenging environment of "Three Cuts, One Reduction and One Reinforcement" (i.e. cutting overcapacity, inventory level and leverage ratio, reducing costs and reinforcing weak growth areas). The volume of on-balance sheet assets stabilised in a rising trend, the number of customers increased rapidly, the operation efficiency improved steadily, the income structure kept optimising, the asset quality improved steadily, and the organic generation of capital was enhanced continuously. By stepping up structural adjustments and leveraging on featured advantages and innovative technology-backed finance, the profit growth of the Company has gradually shaken off its chronic reliance upon size, capital and resources, and opened up broader room for continuous transformation and upgrading.

The Company has adhered to the "Light-operation Bank" strategy and made great progress in strategic transformation.

1. **"Lighter" capital**: as at the end of the reporting period, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.59% and 9.63%, respectively, representing an increase of 0.13 percentage point and 0.19 percentage point respectively as compared with the end of the previous year. Such increase reflected an improved level of capital adequacy. The risk adjusted return on capital (RAROC) before tax under the weighted approach was 20.27%, which was significantly higher than the capital cost.

2. **"Lighter" assets:** thanks to the structural adjustments, the assets structure of the Company was further optimised and as at the end of the reporting period, the retail loans accounted for 50.45% of our total loans, with its role as the "ballast" and "stabilizer" intensified. The balance of residential mortgages and credit card overdrafts increased by RMB229.039 billion and RMB95.966 billion respectively, as compared with the end of the previous year, accounting for 47.37% and 26.89% of the total retail loans respectively. At the same time, the Company significantly reduced or withdrew corporate risk assets to make room for high-quality assets. In 2016, a total of RMB78.1 billion in risk assets were reduced or withdrawn: the balance of loans to customers in the traditional manufacturing industry, wholesale and retail industry went down by 9.68% and 8.24% respectively, as compared with the end of the previous year; the balance of loans for information transmission, software and IT service and other emerging industries increased by 167.42%, as compared with the end of the previous year; and the balance of loans for the culture, sports and entertainment industries rose by 61.88% as compared with the end of the previous year. There are 135 strategic customers under the Head Office, and as at the end of 2016, the balance of loans granted to strategic customers under the Head Office and its branches amounted to RMB319.163 billion, representing an increase of RMB76.134 billion as compared with that at the beginning of the year. As regard to the exposure of corporate loans, the exposure of corporate loans to customers with a high credit rating accounted for 59.97% of the total, representing an increase of 7.10 percentage points, as compared with the beginning of the year.

3. **"Lighter" liabilities:** the Company optimised the mechanism for pricing of deposits and differentiated authorisation, and compressed high-cost negotiated deposits by RMB26.280 billion. As at the end of the period, the balance of negotiated deposits and demand deposits were RMB48.400 billion and RMB2,331.333 billion, respectively. As a result, the proportion of demand deposits increased by 6.97 percentage points to 64.00%.

4. **"Lighter" income structure:** the net operating income increased by 3.16% year-on-year. Among which, net non-interest income grew by 15.54% year-on-year, accounting for 34.24% of the total income, and representing a year-on-year increase of 3.67 percentage points.

5. **"Lighter" operation:** focusing on the strategy of "prioritising the development of mobile phone applications", we have launched Mobile Bank 5.0, first put Machine Gene Investment (摩羯智投) into operation, integrated the W+ platform, the smart marketing system and the personalised recommendation system for mobile phones, and preliminarily designed the branch "O2O" service processes focusing on mobile phone applications. As at the end of the reporting period, the total number of corporate online banking customers increased by 32.75% as compared with the end of the previous year. During the reporting period, the accumulated number and amounts of corporate online banking transactions increased by 72.87% and 22.39% year-on-year, respectively. The number of corporate mobile phone banking users reached 290,500, and the number of various business operations such as account enquiries, payments and settlements which were completed through the corporate mobile phone banking app reached 24,690,000 for the year. The floor area of leased branches of the whole Bank was cut down by 39,356.34 square meters, resulting in a reduction of RMB57,264,200 in annual rental expenses. The cost-to-income ratio (excluding taxes and surcharges) stayed low at 27.53%. For the details of distribution channels, please refer to "Distribution channels" in this chapter.

The Company continued to enhance its competitive edges and fuel its growth momentum, and made outstanding achievements in "One Body with Two Wings".

1. *"One Body" remained robust.*

   Profit before tax from retail finance rose by 23.80% year-on-year, accounting for 53.62% of the total profit before tax of business lines, and representing a year-on-year increase of 4.07 percentage points; the cost-to-income ratio of retail finance was 34.15%, representing a year-on-year decrease of 1.48 percentage points; net non-interest income from retail finance rose by 19.95% year-on-year, accounting for 32.90% of net operating income from retail finance. We continued to consolidate the retail customer base and achieved further increase in the number of private banking, Diamond, Sunflower, gold card, effective mass customers and active credit cards users, in particular, the addition of 838,000 "customers at gold card and Sunflower level and above (雙金客戶)" became our biggest value contributor. The private banking business grew steadily and received the "Best Private Bank in China Region" award selected by various organisations including *Euromoney*. The balance of total assets under management (AUM) from retail customers increased by RMB780.9 billion as compared with the end of the previous year, a record high in terms of incremental amounts; demand deposits from retail banking increased by RMB107.462 billion which accounted for 76.39% of the Company's total retail deposits. Total amounts of retail loans accounted for 50.45% of the Company's total loans; and the annual accumulated transaction amounts of credit cards exceeded RMB2.2 trillion, setting a new historical high.

2. *"Two Wings" both delivered good results.*

   As for **corporate finance**, the Company has gradually enhanced its connections with core customers and significantly improved the efficiency in expanding the basic client base. In 2016, the Company newly developed 330,300 corporate customers, 278,300 customers using its cash management service, 780 effective core customers in supply chain and 3,535 effective customers from upstream and downstream industries. The compound growth rate of the customers using cash management service of transaction banking and the customers using online corporate banking service exceeded 50% for the past three years. The number of customers obtained under the "Qian Ying Zhan Yi (千鷹展翼)" program increased by 17.14% as compared with the beginning of the year. During the reporting period, 42 companies in the "Qian Ying Zhan Yi (千鷹展翼)" customer base had successfully launched their IPO in Chinese Mainland and they each opened a special account with the Company for their IPO proceeds. Total amounts of proceeds under our custody reached RMB8.196 billion. The number of small enterprise customers increased by 25.52% as compared with the beginning of the year. The cross-bank domestic letter of credit business achieved a growth. In 2016, the trading volume of cross-bank negotiated domestic letters of credit increased by 26.20% year-on-year. Our transaction banking won high market recognition and received a number of awards such as the "Best Transaction Bank in China" selected by *The Asset*.

   As for **financial institutions finance**, the Company took the lead to launch e-transaction for placements from banks and other financial institutions and managed to maintain the leading position of our interbank cross-border RMB business. As at the end of the reporting period, the number of interbank cross-border RMB accounts opened by banks and other financial institutions at home and abroad with the Company ranked first among national small- and medium-sized banks. The number of customers accessing the RMB Cross-border Interbank Payment System (CIPS) as an indirect participant through the Bank ranked second among national small- and medium-sized banks and third in the industry. The discounted bills transferred to other banks or financial institutions and rediscounted bills have maintained its leading position in the industry in terms of their trading amounts.

Investment banking and macro asset management business have become two growth drivers of the "Two Wings" thanks to our efforts in product offerings. Among which, investment banking realised a year-on-year increase of 35.82% in non-interest income. The balance of wealth management funds and income from entrusted wealth management were RMB2.38 trillion and RMB14.333 billion, respectively, and assets under custody exceeded RMB10 trillion. The Company has obtained the custodian qualification for the National Basic Pension Insurance Fund of China (全國基本養老保險基金), set up an overseas custody center, the first of its kind in the industry, and received the "Best Custodian Bank in China" award selected by *The Asset*. As for financial market business, the Company focused on developing the CMB risk-hedging service system. Risk-hedging transactions on behalf of customers amounted to RMB513.5 billion, representing a year-on-year increase of 59.53%, income from intermediary risk-hedging transactions on behalf of customers amounted to RMB827 million, representing a year-on-year increase of 62.00%, and income from settlement and sales of foreign exchange business amounted to RMB558 million, representing a year-on-year increase of 250.94%. The Company has made major breakthroughs in the market-making transactions of RMB derivative products, and the volume of interbank RMB option transactions ranked first in the market.

3. "One Body with Two Wings" has developed steadily with internal coordination.

The Company has enhanced the referral of corporate customers for retail finance. During the reporting period, the relationship managers of our Diamond-class customers made a referral of 2,893 corporate customers, and the housing loans retained an amount of RMB148.4 billion for the corporate accounts. The Company further tapped on its strategic customers for further cooperation and provided exclusive comprehensive retail finance services to strategic customers and their employees so as to improve customer loyalty. The Company fully capitalised on the advantages of its retail channel in the sales of insurance, funds and trusts to provide complementary services to other financial institutions, thereby effectively promoting the development of its custody business and the growth in institutional deposits. In the meantime, corporate finance of the Company grew rapidly, laying a solid foundation for the development of our retail finance. The number of individual customers of our payroll service increased by 9.2 million for the whole year, of which active accounts for payroll service increased by 5.62 million, up by 11.80% as compared with the corresponding period of the previous year. The Company handled an amount of RMB1.28 trillion under its payroll service for the year, an increase of 23.08% from the corresponding period of the previous year. Funds inflow into the pool of wealth management business continued to grow. In 2016, the Company pooled RMB1,038.1 billion of quality assets into our wealth management business, increased by RMB199.1 billion as compared with the corresponding period of the previous year, providing a guarantee of products for the development of retail business. In addition, a series of mega projects collaborated by our investment bank and commercial bank segments established the leading position of the Company in the privatization market and led to the rapid development of the liabilities and cross-border businesses. Financial institution customers helped the Company won the bid of RMB70 billion of green financial bonds of the Bank of Communications, absorbed RMB650 million for the custody business and generated more than RMB2 billion of corporate deposits.

5.9 Changes in the External Environment and Corresponding Measures

5.9.1 Impact of Changes in Operating Environment and Key Business Concerns

1. Overview of the macroeconomic and financial outlook in 2016

In 2016, the domestic economy gradually became more stable with decelerating economic growth, and turned better with steady development, achieving an annual economic growth rate of 6.7%. Fixed-asset investment stabilised with a slowdown, among which, infrastructure investment and real estate investment became major pillars for overall investments throughout the year. Curbed by prolonged overcapacity, investment in the manufacturing sector trailed off, however, with the improved profitability in industrial enterprises, investment in the manufacturing sector gradually showed sign of recovery at the end of the third quarter. The growth in consumption remained stable, while the growth in urban residents' per capita disposable income slowed down and played a weakening role in driving overall consumption. Leashed by slow recovery in global economy, both imports and exports generally maintained a negative growth, but the decline narrowed in the second half of the year. The CPI growth rebounded to an aggregate of 2% during the year, showing an improvement as compared with the previous year amidst an environment with moderate inflation. Driven by the rebound in commodity price and global oil price as well as the recovery of demand in certain domestic industries, the PPI decline in aggregate continued to narrow as compared with the previous year. The number of new employees in urban area and the unemployment rate remained stable. In order to alleviate the pressure of economic downturn, the Central Bank continued to implement its prudent monetary policy and took care of the effective financing requirement of real economy at the same time, and flexibly utilised various monetary policy tools such as deposit reserve ratio cuts, open market operation, medium-term lending facilities (MLF) and pledged supplementary lending (PSL) to reasonably maintain adequate liquidity in the market. In the meantime, fiscal policies were proactively utilised, which have increased public fiscal expenditures and the issuance volume of local debts, thus allowing financial resources to play a greater role in stabilising economic growth.

2. Net interest margin

In 2016, the net interest margin of the Company was 2.55%, representing a year-on-year decrease of 28 basis points, which was primarily due to the following reasons: firstly, the change from business tax to value-added tax with price and tax separated resulted in a decrease in the carrying value of net interest income; secondly, the concentrated re-pricing at the beginning of this year following the 5 consecutive interest cuts in the previous year led to a decline in loan yields; thirdly, the diminishing bonus in the capital market and the system reform in relation to cancellation of the prepayment system for application of new shares led to a substantial decrease in low-cost demand deposits from other financial institutions; fourthly, the continuous decline in market interest rates brought about a decrease in the return on assets placed with other financial institutions.

In 2017, in the context of continuous promotion of interest rate liberalisation and financial disintermediation, return-on-asset ratio will still face high pressure of declining, while the debt cost will become relatively rigid. Meanwhile, coupled with the impact of change from business tax to value-added tax, it is predicted that net interest margin of the Company will continue to decline. In order to overcome the negative effect of the decline in net interest margin, the Company will further enhance asset management and operation. The Company will adhere to the principle of risk pricing and the balance of volume and price, and vigorously increase the granting of loan assets, in particular loan assets with high return, so as to diligently improve the overall return. In the meantime, the Company will constantly expand customer base, proactively promote the steady growth of low cost deposits, further enhance the refined management of liabilities, and reinforce the cost advantages at the liability side, so as to ensure that the net interest margin will maintain a leading position in the industry.

3. Net non-interest income

During the reporting period, the Company realised net non-interest income of RMB67.838 billion, representing a year-on-year increase of 15.54%. The proportion of net non-interest income to our net operating income was 34.24%, up by 3.67 percentage points as compared with the previous year. Among which:

As the Company proactively grasped the opportunities brought by the eruptive growth in the insurance industry and the increase in hedging demands from residents in the first half of 2016, there was a rapid growth in fees and commission income from wealth management services such as income from agency distribution of insurance policies and entrusted wealth management services, which amounted to RMB28.503 billion for the whole year, representing a year-on-year increase of 22.63%. Among which, income from entrusted wealth management services amounted to RMB14.333 billion, representing a year-on-year increase of 60.81%; income from agency distribution of insurance policies amounted to RMB5.109 billion, representing a year-on-year increase of 81.69%; income from agency distribution of funds amounted to RMB5.539 billion, representing a year-on-year decrease of 26.33%; income from agency distribution of trust schemes amounted to RMB3.338 billion, representing a year-on-year decrease of 13.66%; income from agency distribution of precious metal amounted to RMB184 million, representing a year-on-year increase of 37.31%. Benefiting from the increase in commission income and annual fees of credit cards, bank card fees increased by 14.20% as compared with the previous year, amounting to RMB10.804 billion. Driven by the surges in the volume of custodian services, custodian fee income increased by 20.04% year-on-year, amounting to RMB4.282 billion. Spread income from disposal of bills amounted to RMB5.600 billion, representing a year-on-year increase of 22.32%, which was achieved mainly by grasping the opportunities emerged from the phased cuts of interest rates.

Looking forward to 2017, in respect of wealth management, the Company will face negative factors such as more stringent regulatory requirements imposed by the insurance regulatory authorities, decelerated growth in the amounts of wealth management services and uncertainties in the capital market. In respect of bank cards, due to the impact of new policies for bank card fees, the charge rate of bank cards tends to decline. In respect of custodian fee income, as a result of the increasingly intensive competition, the charge rate of custodian service will continue to decline. In respect of spread income from disposal of bills, as affected by the tax policies, there will be increased uncertainties. To cope with the above pressure, maintain its advantages in non-interest income businesses and realise the operating goal of "Outperforming Peers and Market", the Company will take the following measures: firstly, the Company will continuously push forward service innovation and management innovation, adhere to the customer-centric operation philosophy, strengthen the expansion of customer base, and improve service quality and the added value of products by proactively exploring new customer acquisition models, so as to enhance our overall competitiveness; secondly, the Company will accelerate its market penetration at the strategic level, improve the development of intermediary businesses in a proactive and pertinent manner, and increase its resources for investment in key businesses such as wealth management, credit cards, custodian service, investment banking and financial market, so as to simulate the growth of overall non-interest income.

4. Capital Management

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

In 2016, by adhering to the concept of a "Light-operation Bank", the Company increased the granting of light-operation businesses such as retail credit and promoted structural adjustments through optimising resources allocation so as to improve profitability. The Company's risk-weighted assets under the weighted approach increased by 8.21% as compared with the end of the previous year, and the percentage of risk assets to total assets was 62.88%, which was on a par with that at the end of the previous year. With less capital consumption, the Company maintained a steady growth in profitability and continuous improvement in the capital adequacy ratios. The risk-weighted assets (taking into consideration the minimum requirements during the grace period) under the advanced approach increased by 3.18% as compared with the end of the previous year, and the percentage of risk assets to total assets was 54.54%, lowered by 8.34 percentage points as compared to that under the weighted approach, indicating an effective saving in capital.

The Company continued to promote to the development strategies of marketisation, branding and internationalisation for its assets securitisation business to provide extra room for capital saving. As at the end of the reporting period, the Company totally issued 14 phases of credit asset-backed securities, with the aggregate issuance volume of RMB66.700 billion, among which, 6 phases of credit asset-backed securities were issued during the reporting period, with the aggregate issuance volume of RMB15.043 billion, fully covering all types of assets including corporate and retail, and normal and non-performing, leading in the industry in terms of market shares, and taking the dominant position in securitisation of retail assets.

In 2017, the Company will continue to enhance the capital management refinement concept, promote the adoption of the risk adjusted return on capital (RAROC), the economic value added (EVA) and other value assessment indicators, trace the progress of international capital regulatory reform, continue to implement the internal capital adequacy assessment procedures (ICAAP), keep a dynamic balance of supply and demand of capital, and plan the utilisation of capital tools such as ordinary shares, preferential shares and Tier 2 capital bonds in a comprehensive way.

5. The formation and disposal of non-performing loans

As at 31 December 2016, the non-performing loan ratio of the Company was 1.98%, representing an increase of 0.18 percentage point as compared with the end of the previous year, while the proportion of special mention loans to the total was 2.15%, down by 0.50 percentage point from the end of the previous year. The loan allowance ratio was 3.55%, up by 0.36 percentage point from the end of the previous year. The allowance coverage ratio of our non-performing loans was 179.03%, representing an increase of 1.94 percentage points as compared with the end of the previous year. The credit cost ratio was 2.27%, a decrease of 0.08 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

In 2016, the Company's non-performing loans increased at a slower pace. In general, the balance of non-performing loan formation during the year amounted to RMB62.930 billion, representing a decrease of RMB16.704 billion or 20.98% as compared with the previous year, and the non-performing loan formation ratio was 2.24%, representing a decrease of 1.02 percentage points as compared with the previous year, and the non-performing loan formation ratio of each quarter declined as compared with the corresponding period of the previous year; from the perspective of industry, the growth of non-performing loan formation slowed down in the manufacturing, wholesale and retail industry; from the perspective of geographic area, the growth of non-performing loan formation slowed down in the Yangtze River Delta, Western China and the Central China where non-performing loan formation growth was higher previously. From the perspective of customer base, the non-performing loan formation ratio of the medium- and small-sized enterprises also declined. Of the total non-performing loans, those extended to the state-owned enterprises accounted for approximately 10%. Although under a favourable trend, there still exists a certain level of uncertainty regarding the improvement of non-performing loan formation ratio as there is uncertainty with non-performing loan formation of large enterprises.

During the reporting period, the Company further strengthened the disposal of non-performing loans and used a number of methods to manage risk assets. In 2016, the Company disposed of non-performing loans amounting to RMB50.173 billion, of which, RMB9.277 billion was cleared and settled, RMB28.613 billion was written off in a regular way, RMB4.363 billion was transferred at discount, RMB5.915 billion was securitised as non-performing assets, and RMB2.005 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

In 2016, the pilot project of securitisation of non-performing assets was reactivated, which provided a new channel for the marketised disposal of the banks' non-performing assets. We relied on our efficient and sophisticated operating mechanism of asset securitisation to accelerate the process of securitisation of the non-performing assets. The Company launched the securitisation of non-performing assets of corporate loans, and became the first bank to launch securitisation projects for credit card and small and micro enterprise non-performing assets. Four phases of securities were issued during the reporting period, pursuant to which, non-performing assets in an aggregate principle of RMB5.915 billion were disposed of. The nominal value of securities issued amounted to RMB1.8 billion. The Company holds 5% of each tranche of such securities in accordance with regulatory requirements. The remaining securities were subscribed for by market investors. The securitisation of the non-performing assets of the Company concluded with a number of achievements, i.e. establishment of a market-based issuing and pricing mechanism, realisation of real sale and bankruptcy ringfencing of the assets, transmission from asset holding to asset services, optimisation of the structure of the Company's assets and liabilities, improvement on liquidity, the revenue structure and capital adequacy ratios.

During the reporting period, the Company fully promoted the centralised clearance and settlement method in branches, built legal backup and supporting platform, vigorously increased litigation and cleared non-performing loans in cash amounting to RMB9.277 billion, achieving significant results. In the mean time, the Company also increased its efforts to write off non-performing assets in accordance with the "Administrative Measures for the Write-off of Distressed Debts of Financial Enterprises (2015 revised edition)" promulgated by the Ministry of Finance and other relevant requirements, and wrote off non-performing loans amounting to RMB28.613 billion for the year. Meanwhile, the Company carried out bulk transfer of non-performing assets that could be transferred at reasonable market prices to dispose of assets promptly, and transferred non-performing loans amounting to RMB4.363 billion for the year.

In addition, the pilot project of debt-to-equity conversion was reactivated in 2016, which was of positive significance in lowering the operating leverage of the enterprises, stimulating their potential and propelling the healthy development of the economy. In accordance with the "Guidelines for Marketisation of Debt-to-equity Conversion of Banks", the Company has proactively responded to the supply-side reform while steadily pushing forward the related business, screening customers properly, carrying out feasibility analysis and preparing workable service plans with the aim of providing customers with comprehensive financial services, reducing their operating leverage and controlling financial risk.

6. Asset quality in key areas

In response to changes in external macroeconomic environment, the Company proactively strengthened the control of its credit risk associated with real estate enterprises, local government financing platforms, overcapacity industries and other key areas.

In respect of real estate credit business, the Company dynamically adjusted its credit policy according to national policies on industrial adjustments, formulated and implemented stringent entry standards with respect to cities, customers and projects, continued to enhance the on- and off-balance sheet quota control on full statistical calibres and strengthened the region and customer list management, proactively adapted to national policies on industrial adjustment and strictly implemented the requirement of national policies in key cities with excessive growth in the prices of real estate properties so as to deepen strategic cooperation with the prestigious real estate developers, thereby further raising the proportion of its strategic customers and prestigious cities in the real estate industry and constantly optimising its assets structure. As at the end of the reporting period, the risk exposure of our businesses with domestic real estate enterprises (calculated on the broad statistical calibre) amounted to RMB358.694 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 RMB27.073 billion as compared with the end of the previous year. Among which, the balance of loans to domestic corporate real estate amounted to RMB170.223 billion, representing a decrease of RMB3.003 billion as compared with the end of the previous year, which accounted for 5.65% of the Company's total loans and advances, down by 1.04 percentage points as compared with the end of the previous year. Due to various factors such as slow destocking cycle as a result of significant property inventories of certain cities, the increasing vacancy rate and decreasing rental rates of offices and commercial properties, the non-performing loan ratio was 1.35%, up by 0.68 percentage point as compared with the end of the previous year. In addition, there was no non-performing asset in our businesses such as contingent credit involving real estate, bond investments and investment of wealth management products in non-standard assets.

In respect of local government financing platform business, the Company implemented quota management on full statistical calibres. The Company further specified the requirements of total amount control and centralised regional management, adhered to the entry standard of "stable cash flow and compliant business model", and prioritised the allocation of its credit resources to local government financing platforms being operated under commercial principles such as government purchasing and PPP, and having relatively adequate cash flow to optimise its loan structure. In addition, the Company continued with its research on the change of debt policy of the central and local governments, acting actively in concert with the replacement of local government debts and quota management, so as to safeguard the creditor's rights of the Company. As at the end of the reporting period, the risk exposure of our businesses with local government financing platforms (calculated on the broad statistical calibre) amounted to RMB210.025 billion (including businesses such as actual and contingent credit, bond investments, proprietary investment and investment of wealth management products in non-standard assets), representing a decrease of RMB47.580 billion as compared with the end of the previous year. Among which, the balance of loans on balance sheet amounted to RMB104.683 billion, representing a decrease of RMB26.616 billion as compared with the end of the previous year, which accounted for 3.47% of the total loans and advances granted by the Company, down by 1.60 percentage points as compared with the end of the previous year. There was no non-performing asset in our businesses with local government financing platforms.

For overcapacity industries such as iron and steel, cement, plate glass, electrolytic aluminium, shipbuilding, polysilicon and coal chemicals, the Company raised its entry standards of customers, focused on supporting leading enterprises in industries and regional quality enterprises closely relating to people's living, devoted to reducing and exiting customers associated with significant risks and lower class overcapacity and implemented stringent quota management. In addition, the Company enhanced the monitoring of withdrawal of risk-bearing loans and optimised risk mitigation measures. Due to declining market demand, decrease of profitability of enterprises and insufficient operating cash flow, the Company has been increasingly exposed to the risks associated with overcapacity industries and its non-performing loan ratio rose accordingly, which was mainly due to the increase in non-performing loans associated with the shipbuilding and coal chemical industry. As of the end of the reporting period, the balance of our loans extended to overcapacity industries amounted to RMB44.651 billion, representing a decrease of RMB4.393 billion as compared with the end of the previous year, and accounting for 1.48% of total loans and advances of the Company, down by 0.41 percentage point as compared with that at the end of the previous year. The non-performing loan ratio of the Company in overcapacity industries was 11.78%, up by 6.32 percentage points as compared with that at the end of the previous year.

7. Analysis of the impact of new policies on wealth management business

In recent years, the wealth growth of domestic residents and institutions has contributed to the vigorous development of asset management business. At present, China's financial regulators are promoting the long-term sound development of such business by promoting moderate growth in its volume and unifying the regulatory standards and other measures. On one hand, the Central Bank will formally include the utilisation of off-balance-sheet wealth management funds into the broad credit statistical calibre starting from 2017, which will have an important impact on the macro-prudential assessment (MPA). The purpose is to promote banks to optimise the wealth management asset allocation structure and the business management model, and realise the reduction in leveraging, so as to prevent systemic financial risk. On the other hand, according to media reports, the Central Bank is working with China Securities Regulatory Commission, China Banking Regulatory Commission, China Insurance Regulatory Commission and other relevant departments to prepare the guiding opinions for the asset management business carried out by various financial institutions. At present. industry-wide discussions are being conducted and opinions being solicited. There will be a unified regulatory standards in the industry. Problems such as hidden rigid payments affecting the healthy development of this industry are expected. The asset management business of banks will gradually gear back onto its original track of "being entrusted to conduct wealth management on behalf of customers".

At present, the volume of off-balance-sheet wealth management assets of the Company has exceeded RMB2 trillion. After the Central Bank included the off-balance-sheet wealth management into the broad credit statistical calibre, the macro-prudent capital adequacy ratio under MPA was elevated to some degree. Taking into consideration the 2017 operation budget plan of the Company and its asset structure optimisation strategy, it is expected that the MPA assessment level of the Company will be maintained, but the "buffer distance" between our capital adequacy ratios and the assessment standards will become narrowed.

In accordance with macroeconomic situation, market demand, its own operation advantages and customer features, the Company continued to improve the allocation strategy for major types of assets to increase the ratio of return on assets to risk and enhance the development and issuance of net-worth products. As at the end of the reporting period, the proportion of the Company's net-value wealth management products ranked in the forefront of the domestic banking sector and made positive progress in breaking hidden rigid payments. Next, the Company will continue to promote the healthy development of asset management business towards its original track by closely monitoring regulatory changes and strictly implementing the rules and regulations on wealth management.

8. The proprietary funds invested in non-standard creditor's assets

During the reporting period, the Company tightened risk control in the proprietary funds invested in non-standard creditor's assets and emphasized compliance with the rules in respect of the investment, carefully evaluated the risks and made adequate provision based on the nature of the invested basic assets in strict compliance with the regulatory requirements. As at the end of the reporting period, the balance of the Company's proprietary funds invested in non-standard creditor's assets amounted to RMB507.932 billion, representing a decrease of 25.83% as compared with the end of the previous year, mainly due to the adjustments to the Company's internal treasury strategy and falling interest rates of non-standard creditor's assets investment. During the reporting period, the Company classified the proprietary funds invested in non-standard creditor's assets for the beneficiary rights to the discounted bank acceptance bills and commercial acceptance bills into the credit category, and accordingly, certain adjustments have been made to the relevant data calibres and the assets structure as at the end of the reporting period is as follows:

The balance of proprietary funds invested in non-standard creditor's assets under the credit category amounted to RMB446.804 billion, representing a decrease of 27.76% from the beginning of the year, in which RMB144.012 billion was for corporate creditor's beneficiary rights, down by 19.25% as compared with the end of the previous year; RMB61.895 billion was for individual creditor's beneficiary rights, up by 3.07% as compared with the end of the previous year; and RMB240.897 billion was for beneficiary rights to discounted bank acceptance bills and commercial acceptance bills, down by 36.62% as compared with the end of the previous year. The non-performing ratio of the proprietary funds invested in non-standard creditor's assets under the credit category was 0.84%, up by 0.53 percentage point as compared with the beginning of the year.

The balance of proprietary funds invested in non-standard debt assets under the non-credit category amounted to RMB61.128 billion, representing a decrease of 7.82% as compared with the beginning of the year. The objects of such investments include investment in wealth management products of banks and other financial institutions, negotiated deposits or term deposits placed with other commercial banks and creditor's beneficiary rights to other commercial banks.

As at the end of the reporting period, the balance of provisions for full-calibre credit assets (including proprietary loans and non-standard creditor's assets) amounted to RMB112.441 billion, including the balance of loan provisions of RMB106.971 billion and the balance of provisions for proprietary funds invested in non-standard creditor's assets under the credit category of RMB5.470 billion. The full-calibre credit assets allowance ratio was 3.25%, representing an increase of 0.64 percentage point as compared with the beginning of the year, whereas the non-performing loan allowance coverage ratio of credit assets was 177.07%, representing an increase of 4.98 percentage points as compared with the beginning of the year.

9. Financial Technology (Fintech)

In response to the external challenges posed by the internet financing and Fintech, the Company has accelerated the implementation of its Fintech strategy and improved service quality by taking full advantage of such technologies as mobile internet, cloud computing, big data, artificial intelligence and biological identification, so as to expedite its transformation into a bank of the future which is network-based, digitised and intelligence-oriented.

In respect of retail finance, the Company adhered to the strategy of "prioritising the development of mobile phone applications" while constantly migrating its customer service interfaces to mobile phones and encouraging innovation in its mobile-based products and business models. During the reporting period, with the launch of "Mobile Banking 5.0" and "Machine Gene Investment (摩羯智投)", our mobile application CMB Life was continuously improved, aiming to provide personalized and intelligent customer service which enables more agreeable and friendly customer interaction with the biological identification technology. As at the end of the reporting period, the total number of customers who have downloaded our mobile banking application added up to 41.5192 million, with 25.7792 million active users each year. The total number of registered users of our mobile user application "CMB life" topped 31.49 million, with 30.21 million active users each year. A total of 735 million mobile banking transactions were concluded in 2016, with a transaction amount of RMB12.10 trillion. The sales amounts of wealth management products through the mobile banking channel reached RMB2.22 trillion (excluding funds and insurances); the average purchase amount of the users of Machine Gene Investment (摩羯智投) was RMB36,900, and the total number of applications of facial recognition technology in the four channels of mobile banking, visual counter, physical counters and ATMs amounted to 40.74 million times. We have established our customer-oriented service system by combining online intelligent services and offline services provided by branches and relationship managers. We have also launched the "All-in-one Net" Pay, an open, safe and convenient mobile application for both individuals and businesses. In 2016, 910 online merchants have signed up for the "All-in-one Net" Pay, which covers a full range of daily-life needs from clothing, food, housing, transportation to entertainment, health care and education. We have achieved data-driven client management by integrating multidimensional data to construct a 360° image of the customers and building a retail customers label platform to carry out precise marketing and make personalised recommendations. For customer transactions, we also adopted a risk identification model based on big data, e.g. equipment, location, relationship, behaviours and preferences, aiming to issue early warning of abnormal trading behaviours and fraudulent conducts.

In the field of wholesale finance, we continued to innovate customer service models with mobile internet technologies. Relying on the online banking platform of the Company, the mobile cheque service extends and expands its application scenarios in corporate business and creates a new business ecosystem for payment and settlement through mobile payment. Such business developed rapidly in 2016 with 5.88 million effective transactions and accumulated transaction volume exceeding RMB306.2 billion. The product mix of our B2B online transaction platform "Zhao Ying Tong" has been continuously enriched, with systematic management enabled for the whole transaction process and the quick transaction mode and mobile user terminal launched in an effort to urge our interbank over-the-counter business to go online and become internet-based. In 2016, we secured more than 900 financial institutions for our "Zhao Ying Tong" transaction platform, generating more than RMB3.77 trillion in the sales amounts of interbank wealth management products through our "Zhao Ying Tong" transaction platform. In respect of credit risk management, we have strengthened our R&D efforts for the risk pre-warning model and pioneered in creating a new pattern of risk pre-warning through models. In such new pattern, the client-end pre-warning model can issue early warnings for more than 60% of corporate overdue and non-performing assets 8 months prior to actual overdue dates on average.

In addition, the Company accelerated its collaboration with partners from other industries and promoted the integrated innovation of finance and technology, aiming to build an internet-based financial eco-system highlighted with our own characteristics. Merchants Union Consumer Finance Company Limited jointly established by the Bank and China Unicom operates a service system based on the "cloud platform" to offer consumer finance services via internet. As at the end of the reporting period, it granted RMB57.077 billion of loans to 7,044,800 customers, with a loan balance of RMB18.189 billion and a non-performing ratio of 0.82%. CMB Qianhai Financial Asset Exchange Co., Ltd., which was jointly set up by the Bank and China Merchants Group, is mainly engaged in financial assets transaction and wealth management, aiming to build up mobile client application and cloud service platform. As at the end of the reporting period, the aggregate transaction volume amounted to RMB103.075 billion, with 66,400 users registered for its "Zhaozhao Licai" service. The strategic cooperation with Didi Chuxing expanded rapidly, with 1.25 million joint-brand credit cards and 1.3 million joint-brand debit cards issued as at the end of the reporting period.

10. Analysis on impact of the new policy on credit card business

In accordance with the requirements of the "Notice on Relevant Matters Concerning Credit Card Business" issued by the People's Bank of China on 15 April 2016, the interest rates of credit card overdrafts are subject to the "cap-and-floor" management starting from 1 January 2017. The conditions and standards for interest-free repayment periods and minimum repayment amounts may be determined by card issuers. The implementation of the new policy is a crucial initiative to guide banks to conduct differentiated operation and offer diversified credit card services. Meanwhile, the new policy may also lower the credit card yield, or have certain impact on net interest yield and net interest income. The degree of such impact depends on the response of credit card market to the new policy.

In response to the possible impact of the new policy, the Company will constantly enhance its capability in asset pricing and differentiated pricing in 2017. In the implementation process, the Company has steadily promoted the marketisation of credit card interest rates in adherence to the principle of strategic research and system building ahead of prudent implementation. Upon the release of the policy, the Company immediately organised an expert team to study it, took an initiative to develop differentiated customer base, formulated differentiated pricing strategy, revamped and upgraded the core credit card system in order to better support the differentiation of interest rates. As at the end of the reporting period, the Company has fully completed the formation of strategies and the development of systems required for the implementation of interest rate liberalisation. In the subsequent implementation process, the Company will maintain its prudent attitude to gradually expand the customer base involved in interest rate liberalisation in batches and keep track of customer feedbacks.

5.9.2 Outlook and Measures for 2017

The global economy has been struggling for a sluggish growth for several consecutive years as a result of the international financial crisis, and the trend is expected to continue in 2017. Meanwhile, with the trends of populism, protectionism and isolationism emerging, the thoughts of de-globalisation started to gain ground. We will be facing the European refugee issue and the presidential election in Germany and France, as well as the steering in political and economic policies of the new US Government, all of which could trigger a new Black Swan event. In China, with the built-up effect of the government policy of "Maintaining Stable Growth" and the rebound of commodity prices in 2016, the pressure of the economic downturn was mitigated and the economy managed to secure a stable growth. However, we are still faced with prominent structural conflicts, severe asset bubbles in some regions and increased risk exposure in the economic and financial area. The pressure of economic downturn in 2017 is expected to remain huge. However, benefiting from the deepening of supply-side structural reform, the policy on streamlining administration and delegating power to the lower levels as well as the innovation-driven development strategy, investment in the manufacturing industry is expected to recover, with constantly expanding investment in infrastructure and relatively fast growth in the service industry and other emerging industries. Considering the limited possibility for continuous economic downturn, it is estimated that the economy will assume a slow and steady growth for the whole year, exhibiting a trend of feeble stability and slight fluctuation.

The transformation of the banking industry will become an increasingly urgent task amid a complicated economy. Particularly, with the deepening industrial structural adjustment, greater challenges will arise while the banks optimised their credit structure with more importance attached to the asset quality control. In respect of income, commercial banks will face certain challenges in increasing their net interest income and raising their net interest margin due to escalating competition among financial institutions, accelerated financial disintermediation and numerous new financial operating patterns emerging in the process of interest rate liberalisation. Meanwhile, with the tightening tax policies and regulation on wealth management, it is difficult for commercial banks to grow their non-interest net income, therefore their profitability will face severe challenges. With the prevailing tide of Fintech, new technologies such as big data, cloud computing and artificial intelligence will play an increasingly important role in client management, risk management, payment and settlement, and wealth management, thusly advancing the transformation of of commercial banks.

In response to the challenges and opportunities under the new circumstances, the Company will closely follow the keynote of the Central Economic Working Conference and remain determined in putting the strategy of "Light-operation Bank" and "One Body with Two Wings" in practice, so as to ensure the transformation measures efficiently implemented by deepening the reform, expand our differentiated competitive advantages by strengthening our featured services, optimise our asset structure by reorganizing quality assets, and prevent risks in all aspects to ensure prudent operation. We will strive to secure a fast growth in customer base, liability and intermediate business as well as a steady increase in our asset scale while maintaining and improving our asset quality. Under the current operating environment, the Company plans to achieve a growth rate of approximately 12% and 10% in proprietary loans and proprietary deposits in 2017, respectively, and plans to achieve a growth rate of approximately 12% in active liabilities. In 2017, the key operational measures of the Company are described as follows:

The first is to integrate quality assets in the supply-side structural reform and take good hold of the opportunities for investment in infrastructure generated by the "Maintaining Stable Growth" policy, the structural opportunities arising from the adjustment and regulation and "destocking" in the real estate industry, the opportunities for investment in the industrial chain arising from the consumption upgrade, business opportunities arising from the reform of state-owned enterprises, opportunities for emerging finance business in the background of "reducing overcapacity" and "deleverage", business opportunities with the "small and micro enterprises" in the context of revitalizing the real economy as well as the business opportunities for offshore finance generated by the"One Belt One Road" initiative and the "Going Global" strategy.

The second is to deepen reform and advance strategic transformation both in width and depth. We will focus on building up our capability, sorting out links and processes, improving the supporting mechanism, advancing reform in depth and breadth and striving for the goal of "professionalism, delayering and intensification". Meanwhile, we will advance our strategic transformation by the roots through increasing investment in technological innovation and ensuring all the reform and transformation measures are efficiently implemented through upgrading our fundamental management expertise.

The third is to catch the momentum and demonstrate our specialties. While continuing to increase resource investment in retail business and maintaining reasonable outlet and staff allocation, we will also vigorously explore and promote financial technologies so as to overcome the limits of linear growth pattern and create a new business model for retail business of the commercial banks in a speedy manner. We will continue to build, consolidate and improve the proficiency of our investment bank and asset management business, accelerate the deployment of "Industrial Internet" for our transaction banking business, and further improve our "Zhao Yin Safe Haven" service system for our financial market business. The Company will focus on building an operation and management system in which the retail business, companies and interbank business are organically connected, mutually supported and positively circulated, and connect wealth management, investment banks and asset management along the entire financial value chain and give free rein to the advantage of the diversity of customers, assets, capital and channels.

The fourth is to consolidate our risk management system by addressing both symptoms and root causes. While strengthening our structural adjustment and improving our risk management expertise, we will prioritize prevention of erosion and expansion of external risks, emphasize the prevention of liquidity risks and market risks and attach greater importance to the prevention of crossed-over financial risks.

5.10 Business Operations

Facing the challenging and complicated economic and financial situations in 2016, the Company adhered to the transformation strategies of "Light-operation Bank" and "One Body with Two Wings" in its transformation and demonstrated its operational distinctiveness by leveraging on its own advantages, delivering impressive performance in risk management, showing remarkable courage towards the challenges of structural adjustment, driving the system reform ahead, making good progress in corporate governance while securing steady development of our businesses. In 2016, the percentage of the profit before tax for retail finance business continued to grow. The "One Body" has been constantly strengthened – retail businesses including private banking, wealth management and credit cards became more competitive while the retail customer base was further consolidated. The differentiated competitive strength generated by our corporate finance and financial institutions finance business was further improved – new progress was seen in customer structural adjustment; construction of the basic customer base was progressing in both quantity and quality; transaction banking and investment banking businesses were growing rapidly; the offshore finance business grew steadily; the scale of asset management, financial market business, asset custody and bills businesses remained in the lead in the industry as we have taken a good hold of market opportunities. In the meantime, the Company's model as a "Light-operation Bank" continued to deliver good results, which was reflected by further optimised assets and liabilities structure, rapidly growing non-interest income and continuously improving operational efficiency.

5.10.1 Retail finance

Business overview

In 2016, the profit of the retail finance business of the Company maintained its rapid growth with steady improvement in value contribution. The profit before tax amounted to RMB44.094 billion, representing an increase of 23.80% as compared with the corresponding period of the previous year. The percentage of the profit before tax of the retail finance business in the total profit before tax of the whole business lines of the Company increased to 53.62%, representing an increase of 4.07 percentage points as compared with the corresponding period of the previous year. The net operating income from the retail finance amounted to RMB97.923 billion, representing an increase of 8.43% as compared with the corresponding period of the previous year, and accounting for 49.43% of the net operating income of the Company, up by 2.40 percentage points as compared with the corresponding period of the previous year, among which, the net interest income from retail finance amounted to RMB65.708 billion, representing an increase of 3.56% as compared with the corresponding period of the previous year and accounting for 67.10% of the net operating income from retail finance, while the net non-interest income from retail finance amounted to RMB32.215 billion, representing an increase of 19.95% as compared with the corresponding period of the previous year and accounting for 32.90% of the net operating income from retail finance, and 47.49% of the net non-interest income of the Company. In 2016, the retail finance of the Company recorded a fee income of RMB10.702 billion from bank cards, representing an increase of 14.42% as compared with the corresponding period of the previous year; the fee and commission income from retail wealth management was RMB18.549 billion, representing an increase of 8.61% as compared with the corresponding period of the previous year and accounting for 58.98% of the net fee and commission income from retail finance.

Unlike its domestic peers, the Company has always prioritised the development of its retail finance business and the construction of its retail finance business system, and has ultimately formed a solid, high-quality and extensive retail customer base through continuously optimisation of its business management system, product system, service system and risk prevention system. The Company enjoys outstanding competitive edges in such core retail businesses as wealth management, private banking, retail credit and consumer finance.

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 91.06 million retail customers (including the users of its debit cards and credit cards), representing an increase of 19.32% as compared with the end of the previous year (calculated on the same statistical calibre), among which, the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 1,907,200, representing an increase of 15.76% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB5,530.5 billion, representing an increase of RMB780.9 billion or 16.44% 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 RMB4,540.8 billion, representing an increase of 21.75% as compared with the end of the previous year, and accounting for 82.10% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers amounted to RMB1,191.634 billion, representing an increase of 5.54% as compared with the end of the previous year, of which the percentage of demand deposits grew to 76.39%, up by 5.29 percentage points as compared with the end of the previous year. According to the data released by the PBOC, the Company continued to rank first among the national small- and medium-sized banks in terms of the balance of retail deposits. A total of 104,930,000 All-in-one Cards have been issued by the Company, up by 15.11% as compared with the end of the previous year. The average deposit balance per All-in-one Card amounted to RMB10,100, similar to that as at the end of the previous year; the cumulative transaction of "All-in-one Card" amounted to RMB2,176.8 billion, representing an increase of 6.33% as compared with the corresponding period of the previous year. The transaction volume of "All-in-one Card" via POS reached RMB1,013.3 billion, representing an increase of 11.68% as compared with the corresponding period of the previous year.

In 2016, the Company further consolidated its retail customer base through a number of initiatives, and achieved a balanced development of its retail customer base and assets under management (AUM). During the reporting period, by drawing upon the development opportunities of the internet finance, the Company updated and launched its "CMB APP5.0" with a core concept of intelligentisation, integrated services and financial self-scenario, and vigorously promoted the customer acquisition model through the "light" channels. The Company also upgraded its services in all aspects by launching the "Machine Gene Investment (摩羯智投)" which is based on artificial intelligence and designed to provide the customers with professional asset portfolio services according to their own funding requirements as well as differentiated risk preferences. In addition, the Company secured the funds of its customers in daily life settlement and boosted saving deposits by providing them with various convenient services including "CMB APP5.0", "CMB Life", All-in-one Net and payment of utility fees.

Wealth management

During the reporting period, the Company recorded RMB7,654.1 billion in accumulated sales of personal wealth management products, RMB495.2 billion in the distribution of open-ended funds, RMB152.5 billion in premiums from agency distribution of insurance policies and RMB132.2 billion in agency distribution of trust schemes. Fees and commission income from retail wealth management business was RMB18.549 billion, representing an increase of 8.61% as compared with the corresponding period of the previous year, accounting for 58.98% of the net retail fees and commission income, among which, income from agency distribution of funds amounted to RMB5.536 billion, representing a decrease of 26.29% from the corresponding period of the previous year. Income from agency distribution of insurance policies amounted to RMB5.104 billion, representing an increase of 81.96% from the corresponding period of the previous year. Income from entrusted wealth management amounted to RMB4.814 billion, representing an increase of 50.02% from the corresponding period of the previous year. Income from agency distribution of trust schemes amounted to RMB2.911 billion, representing a decrease of 15.11% as compared with the corresponding period of the previous year;

In 2016, the wealth management business of our Company enjoyed strong support from our professional market research team, which conducted independent research on the macro market as well as the trends and developments of the financial market, regularly provided opinions on the market, medium to long term investment strategies and the allocation strategies for large asset categories, as well as fully supported the investment decision of the wealth management business. Meanwhile, through research and judgment on the developments of the macro economy, the competitive environment of the market, the development laws of the wealth management business and investment preferences of the customers, and leveraging on the advantage of artificial intelligence in wealth management, the Company launched its first smart investment advisory service in the banking industry – "Machine Gene Investment (摩羯智投)", which provides customers with intellectual fund portfolio allocation service with publicly offered funds as the basic products for global allocation of major asset categories. It also provides customers with better pre-sale, in-sale and after-sale service through regular interactions with the customers.

Private banking

Our private banking business is conducted under the operating philosophy of "It's our job to build your everlasting family fortune", which provides high-net-worth clients with professional, comprehensive and private services covering their individual, family and corporate needs tailored to their diversified demands in respect of investment, taxation, legal affairs, M&A, financing and clearing. Our private banking business experienced a rapid growth during the reporting period. As at 31 December 2016, the Company had 59,560 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 21.47% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,659.5 billion, representing an increase of 32.54% as compared with the end of the previous year. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 51 private banking centers and 63 wealth management centers in 54 domestic cities and 2 overseas cities.

In 2016, in response to the market fluctuations, the Company continued to deepen comprehensive customer management, constantly built up its diversified customer acquisition capability, promoted the development of market-research-driven products, implemented asset allocation and pushed forward the comprehensive upgrade of private banking business by providing various services including discretionary entrustment, tax planning, family trust, M&A financing and investment banking matchmaking, with a view to building an integrated financial service platform.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 80.31 million credit cards, with 45.50 million active cards and 7.68 million new cards issued during the reporting period. As at the end of the reporting period, there were 37.30 million active credit cards users, representing an increase of 20.21% as compared with the end of the previous year. The Company continued to improve the efficiency of customer acquisition and management. The total credit card transaction of the Company for 2016 amounted to RMB2,274.8 billion, representing an increase of 25.02% as compared with the corresponding period of the previous year, and the average transaction of each active card per month amounted to RMB4,582. The percentage of the revolving balances of credit cards was 23.72%. The balance of credit card overdrafts was RMB409.015 billion, representing an increase of 30.65% as compared with the end of the previous year. Interest income from credit cards for 2016 amounted to RMB32.293 billion, representing an increase of 20.82% as compared with the corresponding period of the previous year. Non-interest income from credit cards amounted to RMB11.319 billion, representing an increase of 17.93% as compared with the corresponding period of the previous year. The non-performing loan ratio of credit cards business was 1.40%, and the business risk exposure was controllable.

During the reporting period, the Company 1) leveraged on technological advancements to enhance its operating efficiency while continuously optimising the CMB Life operating platform to improve its core finance and service functions and setting up the "Zhang Jing Hao" (掌經號) membership management system which has been gradually opened to the corporate customers for data connection, with the number of subscribers for CMB Life topping 30 million; 2) further upgraded its Intelligent Customer Service with artificial intelligence technology introduced to create the new generation of the intelligent service platform, enhanced operating efficiency and improved customers' experience with the cutting-edge technologies such as human face and voice verification, intelligent voice processing and human-machine collaboration; 3) made remarkable efforts to expand its customer base through the "light" channels while improving the efficiency of its data-driven mechanism and continuously optimising its customer structure; 4) completed its credit card portfolio by launching Didi Joint-brand Credit Card (滴滴聯名信用卡), the Booking Joint-brand Card, the LOL Collector's Edition Credit Card (英雄聯盟珍藏版信用卡) and the NBA Joint-brand Credit Card; 5) launched innovative products such as E-CMB-Loan (E招貸) and Consumption Reserve (消費備用金) to beef up the functions of "Loan Instalment on Palm" (掌上分期) and "Loan Instalment on QR Code Scan" (掃碼分期), which has significantly boosted the growth of high-yield business; 6) expanded its payment product line by pioneering the launch of Apple Pay, a critical move into NFC mobile payment sector aiming to enhanced its customers' experience in all aspects; 7) worked diligently to boost data flow and customers' loyalty, focusing on restaurant vouchers and movie tickets, the two major shopping scenarios largely completed via the mobile internet, opened the "Local Special Deals" channel and embedded it in CMB Life to penetrate commercial circle consumption; 8) streamlined its credit point management and rolled out a variety of credit point-related products to refresh its brand image of "do a little good with a few credit points" by means of crowdfunding and auction; 9) made good use of risk control with big data to expand its customer base and boost loan growth and achieved stability in its asset quality and a balance between business growth and risk management.

Retail loans

In 2016, the Company further enhanced the efficiency of its relationship managers and the customers' experience through further consolidating its mobile internet platform and setting up a PAD-based platform for retail loans, resulting in a rapid growth of its retail loan business. As at the end of the reporting period, the total retail loans of the Company amounted to RMB1,520.711 billion, representing an increase of 25.73% as compared with the end of the previous year and accounting for 50.45% of the total loans and advances to customers, up by 3.74 percentage points as compared with the end of the previous year.

In 2016, in response to the demand of the market and customers, the Company adopted an active stance on the housing mortgage loans while steadily increasing loans offered to the small and micro enterprises. As at the end of the reporting period, the Company recorded a balance of residential housing loans of RMB720.305 billion, representing an increase of 46.62% as compared with the end of the previous year and accounting for 47.37% of the retail loans of the Company. During the reporting period, loans granted to small and micro enterprises amounted to RMB400 billion and the balance of such loans totalled RMB281.653 billion, representing a decrease of 8.84% (calculated on the Bank's statistical calibre) as compared with the end of the previous year, and accounting for 18.52% of retail loans, down by 7.03 percentage points as compared with the end of the previous year. The non-performing loan ratio of micro loans was 1.64%. The floating percentage of the weighted average interest rate of micro loans newly granted (weighted at actual amounts, same as below) during the reporting period was 41.53%, representing an increase of 4.50 percentage points as compared with the previous year.

In 2016, with significant importance attached to risk management relating to retail loans, the Company established a complete risk management system covering its front, middle and back offices while continuing to optimise the risk model to keep fraud and credit risks under control. Affected by the deterioration in some individual customers' creditability and solvency, the balance of our special mention retail loans increased while the non-performing loan ratio declined, with the overall quality of retail loans remaining stable. As at the end of the reporting period, the balance of the special mention retail loans of the Company amounted to RMB20.580 billion, representing an increase of 26.65% as compared with the end of the previous year, and the proportion of special mention retail loans remained almost unchanged as compared with the end of the previous year; balance of non-performing retail loans amounted to RMB15.388 billion with a non-performing loan ratio of 1.01%, down by 0.07 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 88.37% of the balance of new non-performing retail loans of the Company for the year, representing a mortgage and pledge rate of 60.83%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was not substantial and the risk associated with retail loans was generally controllable.

5.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB38.135 billion, accounting for 46.38% of profit before tax for the business lines of the Company. The net operating income from wholesale finance of the Company was RMB99.279 billion, representing a decrease of 2.53% as compared with the corresponding period of the previous year, and accounting for 50.12% of the net operating income of the Company. Among which, the net interest income from wholesale finance amounted to RMB65.911 billion, representing a decrease of 6.78% as compared with the corresponding period of the previous year, and accounting for 66.39% of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB33.368 billion, representing an increase of 7.10% as compared with the corresponding period of the previous year and accounting for 33.61% of the net operating income of wholesale finance, and 49.19% of the non-interest income of the Company.

Corporate customers

In 2016, the Company proactively adjusted its customer mix based on the current economic situation for the purpose of prudential management, and replaced the granting of general loans with diversified financing services so as to actively implement the development strategy of operating as a "Light-operation Bank" and keep abreast of the changes in customers' financing needs. The Company had 21,000 corporate borrowers, representing a decrease of 20.75% as compared with the end of the previous year.

During the reporting period, the Company continuously consolidated its customer base. The number of corporate depositors kept growing after exceeding the one-million benchmark, with a total number reaching 1,295,100, among which, more than 330,300 new customers opened accounts in the Company during the reporting period, representing an increase of 4.65% as compared with the corresponding period of the previous year.

Corporate loans

As at 31 December 2016, total corporate loans of the Company amounted to RMB1,342.356 billion, representing an increase of 3.50% as compared with the end of the previous year and accounting for 44.53% of total loans and advances to customers. Among them, the balance of the medium-to long-term loans to domestic enterprises amounted to RMB530.570 billion, accounting for 42.68% of the total loans to domestic enterprises, and representing an increase of 2.79 percentage points as compared with that at the end of the previous year. The non-performing loan ratio of our corporate loans was 3.30%, an increase of 0.70 percentage point as compared with that at the end of the previous year. In 2016, the floating range of weighted average interest rates of newly granted corporate loans in RMB increased to 3.76%, representing a year-on-year decrease of 5.56 percentage points.

The underlying data of our large- and medium-sized enterprise businesses at the beginning of the year was updated as compared with the end of the previous year due to adjustment of relevant data as a result of change in the classification of certain enterprises based on the calibre of the Company at the beginning of the year since certain enterprises have become larger. As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB885.438 billion, representing an increase of 1.03% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 71.22% of our total loans granted to domestic enterprises, up by 0.50% as compared with the beginning of the year with a non-performing loan ratio of 3.27%, up by 1.04 percentage points as compared with the beginning of the year; as the Company adjusted the loan structure, the balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB173.089 billion, representing a decrease of 9.20% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 13.92% of our total loans granted to domestic enterprises, down by 1.46 percentage points as compared with the beginning of the year with a non-performing loan ratio of 5.83%, up by 2.00 percentage points as compared with the beginning of the year.

The underlying data of our small enterprise businesses at the beginning of the year was updated as compared with the end of the previous year due to elimination of relevant data as a result of change in the customer segment identification of certain enterprises at the beginning of the year as they grew larger. As at the end of the reporting period, the balance of loans granted to domestic small enterprises amounted to RMB184.680 billion (calculated on the Bank's calibre), which, for the first time in three years, witnessed a positive growth, representing an increase of 7.28% over the beginning of the year and accounting for 14.86% of domestic corporate loans, up by 0.96 percentage point as compared with the beginning of the year. 74.35% of small enterprise loans had collaterals or pledges. The percentage is 10.79 percentage points higher than the beginning of the year. The non-performing loan ratio was 2.88%, representing a decrease of 1.09 percentage points as compared with the beginning of the year. The number of small enterprise customers of the Company (calculated by the number of valid accounts opened in the Company) increased by 25.52% to 1,185,800 as compared with the beginning of the year. In 2016, the floating range of the weighted average interest rate of the Company's new loans granted to small enterprises was 23.42%, representing a year-on-year increase of 0.46 percentage point.

In 2016, the Company further optimised the industry distribution structure of corporate loans, giving priority to industries undergoing structural upgrading, traditionally competitive industries, strategic emerging industries, modern service industries and green industries, and flexibly adjusted loans to real estate, local government financing vehicles and other industries in response to the changes in external operating environment. As at 31 December 2016, the balance of credit loans to strategic emerging industries was RMB58.683 billion, representing an increase of RMB2.770 billion as compared with the end of the previous year, and accounting for 4.37% of the total corporate loans of the Company; and the balance of green credit loans was RMB143.664 billion, and accounting for 10.70% 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's financing vehicles, please refer to Section 5.9.1 of this report.

The "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. During the reporting period, the Company stepped up its effort to expand the customer base for "Qian Ying Zhan Yi (千鷹展翼)" while aggressively exploring the investment and loan linking business with commercial banks by launching the innovative "Tou Dai Tong (投貸通)", a special credit financing product to promote the business models such as options and direct investment in small equity interest as a test-drive and provide innovative SMEs with customised investment and loan linking services. As relevant data were updated as per the registration standards of "Qian Ying Zhan Yi (千鷹展翼)" as well as the changes in certain enterprises at the beginning of the year, the customer base of the "Qian Ying Zhan Yi (千鷹展翼)" at the beginning of the year was different from that at the end of the previous year. As at 31 December 2016, the Company had a total of 24,185 registered customers, representing an increase of 17.14% as compared with the beginning of the year. We have taken the initiative to adjust and optimise the internal structure of our customer base while continuing to consolidate the number of customer base. The customers that have credit lines granted by the Company accounted for 37.87% of the customer base and the total amount of the credit lines granted to such customers as at the end of the reporting period amounted to RMB265.824 billion with balance of loans granted to such customers amounting to RMB98.402 billion. As a customer base of the growing small- and medium-sized innovative technology enterprises which the Company has been striving to expand, "Qian Ying Zhan Yi (千鷹展翼)" insisted on a marketing model of selecting its target customers from a carefully-compiled list, and as its industrial structure was in line with the direction of economic transformation, its non-performing loan ratio of 1.58% was lower than the overall non-performing loan ratio of the Company.

In 2016, the Company continued to promote syndicated loan business to enhance inter-bank cooperation and information sharing and diversify the risks associated with large amount loans. As at 31 December 2016, the balance of syndicated loans amounted to RMB138.120 billion, up by 59.15% as compared with the end of the previous year.

Discounted bills

In 2016, after taking into consideration its total credit, liquidity, gains and risk profile, the Company effectively allocated and promoted its discounted bills business. The volume of the directly discounted bills amounted to RMB1.96 trillion during the reporting period, representing a year-on-year increase of 26.45% and maintaining its leading position in the industry in terms of business volume. As at 31 December 2016, the balance of discounted bill loans amounted to RMB151.465 billion, representing an increase of 82.89% as compared with the end of the previous year and accounting for 5.02% of the Company's total loans and advances to customers.

Corporate customer deposits

In 2016, the corporate customer deposits of the Company maintained steady growth with further improvement in structure. As at 31 December 2016, the balance of corporate customer deposits amounted to RMB2,451.006 billion, representing an increase of 6.92% as compared with the end of the previous year; the daily average balance amounted to RMB2,336.436 billion, representing an increase of 8.00% as compared with the previous year; the demand deposits accounted for 57.98% of total deposits from our corporate customers, up by 7.87 percentage points as compared with the end of the previous year. In 2016, the average cost of deposits from corporate customers was 1.48%, down by 0.58 percentage point as compared with the previous year, indicating that the cost of deposits from corporate customers was under effective control in the context of interest rate liberalisation.

Transaction banking business and offshore banking business

With respect to cash management business, the Company proactively responded to challenges arising from interest rate liberalisation by providing various types of customers with all-inclusive, multi-model and integrated cash management services, thereby making substantial contribution to the acquisition and retention of base customers, acquisition of low cost corporate settlement related deposits, and the cross-sales of other corporate and retail products. As at 31 December 2016, the Company had a total of 1.1102 million customers using its cash management service, representing an increase of 33.45% as compared with the end of the previous year. Thanks to its continuous efforts to consolidate the "C+ Cash Management Solution" brand, the Company recorded 237,900 newly opened accounts and 690,200 newly issued "All-in-one Cards for Company (公司一卡通)". The Company saw its basic cash management business maintain its healthy growth, continued to advance the innovation and promotion of its products such as "C+ Account – portfolio deposits", Cross-border Cash Pool, Virtual Cash Pool and Multi-level Cash Pool, and launched the mobile terminal for Cross-bank Solution for Cash Management ("CBS"). The Company also continued to repeatedly optimise its cross-bank cash management products, constantly upgrade its "CBS5 Cash Management Cloud Service" (CBS5 財資管理雲服務), and launch the CBS mobile treasury management service to complete its mobile treasury programme version 2.0, which provided strong support to the marketing of its key projects serving the customs, taxation, social security and housing provident funds, resulting in a significant growth in CBS. The number of our group customers and companies under management grew up to 1,019 and 33,400 respectively, with an annual transaction amounting to RMB6.42 trillion and the number of transactions topping 4,234,400.

With respect to its supply chain finance, the Company has been striving to be a "core bank for core customers". During the year, we launched the smart supply chain finance version 3.0, aiming to streamline the transaction procedures for core customers, establish a product series covering "settlement + financing", continuously upgrade its innovative products such as C+ smart bill pool and payment agency and push forward the scenario-based innovation of the application of "internet + supply chain" finance in the industrial finance. During the reporting period, the Company raised its standards for core enterprises and upstream/downstream customers, and secured a total of 1,249 effective core customers in the supply chain and 12,880 effective upstream/downstream customers as at the end of the reporting period, representing an increase of 166.31% and 37.83% as compared with the beginning of the year, respectively. The balance of our supply chain finance amounted to RMB96.861 billion, representing an increase of 42.45% as compared with the end of the previous year.

With respect to the trade finance, the Company took the initiative to adjust the investment structure of its international and domestic trade financing assets while consolidating the combination and extended application of its integrated financing products for domestic and foreign trade and aggressively developing its domestic cross-bank letter of credit business, with a view of effectively saving capital. During the reporting period, the trading volume of domestic cross-bank negotiated letter of credit business amounted to RMB77.940 billion, representing an increase of 26.20% and the total value of the issued domestic letter of credit added up to RMB142.239 billion. The Company also actively expanded its business cooperation with strategic customers in domestic factoring and recorded an amount of domestic factoring of RMB49.732 billion, representing a year-on-year increase of 71.80%. With priority placed on the innovation of its products such as "Te Xian Yi Financing (特險易融資)", the Company's onshore financing for international trade remained stable with an average balance of US$7.086 billion at the end of the year, representing an increase of 16.20% as compared with the end of the previous year.

With respect to corporate cards and other products, thanks to coordinated marketing of retail and corporate lines, the Company had issued a total of 121,300 corporate cards and other products during the reporting period.

With respect to cross-border finance business, to cope with the adverse impact of the continuous weak demand in foreign trade, the Company stepped up its efforts to innovate its light-operation products by capitalising on the opportunities arising from the structural development, with a special emphasis on advancing the business development of "Cross-border Zi Ben Tong" (跨境資本通). The Company successfully launched online its global cash management (GCM) platform while actively adjusting its customer and business structure and vigorously driving the growth of the core customers for cross-border finance. As at the end of the reporting period, the Company had 13,839 core customers for cross-border finance, representing an increase of 7.09% as compared with the end of the previous year. During the reporting period, onshore international settlements of the Company amounted to US$253.234 billion, representing a year-on-year decrease of 17.68%. Our cross-border payment business snatched a market share of 3.34%, ranking second among the national small- and medium-sized banks (based on the statistics issued by the State Administration of Foreign Exchange). The foreign exchange settlements for customers amounted to US$145.973 billion, representing a year-on-year decrease of 16.70%, with a market share of 4.54%, up by 0.06 percentage point as compared with the same period from last year, ranking first among the national small- and medium-sized banks (based on the statistics issued the State Administration of Foreign Exchange).

With respect to the offshore business, the Company strove to promote its offshore business and continued to solidify its business foundation, resulting in a steady and healthy growth in its offshore business. As at 31 December 2016, the balance of offshore loans of the Company amounted to US$11.307 billion, representing an increase of 67.14% as compared with the end of the previous year. The quality of the Company's credit assets remained satisfactory with a non-performing loan ratio of 0.27%. The balance of deposits from offshore customers amounted to US$16.112 billion, representing a decrease of 1.37% as compared with the end of the previous year. In 2016, our offshore international settlements amounted to US$287.488 billion, representing a year-on-year increase of 1.52%. Affected by the international economic downturn, the cumulative net non-interest income amounted to US$115 million, representing a year-on-year decrease of 12.88%.

Investment banking business

In 2016, the investment banking business of the Company reported brilliant results with its core competitiveness and market influence significantly enhanced through a number of initiatives including carefully listening to the customers' needs, diligently optimising our product mix and business process and strengthening the training of personnel and internal and external network construction with the successful launch of a number of major projects. Over the year, M&A finance amounted to RMB80.995 billion, structured financing amounted to RMB32.695 billion and equity investment and financing amounted to RMB12.805 billion; the non-interest income realised a year-on-year increase of 35.82%.

With respect to our bond underwriting business, in the face of many unfavourable factors, the Company took the initiative to adjust its business strategy with great importance attached to the innovative products and successfully underwrote the first perpetual bonds which used the proceeds as the project fund, the first Tier-2 capital bonds issued by an asset management company, the first public offering venture capital investment bond and the first public offering proceeds note in the market, and successfully led the underwriting of the largest asset-backed notes (ABN) project in the industry. During the year, the total amount of lead-underwritten bonds topped RMB388.887 billion, accounting for 6.54% of the bond financing instrument market, representing an increase of 0.17 percentage point as compared with the previous year, and ranking third in the industry in terms of market share growth. The Company's panda bonds business ranked first in terms of market share and its financial bonds business ranked second in the industry in terms of lead-underwritten amounts.

With respect to the M&A finance business, the Company, who has taken a firm hold of the opportunities arising from the rapid development of the M&A market, recorded an M&A financing amount of RMB80.995 billion, representing a year-on-year increase of 72.92%. M&A intermediary business income doubled on a year-on-year basis. The above achievements were results of the successful implementation of a number of initiatives, i.e. taking the "project-oriented system" as the spearhead, major projects that have significant influence in the market as the engine, and "combination of equity and debt", "lead syndicate" "privatisation", "bridge financing" and "merger matching and financial consultancy" as the five major directions for business development. Due to its increasing market influence, the Company ranked fifth among the 2016 Reuters Asia-Pacific Bookbuilders for Syndicated Loans, achieving a historical breakthrough.

With respect to other investment banking business, our structural financing business, on one hand, centered upon the development of four major customer bases including large state-owned enterprises, industry leaders, high-rated enterprises and quality listed companies in optimising and improving its product offerings and offering integrated financial services, and on the other hand, actively explored the capital channels to build up a "buddy circle of investment banks" (投行朋友圈) while digging for quality assets, as a result of which, the Company's structural financing matching business (結構融資撮合業務) started to yield good results, with a substantial increase in asset investment and a year-on-year increase of 110.29% in the intermediary business income. Our equity capital market business, which has evolved into a product series consisting of three business segments, namely equity investment, equity finance and financial consultancy and entered into good cooperation relationship with the investment agencies and strategic corporate customers, has preliminarily set up an integrated financial service model with integration of investment banking and commercial banking.

Financial institutions business

The Company intensified the construction of channels and enhanced value contribution from its financial institutions customers through deepening comprehensive cooperation with its customer base of financial institutions; proactively responded to changes in the market conditions and regulatory policies and adjusted the structure of the business; the Company maintained its leading position among its peers in terms of the cross-border interbank RMB business. As at 31 December 2016, the balance of placements from banks and other financial institutions reached RMB536.868 billion, representing a decrease of 23.62% as compared with the end of the previous year due to low investment sentiment of the capital market, abolition of payment upon application for new shares and sluggish asset growth. The deposit structure was further optimised, however, as the proportion of demand deposits increased by 17.82 percentage points as compared with the end of the previous year to 76.33%, outperforming other national small- and medium-sized banks in terms of the volume and proportion of demand deposits. During the reporting period, the average cost ratio of the Company's placements from banks and other financial institutions was 2.25%, representing a year-on-year decrease of 0.54 percentage point. Due to a dramatic decrease in the demand for the bills held under resale agreements and the settlement of suspended transactions upon maturity, the closing balance of over-the-counter interbank asset businesses such as term deposits placed with banks and other financial institutions and the bills and beneficiary rights held under resale agreements amounted to RMB84.7 billion, representing a decrease of 55.04% as compared with the end of the previous year (calculated on the same statistical calibre). During the reporting period, the Company sold RMB3.77 trillion wealth management products issued by banks and other financial institutions through the "Zhao Ying Tong (招贏通)" platform, representing an increase of 15.88% as compared with the previous year. Due to thin trading of the stock market, the closing balance of funds under third-party custody amounted to RMB118.346 billion, representing a decrease of 31.80% as compared with the end of the previous year. During the reporting period, the Company maintained business cooperation with 99 securities companies in total to carry out third-party custody business with the total number of registered customers reaching 7.7611 million, representing an increase of 20.41% as compared with the end of the previous year; maintained business cooperation with 78 securities companies in total to carry out margin trading and short selling business with the total number of registered customers reaching 325,700, representing an increase of 8.45%

as compared with the end of the previous year; and maintained business cooperation with 40 securities companies in total to carry out share options business with the total number of registered customers reaching 10,500, representing an increase of 166.01% as compared with the end of the previous year. During the reporting period, the Company sped up turnover of bills and shortened the transaction duration. The trading amount of discounted bills transferred to other banks or financial institutions was RMB27.24 trillion, representing an increase of 64.62% as compared with the previous year. Our rediscount business with the Central Bank amounted to RMB68.757 billion, representing a decrease of 1.71% as compared with the previous year, still ahead of our peers in terms of trading amount. Affected by the market and regulatory policies, during the reporting period, the volume of cross-border interbank RMB clearing service amounted to RMB849.172 billion, representing a decrease of 62.43% as compared with the previous year, and the total number of the cross-border interbank RMB accounts of the Company reached 173, ranking first among the national small- and medium-sized banks. The number of customers with indirect connection to the RMB Cross-border Interbank Payment System (CIPS) amounted to 81, ranked second among the national small- and medium-sized banks and third among the industry.

The Company has been qualified as a futures margin depository bank on China Financial Futures Exchange (CFFEX), Zhengzhou Commodity Exchange (ZCE), Dalian Commodity Exchange (DCE), and Shanghai Futures Exchange, and also as a clearing bank on Shanghai Gold Exchange, a member of Shanghai Clearing House for comprehensive foreign exchange settlements and a member of Shanghai Insurance Exchange, and maintained business cooperation with 97 securities companies in total to carry out bank-futures transfer business. As at 31 December 2016, the balance of all types of deposits of the Company from futures exchanges and futures companies was RMB6.506 billion.

Asset management business

During the reporting period, the wealth management business of the Company maintained a good development momentum. The Company issued an aggregate of 4,401 wealth management products during the year and recorded an aggregate of RMB16.13 trillion in the bank-wide sales of wealth management products, representing an increase of 20.37% as compared with the previous year. As at the end of the reporting period, the balance of wealth management business of the Company amounted to RMB2.38 trillion, representing an increase of 30.49% as compared with the end of the previous year. According to the statistics of CBRC, as at the end of the reporting period, the Company ranked the second among commercial banks in terms of the balance of funds obtained from wealth management products and the balance of funds obtained from off-balance-sheet wealth management products.

During the reporting period, in addition to the steady increase in volume, the wealth management business of the Company also made a number of achievements in other fields as follows.

Firstly, the portfolio of quality assets allocation was put forward steadily. Aiming to improve the return-on-risk ratio of asset allocation, the Company reinforced the allocation of quality asset portfolio so as to properly respond to "asset shortage". With respect to bond assets, the investment strategy was upgraded to effectively cope with the substantial decrease in bond market during the fourth quarter. As at the end of the reporting period, the balance of bonds invested with wealth management funds of the Company amounted to RMB1,035.221 billion, representing an increase of 20.81% as compared with the end of the previous year. With respect to creditor's assets, the investments in government-guided funds and securitised assets were steadily promoted. Particularly, with respect to non-standard creditor's assets, the Company made investments within the quota limit in strict compliance with the regulatory guidance. As at the end of the reporting period, the balance of the non-standard creditor's assets invested with wealth management funds amounted to RMB203.283 billion. The non-standard creditor's assets were mainly from companies and other financial institutions to which credit line were granted. During the reporting period, through implementation of strict risk management measures, our asset quality did not change obviously. With respect to equity assets, strategically focusing on structure adjustment and risk control with an emphasis on the demands from the quality listing companies and their related parties for financing, margin financing and investments, certain products and services including equity-pledged financing, margin financing in the secondary stock trading market, private placement and employee stock ownership scheme were consolidated; the "Tou Rong Tong" (投融通) business tailored for listing companies was launched, and a good result was achieved.

Secondly, the management of entrusted investment was improved steadily. The Company carried out entrusted bond investment by adhering to the principle of "focusing on proprietary investment while supplemented with entrusted investment", and solidified the foundation of risk management of entrusted investment by focusing on financial institutions in cooperation with the Company and underlying assets as the core of risk control. On one hand, through imposing stringent entry standards to financial institutions in cooperation with the Company, selectively conducting entrusted investment business and strengthening the management throughout the entire investment duration, the Company regularly made two-dimensional assessment on returns and risks of the financial institutions and implemented "survival of the fittest" strategy and other measures to strengthen the management of financial institutions. On the other hand, the risk control of underlying assets was reinforced. In consideration of investment objectives and asset attributes, the Company set up investment restraints to the financial institutions, mainly including requirements in the scope, proportion and concentration of investment, and pre-warning for loss prevention, so as to effectively control the risk preferences to ensure the steady development of entrusted investment business. At the same time, the Company continued to strengthen the system building, and gradually enabling the comprehensive, accurate and timely monitoring of underlying assets invested by external managers. As at the end of reporting period, the leverage ratio of entrusted bond investment of the Company was 124.87%. The risk exposure was generally controllable.

Thirdly, transformation to net-worth products was constantly promoted. According to regulatory orientation, the Company increased the development and issuance of net-worth products so as to guide customers to choose the wealth management products with risk and return matching their investment preferences, authentically transfer the return and risk of the products to the customers and promote the wealth management business to return to its essence of "entrusted by customers and provide wealth management service for them". As at the end of the reporting period, the balance of net-worth products amounted to RMB1,576.244 billion, representing an increase of 63.90% as compared with the end of the previous year, and accounting for 66.35% of the balance of wealth management business, up by 13.53 percentage points as compared with the end of the previous year.

Fourthly, innovation of business and product was deeply pushed forward. During the reporting period, thanks to its business innovation, the Company continued to expand the scope of investment. In light of the first investment in the entrusted loan business with the insurance asset management company as the investment consultant and the first insurance debts investment plan of the China Insurance Exchange, the Company achieved a new breakthrough in cooperation with the insurance asset management company. The Company led the initial issuance of "Ju Yuan" serial paper bill-asset securitisation products with the largest volume of DFI on the stock exchange market. In addition, leveraging on product innovation, the Company delved into the customers' demand for product segmentation. For example, the Company issued "Jin Yi Yang Lao (金頤養老)"serial products to meet the elderly customers' demands for sound long-term investment and monthly bonus and deploy financial products for elderly care industry in advance; issued "Jin Yi Qiu Jing (金益求精)" product to meet the corporate customers' demands for liquidity and profitability; and issued "Zhuo Yuan (卓遠)"open-ended equity plus debt product portfolios to meet the customers' increasingly demands for equity asset allocation based on bond investment.

Asset custody business

In 2016, the Company achieved major breakthroughs in the asset custody business. The Company was qualified as a basic retirement security custodian bank by National Social Security Council, and made great progress in business development, system building, risk management and market influence and others. As at the end of the reporting period, the volume of assets under custody of the Company exceeded RMB10 trillion, and the balance of assets under custody amounted to RMB10.17 trillion, representing an increase of 42.12% as compared with the end of the previous year; the custody fee income amounted to RMB4.282 billion, representing an increase of 20.04% as compared to the previous year; and the number of asset custody projects reached 15,167, representing an increase of 31.82% as compared with the end of the previous year. The Company maintained its leading position in the industry in terms of custody system, and took the lead to apply the custody system based on the distributed technology so that the business efficiency and market response improved significantly. The Company released the 2.0 smart version of full-featured online custody bank, strengthened the middle-office control and implemented the whole process management of asset custody to effectively prevent risks exposed to custody business and earnestly perform the duty as a custodian bank. Leveraging on its advantages of internationalisation, the Company proactively established the custodian bank service network worldwide and set up the first custodian center overseas.

Financial markets business

In 2016, against the backdrop of complex global economy, the uncertainties in the capital market and the impact of domestic economic restructuring on the financial market continued to emerge; the fluctuations in the bond market increased; the absolute yield in the market declined substantially; the "black swan" events occurred frequently in the foreign exchange market, which leads to intensified market turmoil. By adjusting the position structure, reducing bonds exposed to high risks, vigorously carrying out innovative business and implementing other strategies to actively hedge and smooth the market volatility, the Company has achieved good returns.

RMB investment: the Company, after conducting an intensive study on the domestic financial market, grasped the trend of local-currency bond market and formulated its investment plan in a scientific way. Firstly, the Company proactively adjusted its strategy of duration based on market trend and position structure by leveraging on market fluctuations. Secondly, the Company moderately reduced the position in credit bonds exposed to high risks and increased bonds issued by local governments as well as adjusted credit risk exposure of portfolio by capitalising on fluctuations in interest rates and credit spreads. As at the end of the reporting period, the balance of RMB bond portfolio of the Company was RMB829.281 billion, with the portfolio duration of 4.00 years and the portfolio yield of 3.33%.

Foreign currency investments: the Company seized opportunities to increase investments based on its judgment on the international market situation. Firstly, the Company implemented a prudent investment strategy by controlling its investment pace and the duration of its new investments. Meanwhile, the Company actively participated in the spread transactions of credit bonds and range trading operation to realise interest spread gains. Secondly, the Company proactively developed secondary market operations and derivative products to realise interest spread gains. As at the end of the reporting period, the balance of the foreign exchange investment portfolio of the Company amounted to USD7.569 billion, with the portfolio duration of 1.49 years and the portfolio yield of 2.12%.

In 2016, the trading volume of RMB-denominated options of the Company (including proprietary trading and single customer derivatives trading on behalf of customers) reached RMB1,638.750 billion, representing an increase of 139.50% as compared with the previous year (calculated on the same statistical calibre); the trading volume of RMB exchange rate swaps reached RMB3,751.502 billion, representing an increase of 31.01% as compared with the previous year; the trading volume of single customer derivatives reached RMB421.421 billion, representing an increase of 88.05% as compared with the previous year; and the income from single customer derivatives trading amounted to RMB524 million, representing a year-on-year increase of 60.88%. According to the data from the China Foreign Exchange Trade System, the trading volume of RMB options of the Company ranked first in the whole interbank market.

5.10.3 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels are mainly divided into physical distribution channels and e-banking channels.

Physical distribution channels

The efficiently operated physical outlets of the Company are primarily located in the more economically developed regions of China such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large- and medium-sized cities in other regions. As at 31 December 2016, the Company had 136 branches, 1,672 sub-branches, one dedicated branch-level operation center (credit card center), one representative office, 3,495 self-service centers, 11,861 self-service machines (including 1,723 automatic teller machines and 10,138 deposit-taking and cash withdrawal machines) and 11,067 visual counters, 2 subsidiaries, namely CMB Financial Leasing and China Merchants Fund, and 1 joint venture, namely CIGNA & CMB Life Insurance in more than 130 cities of Mainland China. The Company also has a number of subsidiaries including Wing Lung Bank and CMB International Capital, and a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch and a representative office in London, the UK; a branch in Singapore; a branch in Luxembourg; a representative office in Taipei.

E-banking Channels

The Company attaches great importance to developing, improving and integrating e-banking channels such as mobile banking, online banking and direct banking, which has received high social recognition and effectively relieved the pressure on physical outlets of the Company.

Mobile banking

The personal mobile banking business of the Company continued to maintain rapid growth in 2016 as mobile banking customers were increasingly active with an aggregate of 2.185 billion logins in the Bank's mobile banking application, making it the most dynamic e-channel for customers of the Company. As at 31 December 2016, the aggregate number of downloads of the Bank's mobile banking application reached 96,633,400 and the aggregate number of customers who downloaded the application reached 41,519,200, of which 25,779,200 users were active customers during the year. Meanwhile, the number of mobile banking transactions and volume of mobile payments increased rapidly. In 2016, the total cumulative number of mobile banking transactions amounted to 4.569 billion, up by 80.95% as compared with the previous year; and the cumulative transaction amount reached RMB14.17 trillion, up by 54.02% as compared with the previous year. Of which, the number of mobile banking transactions was 735 million, up by 37.38% as compared with the previous year; and the amount of mobile banking transactions was RMB12.10 trillion, up by 51.25% as compared with the previous year; the number of mobile payment transactions was 3.834 billion, up by 92.66% as compared with the previous year; and the amount of mobile payment transactions was RMB2.07 trillion, up by 72.50% as compared with the previous year.

During the reporting period, the Company proactively focused on mobile internet, vigorously built the light-operation platform designed to develop its mobile phone-based retail business, and successively launched the CMB APP5.0, with core concepts such as intellectualisation, integrated services and financial real-time interconnection, and launched new versions for four major channels of "Mine", "Reference", "Wealth Management", "Homepage", and also launched four new features of Machine Gene Investment (摩羯智投), Revenue and Expenses Records (收支記錄), Income Report and Biometrics, and completed optimisation for 121 major items, thus started a new era of intelligent finance management. In addition, the Company continued to improve the diversified multi-facet light-operation intelligent service model, optimise and upgrade its "WeChat Banking", and the number of users has currently reached 11.2166 million.

As at 31 December 2016, the number of users of corporate mobile banking services of the Company amounted to 290,500. The total number of transactions including account enquiries, payments and settlements completed through the corporate mobile banking application reached 24,690,000 in the year, which effectively met our corporate customers' demand for mobile financial services, and became yet another online marketing and service channel targeting corporate customers.

Online banking

The online banking business of the Company maintained a healthy growth in 2016, and the scale of customer base and trading activity largely remained stable.

As for the retail online banking business, as at 31 December 2016, the number of active users of the retail online banking professional edition of the Company reached 19,710,400. In 2016, the total cumulative number of online retail finance transactions was 1.541 billion, representing an increase of 33.77% as compared with the previous year; the accumulated transaction amount reached RMB31.14 trillion, representing an increase of 2.00% as compared with the previous year. Specifically, the cumulative number of online banking transactions was 484 million, up by 21.61% as compared with the previous year; and the accumulated amount of online banking transactions was RMB30.47 trillion, up by 2.56% as compared with that of the previous year; the cumulative number of online payment transactions was 1.057 billion, up by 40.19% as compared with the previous year; and the accumulated amount of online payment transactions was RMB0.67 trillion, down by 18.29% as compared with the previous year.

As for its corporate online banking business, thanks to the growth of basic customers mainly driven by the "C+ cash management solution". As at 31 December 2016, the total number of corporate online banking customers of the Company reached 1,095,700, representing an increase of 32.75% as compared with the end of the previous year. The accumulated number of corporate online banking transactions of the whole Bank was 224.13 million, representing an increase of 72.87% as compared with the previous year. The accumulated transaction amount of corporate online banking transactions of the whole Bank amounted to RMB102.18 trillion, representing an increase of 22.39% as compared with the previous year.

Direct banking

The direct banking service provided by the Company integrates the convenience of direct banking channels and the face-to-face service at counters. Under direct banking, direct banking relationship managers provide customers with real-time, comprehensive, fast and professional service, including a variety of banking transactions, investment and financial advisory services, one-stop loan services and product selling services. The direct banking mainly offers business advisory and transaction, visual counters, online loan service, direct services, direct transactions, distant assistant service and online interactive service.

In 2016, the Company constantly improved the service capability and customer experience for its direct banking. As a result, the online interactive services accounted for 63.36%, up by 20.15 percentage points as compared with the previous year; the manual telephone access ratio reached 97.59%; the percentage of manual telephone responses within 20 seconds reached 94.06%; and the customer service satisfaction ratio reached 99.63%. Businesses via visual counters developed rapidly, the number of visual machines installed increased to 11,067 (including 9,021 PAD, 2,025 VTM), which effectively served as a replacement for non-cash transactions in counters, and the counter replacement ratio amounted to 58.08%.

In 2016, the direct banking effectively facilitated the maintenance of customer base of quality small- and micro-sized enterprises; the accumulated number of small- and micro-sized enterprise loan retained was 7,100 with a retention rate of 85.01% and total amounts of RMB48.320 billion; and the accumulated number of online loan granted was 35,000 in the year, up by 49.60% as compared with the previous year.

5.10.4 IT and R&D

The company has a powerful IT team and a leading IT platform, which have enabled us to keep abreast with internet development trend, to constantly make innovation in products, services, channels and business model, so as to further improve the efficiency and quality of customer services and reduce operating costs. Meanwhile, the Company also devoted to making innovation in Fintech, and developed cloud computing, big data, artificial intelligence and mobile technologies by focusing on future banking, aiming at exploring strategic opportunities in the technical aspects in a proactively manner.

With respect to system building, during the reporting period, the Company completed the expansion and upgrade of various IT systems. Shenzhen and Shanghai data centers have successfully supported nearly 100 million transactions each day. The Company also strengthened the IT support for its credit card center and domestic and overseas branches, and pushed forward the construction of Shenzhen Pinghu Data Center (深圳平湖數據中心). During the reporting period, the Company's IT system maintained steady operation.

With respect to product R&D, the Company had software development centers in Shenzhen and Hangzhou, mainly focusing on self-development; the Company completed more than 4,000 projects during the year, including launching APP5.0 mobile banking, and the Company utilised the biometrics and big data technologies to bring new experiences of natural interaction and intelligent service between the Company and customers; the Company also launched an intelligent investment and advisory services "Machine Gene Investment (摩羯智投)", whose technology had a leading position in the industry. While in the credit card field, the Company launched products such as Apple Pay and others, and commenced to layout the NFC mobile payment.

In addition, the Company proactively explored, optimised and improved the integrated mechanism of IT and businesses, thereby building a dual-mode R&D management framework to support rapid response and continuous transaction and payment. During the reporting period, the article entitled "Information Technology Service – Maturity Model of Data Center Service Capability", which was compiled by the Company, was approved as the national standard.

5.10.5 Overseas businesses

Hong Kong Branch

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

In 2016, although facing the unfavourable macro-economic conditions and increased credit risk, on one hand, the Hong Kong Branch grasped the market opportunities brought about by Chinese enterprises "going global" and the "One Belt, One Road" strategy to constantly promote cross-border business coordination, proactively develop the local market and expand its share in the retail banking market, and proactively promoted the Overseas Global Asset Custody Center of CMB (招商銀行海外全球資產託管中心) to be settled in the Hong Kong Branch in December 2016. On the other hand, the Hong Kong Branch further strengthened its risk compliance and internal fundamental management, constantly improved and innovated its product and service systems and strove to explore the asset operation model. As a result, various businesses of the branch achieved healthy development.

During the reporting period, the Hong Kong Branch realised a net operating income of HK$2.001 billion and a profit before tax of HK$1.585 billion.

New York Branch

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

In 2016, the New York Branch launched the business transformation strategy of focusing on "light-operation, professional-operation and investment banking-oriented operation", aiming to grow the asset businesses and emerging businesses; all achieved good operational results. In 2016, the New York Branch continued to obtain "Satisfaction" rating in regulatory inspection carried out by the New York Financial Services Office (紐約金融服務廳). Its emerging businesses expanded rapidly and became the main profit-earning point to replace the traditional businesses; and its featured cross-border business successfully built up its brand image. Its local business achieved large-scale operation, and a private banking center successfully commenced operation.

During the reporting period, the New York Branch realised a net operating income of USD99,982,200 and a profit before tax of USD28,385,100.

Singapore Branch

Established in November 2013, the Singapore Branch of the Company is mainly positioned as a significant cross-border financial platform in Southeast Asia, which is committed to providing high quality and comprehensive cross-border finance services to Chinese companies "going global", Singaporean companies "being brought in" and high net-worth individual customers. In addition to the general deposit and loan services, it also offers featured products including delisting financing, M&A financing, Cross-border Trade Express, global financing and cross-border settlement and sales of foreign exchange.

In 2016, while facing the overall downturn in the cross-border finance market and the adverse external environment of increasingly intensive competition, the Singapore Branch adhered to its strategy of developing cross-border finance and local businesses simultaneously, and successfully completed the first real estate trust financing project, expanded its integrated business in of investment banking and commercial banking in club loans and M&A financing vigorously. By fully capitalising on the regional advantages, the Singapore Branch cooperated with the Wenzhou Branch to innovate a new financing model for bulk commodity supply chain, thusly realising steady growth in various businesses.

During the reporting period, the Singapore Branch realised a net operating income of USD13,816,800 and a profit before tax of USD602,400.

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 overseas and the enterprises brought in from Europe. It is committed to establishing a private banking platform of the Company in Europe on the basis of the superior businesses of the parent bank combined with the special advantages of Luxembourg.

In 2016, the Luxembourg Branch achieved rapid business growth by actively responding to policy changes, firmly captured various market opportunities such as M&A financing, and capitalised on improved efficiency and strengthened cooperation with domestic and overseas banks and financial institutions. During the reporting period, the Luxembourg Branch realised a net operating income of €7,173,700 and a profit before tax of €239,500.

London Branch

Officially established on 19 January 2016, the London Branch of the Company is the first branch of Chinese joint stock commercial banks approved in the UK, also the first branch directly established by mainland China banks in the UK since the foundation of the People's Republic of China. It is committed to supporting enterprises "going global" from China, with a focus on the development of large amount wholesale business. The London Branch provides diversified financial products and services including syndicated loans, trade financing, fund clearing, professional financing and cash management. The establishment of the London Branch has further expanded and improved the global presence of the Company, and improved the existing four-in-one cross-border financial platform of "domestic currency and foreign currencies financing, domestic and overseas financing, off- and on-shore financing as well as investment banking and commercial banking" of the Company; thus enriched the products system of cross-border "Shang Mao Tong (商貿通), Zi Ben Tong (資本通), Cai Fu Tong (財富通)", and provided all-round financial support for domestic and overseas customers of the Company.

During the reporting period, the London Branch realised a net operating income of USD6,130,700.

5.10.6 Wing Lung Group

Founded in 1933, Wing Lung Bank has a registered capital of HK$1.161 billion as at 31 December 2016, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, investment and wealth management, credit cards, online banking, documentary bills, leasing and hire purchase loans, foreign exchange, securities brokerage, asset management, insurance business, mandatory provident fund, property management, trustee, nominee and investment banking services. At present, Wing Lung Bank has 35 branches in Hong Kong, 4 branches and sub-branches in Mainland China, one branch in Macau, and three overseas branches, located respectively in Los Angeles, San Francisco, the United States and the Cayman Islands. As at 31 December 2016, the total number of employees of Wing Lung Group is 1,887.

In 2016, profit attributable to the shareholders of Wing Lung Group was HK$3.497 billion, representing an increase of 7.57% as compared with the previous year. In 2016, it recorded a net interest income of HK$3.449 billion, representing a decrease of 10.89% as compared with the previous year. The net interest margin was 1.50%, down by 11 basis points as compared with the previous year. The net non-interest income was HK$2.523 billion, representing an increase of 20.86% as compared with the previous year. The cost-to-income ratio for 2016 was 33.11%, representing a decrease of 0.17 percentage point as compared with the previous year. The non-performing loan ratio (including trade bills) was 0.11%.

As at 31 December 2016, the total assets of Wing Lung Group amounted to HK$267.658 billion, representing an increase of 4.16% as compared with the end of 2015. Total equity attributable to shareholders amounted to HK$29.292 billion, representing an increase of 10.82% as compared with the end of 2015. Total loans and advances to customers (including trade bills) amounted to HK$144.252 billion, representing a decrease of 1.27% as compared with the end of 2015. Deposits from customers amounted to HK$184.251 billion, representing an increase of 2.24% as compared with the end of 2015. Loan-to-deposit ratio was 73.01%, up by 8.59 percentage points as compared with the end of 2015. As at 31 December 2016, the common equity Tier-1 capital ratio of Wing Lung Group was 11.80%, its Tier-1 capital ratio was 13.49% and its total capital ratio was 16.06%. The average liquidity maintenance ratio for the reporting period was 39.75%, all above regulatory requirements.

For detailed financial information on Wing Lung Group, please refer to the 2016 annual report of Wing Lung Bank, which is published at the website of Wing Lung Bank (www.winglungbank.com).

5.10.7 CMB Financial Leasing

CMB Financial Leasing is one of the five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and is mainly engaged in the provision of financial leasing services in respect of large and medium-sized equipments to domestic large enterprises and SMEs and overseas customers in electricity, manufacturing, transportation, construction and mining sectors. It satisfies different needs in respect of procurement of equipment, promotion of sales, revitalisation of assets, balancing of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

As at 31 December 2016, CMBFL had a registered capital of RMB6.0 billion and 221 employees; total assets of RMB136.990 billion, up by 19.24%[1] as compared with the beginning of the year; net assets of RMB13.772 billion, up by 13.91% as compared with the beginning of the year. In 2016, CMBFL realised a net profit of RMB1.703 billion, up by 9.80% as compared with the previous year.

During the reporting period, as approved by the Board of Directors, CMBFL proposed to introduce strategic investors by way of capital injection. The above plan is still pending for approval from the PRC banking regulator(s).

1 During the reporting period, CMBFL acquired CMB International Leasing Management Limited, a subsidiary of CMBIC. Accordingly, the opening amounts of total assets and net assets for 2016 and the net profit for the previous year were adjusted to RMB114.888 billion, RMB12.090 billion and RMB1.551 billion, respectively.

5.10.8 CMB International Capital

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, asset management, wealth management and stock trading.

As at 31 December 2016, CMBIC had a registered capital of HK$4.129 billion, including the additional capital of USD400 million (equivalent to HK$3.129 billion) injected during the reporting period, 263 employees, total assets of HK$8.516 billion, representing an increase of 91.24%[2] as compared with the end of the previous year and net assets of HK$6.367 billion, representing an increase of 131.78% as compared with the end of the previous year. In 2016, CMBIC realised a net profit of HK$511 million, representing a year-on-year decrease of 1.16%.

5.10.9 China Merchants Fund

Established on 27 December 2002, CMFM had a registered capital of RMB210 million. As at the end of the reporting period, the Company had 55% of equity interests in CMFM. The scope of business of CMFM covers fund establishment, fund management and other operations approved by the CSRC.

As at 31 December 2016, CMFM reported total assets of RMB3.884 billion, up by 20.96% as compared with the end of the previous year, net assets of RMB1.904 billion, up by 32.31% as compared with the end of the previous year. It had 312 employees (excluding those of its subsidiaries). The total size of the asset management business of CMFM (including that of China Merchants Fund and its subsidiaries, being China Merchants Wealth Asset Management Co., Ltd. (招商財富資產管理有限公司) and China Merchants Asset Management (Hong Kong) Co., Ltd. (招商資產管理（香港）有限公司)) amounted to RMB1,129.3 billion, up by 30.36% as compared with the previous year. In 2016, CMFM realised a net operating income of RMB2.326 billion, representing an increase of 9.81% as compared with the previous year; and achieved a net profit of RMB628 million, representing an increase of 14.60% as compared with the previous year.

5.10.10 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). As at the end of the reporting period, the Company had 50% of equity interests in CIGNA & CMB Life Insurance. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at 31 December 2016, CIGNA & CMB Life Insurance had a registered capital of RMB2.8 billion, including the additional amount of RMB1.35 billion injected during the reporting period, a workforce of 2,596 employees, total assets of RMB27.134 billion, representing an increase of 49.38% as compared with the end of the previous year, and net assets of RMB4.086 billion, representing an increase of 48.26% as compared with the end of the previous year. In 2016, CIGNA & CMB Life Insurance realised an insurance income of RMB11.986 billion, representing an increase of 52.75% as compared with the previous year, and a net profit of RMB239 million, representing a decrease of 18.15% as compared with the previous year.

2 During the reporting period, CMBIC integrated Wing Lung Securities and Wing Lung Futures, the subsidiaries of Wing Lung Bank. Accordingly, the opening amounts of total assets and net assets for 2016 and the net profit for the previous year were adjusted to HK$4.453 billion, HK$2.747 billion and HK$517 million, respectively.

5.11 Risk Management

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

In 2016, against the background of complicated and volatile economic environment at home and abroad and the increasing risks in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent various risks. For further details of risk management, please also refer to note 55 to the financial statements.

5.11.1 Credit risk management

Credit risks refer to risks arising from failure of the borrowers or the counterparties to fulfill their obligations under the agreed terms. Credit risks of the Company mainly stem from credit business, investment business, financing business and other businesses on and off balance sheet. The Company endeavors to formulate a credit risk management framework with independent functions, balanced and checked risks and three dedicated defense lines and implements the bank-wide policies and processes regarding credit risk identification, measurement, monitoring and management to maintain a balance among risk, capital and profit of the Company.

Based on different risk profile and authorisation system, the Company conducts risk reviews for credit, investment and financing business at different authorisation levels. The decision-making entities include: the Risk and Compliance Management Committee, the Loan Approval Committee of the Head Office, the Investment Committee of the Head Office, the Special Loan Approval Committee of the Head Office and the Restructuring-Loan Approval Committee of the Head Office, as well as the Risk Control and Compliance Committee and the Special Loan Approval Committee of our branches. The Company developed and introduced advanced risk quantifiable modeling tools and a risk management system for business origination, due diligence, review and approval of credit, loan disbursement and post-loan management to ensure that the risk management procedures were effectively implemented. In accordance with regulatory requirements, based on factors like borrowers’ ability and willingness to repay, guarantors’ credit profile, collaterals’ conditions and overdue period, and with the employment of the 5-category classification, the Company divided risk assets into different categories under an internal 10-category classification system. The classification of a risk asset may be initiated by a relationship manager or a risk control officer and then reviewed by risk management departments of the Head Office and our branches according to their respective authorisation.

In 2016, the Company kept a close eye on the macroeconomic and financial situations. In adhering to its management ideas of “Quality Goes First Based on Compliance and Risk Control (合規為根、 風險為本、 質量為先)”, and in order to build itself into a “leading risk management bank”, the Company accelerated transformation of risk management by adjusting asset structure, supporting strategic businesses and strengthening management fundamentals, thereby effectively preventing relevant risks.

Firstly, the Company continued to improve the comprehensive risk management system and the centralised risk management mechanism. The Company improved the organisational structure of risk management to make risk management more independent, professional and flat; established a mechanism for communication about and management of risk appetites; strengthened the centralised management of authorisation and risks for investment banking, asset management and agency services; fully streamlined a variety of emerging financing businesses and included them into the unified risk management system according to the “penetration principle”.

Secondly, the Company optimised asset portfolio allocation and actively adjusted asset structure. The Company proactively developed low-capital-consumption asset business; continued to adjust structure of corporate assets, strictly implemented the "customer list management" at the Head Office and its branches that identified customers as strategic customers and customers that should be reduced and withdrawn from, and optimised the name list generation mechanism; the Company continued to promote the development of the industry policy system, dynamically adjusted industry credit policies, gave priority to loan business to emerging industries and fields related to people's living standard and consumption, energy conservancy and environmental protection. The Company enhanced efforts to untie customers in overcapacity industries, with high risks, but low value, as well as "zombie enterprises"; as for customers that we have reduced or withdrawn from, we implemented a classified management strategy, i.e. enhancing support in certain fields, while reducing support in others, and supporting the development of some customers while restricting the growth of others, to further optimise the customer portfolio and asset structure of its customers in the overcapacity industries.

Thirdly, the Company strengthened the monitoring of asset quality, took proactive measures for risk prevention and control, actively reduced or withdrew risk assets in key areas; enhanced accountability review and examination so as to minimise the formation of non-performing loans. The Company enhanced proactive and refined management of overdue loans, clearly defined functions and responsibilities of operating entities and risk management departments of branches and sub-branches, as well as operating departments at the Head Office, and figured out the source of repayments as early as possible and prevented and control risks in advance; the Company constantly optimised the risk pre-warning network at three levels of the Head Office, branches and sub-branches, formulated the risk management measure of "Targeted Measure for Every Account (一戶一策)" for large customers with risk alert, and improved the comprehensiveness, sensitivity, perspectiveness and accuracy of risk alert; the Company firmly reduced and withdrew risk assets in eight areas, namely overcapacity industries, customers with small enterprise risk, private guarantee companies, customers with high group risks, customers with general risk pre-warning, customers involving private financing, risk guarantee circle and micro-finance loans; strengthened accountability for the non-performing loans granted to the customers who were granted loans for the first time to avoid occurrence of non-performing loans.

Fourthly, the Company optimised disposal of non-performing loans and enhanced its capacity for operating non-performing assets. The Company developed innovative approaches for disposal of non-performing assets by proactively carrying out asset securitisation, focusing on recovery of non-performing assets in cash, enhancing write-off of non-performing assets, accelerating benign restructuring of customers with risks and diffusing risk assets through multiple means and tapping into the value of non-performing assets. The Company enhanced team building for management and professional operations of non-performing assets, established an asset security system, achieved integrated operation of the front, middle and back office of collecting non-performing assets, thereby further improving our capability for operating non-performing assets.

Fifthly, the Company vigorously strengthened risk management and steadily improved its risk management processes. The Company issued "Method Concerning Management of Key People in Charge of CMB's Credit, Investment and Financing Business (《招商銀行授信與投融資業務經營主責任人管理辦法》)" during the reporting period, urging relevant departments under the Head Office and its branches to put such method into practice, established a mechanism to seek accountability that combines responsibilities, powers and interests, and enhanced awareness of the importance of the first defense line risk prevention and control; the Company carried out coordinated work among the "Iron Triangle", moving risk management to the front line to enhance its capacity for risk identification, streamlining process, and improving efficiency in market competition and effectiveness of risk management; a post-approval monitoring mechanism was established, and the collateral management system was optimised.

Sixthly, the Company steadily increased application of quantitative risk management tools. The Company completed the development and optimisation of risk rating model, big-data risk alert model and other models, and applied them in routine risk management, thus improving the effectiveness of risk monitoring and risk alert. During the reporting period, the Company, in the face of challenging economic environment at home and abroad, accelerated transformation of risk management and further adjusted asset structure, slowing down occurrence of non-performing loans. In addition, thanks to the comprehensive countermeasures including accelerated collection, writing off and transfer of non-performing loans, and asset securitisation, the risk of further decline in asset quality had been effectively controlled.

5.11.2 Country risk management

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

The Company incorporates country risk management into its overall risk management system, dynamically monitors the change in its country risk profile in accordance with relevant regulatory requirements, sets limit on its country risk based on the rating results from international rating agencies, and evaluates its country risk and makes provisions on a quarterly basis. As at 31 December 2016, the assets of the Company exposed to the country risk remained insignificant, and this indicated low country risk ratings. Moreover, we have made adequate provision for country risk according to the regulatory requirements. As a result, country risk will not have material effect on our operations.

5.11.3 Market risk management

Market risk is the risk that the Company may suffer from loss as the fair value or future cash flows of the Company's financial instruments may fluctuate due to 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 Company. The Company is exposed to market risk through the financial instruments on the trading book and banking book. The financial instruments on the trading book are held for trading purpose or for the purpose of hedging the risks arising from the trading book position, and these financial instruments are traded in active market. The financial instruments on the banking book are assets and liabilities held by the Company 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 Company's on-balance sheet and off-balance sheet exposures, and have relative stable market value.

1. Interest rate risk

Interest rate risk arises from adverse changes in the interest rates and maturity profiles which may result in loss to the overall income and market value of financial instruments and positions held by the Company.

(1) Trading book

The Company has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk related to trading book business. The Company's market risk governance framework for trading book specifies the duties, division of responsibilities and reporting lines of the Board of Directors, senior management, special committees and bank-related departments in the market risk management of the trading book, ensuring the effectiveness of market risk management of trading book. The Market Risk Management Department under the Bank's Risk Management Department is responsible for execution of the management of interest rate risk under the trading book.

The Company has established the market risk limit 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, which are also the trading book market risk preference quantitative indicators of the Company, adopt market VaR and the portfolio stress testing loss indicator and are directly linked to the Company's net capital. In addition, according to the product type, trading strategy and characteristics of risk of each sub-portfolio, the highest level indicators are allocated to lower level indicators, and also to each front office department each year. These indicators are monitored and reported on a daily basis.

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering various interest rate risk factors relating to trading book business), interest rate stress testing loss indicators, interest rate sensitivity indicators and accumulative loss indicators, to measure and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading account, and are comprised of more than 100 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 unfavourable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 500bp and cover the unfavourable conditions of extreme market. Major interest rate sensibility indicator reflects the change in market value of bonds and interest rate derivatives when an interest rate fluctuates unfavourably by 1bp. As for daily risk management, the scope of authorisation and the market risk limits for the interest rate risk businesses under the trading account 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.

The RMB bond market continued the bull trend in the first three quarters of 2016, and the market price of bonds reached the peak value in the middle of August. In late October, in response to the combined impact of deleveraging, tightening of liquidity, inflation expectation, exchange rate fluctuation and the US interest rate hike, the terminal interest rates fell significantly, and the bond prices dropped sharply to a level lower than those at the beginning of the year. As the speed and extent of slumps in the bond market in this round were by far beyond market expectation, the RMB bonds in the trading book of financial institutions suffered losses in general. The Company proactively implemented strict control over the volume and variety of the RMB bond portfolio under the trading book, therefore, the losses for the year were still controlled within the range preset at the beginning of the year.

(2) Banking book

The Company manages interest rate risk of banking book on a healthy and prudent basis, actively adjusts the structure of assets and liabilities on the premise of putting risk under control, and bears interest rate risk moderately. The Company has established the governance structure for interest rate risk management in accordance with the bank book interest rate risk management policy, which specifies the duties, division of responsibilities and reporting lines of the Board of Directors, senior management, special committees and related departments in the management of interest rate risk of banking book, thus ensuring the effectiveness of interest rate risk management. The interest rate risk of banking book of the Company is subject to centralized management by the Assets and Liabilities Management Department. The Audit Department is responsible for internal auditing of management structure, management process and management methods of interest rate risk of banking book.

The Company mainly adopts the re-pricing gap analysis, duration analysis, benchmark correlation analysis, scenario simulation and other methods to measure and analyse 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 correlation 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 17 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 over the past decade, the most possible changes in interest rates in 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.

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 Company conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test for 2016 showed that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the set limits.

The Company has formulated the principles for risk control at different interest rate risk levels. Based on the risk measurement and monitoring results, the Company 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 Company 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. In order to better meet the latest regulatory requirements of Basel and CBRC on interest rate risk management of banking book, and constantly improve the lean level of interest rate risk management of the Company, it has started the upgrading and revamping of its existing asset and liability management system in the second half of 2016, and plans to launch the system in the second half of 2017.

In 2016, the Company continued to closely monitor the changes in external interest rate environment, conducted the rolling forecast for future movements in interest rates and leveraged on the optimisation model for the asset and liability portfolio. On the premise of ensuring the stability of interest rate risk and liquidity risk and putting capital occupation under control, the Company proactively put forward the proposal for optimisation of the structure of assets and liabilities, so as to achieve steady growth in net interest income.

2. Exchange rate risk management

Exchange rate risk arises from the holding of assets, liabilities and equity items denominated in foreign currencies, foreign currencies and foreign currency derivative positions which may expose banks to potential losses in their gross profit in the event of adverse movement in exchange rate. The Company's functional currency is RMB. The majority of assets and liabilities of the Company are denominated in RMB and the rest mainly in USD and HKD. Under the principle of separating the formulation, implementation and monitoring functions of exchange rate risk management policies, the Company has established its exchange rate risk management governance framework, specifying the roles, duties and reporting lines of the Board of Directors, the senior management, special committees and relevant departments in the Bank in exchange rate risk management. The Company's cautious attitude towards exchange rate risk, meaning in principle the Company does not bear risks voluntarily, is more appropriate for the current development stage of the Company. The current exchange rate risk management policies and systems of the Company are basically in line with relevant regulatory requirements and its own management requirements.

(1) Trading book

The Company has established the market risk (including exchange rate risk) management structure and system of trading book to implement centralized management on exchange rate risk of trading book using quantitative indicators. The structure, procedure and method of exchange rate risk management of trading book are in line with those of interest risk management of trading book.

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

The RMB exchange rates showed a depreciating trend, in which the more obvious "irreversible downward trend" and the "range-bound fluctuation" appeared alternately throughout 2016. Meanwhile, the global political and financial conditions remained volatile. The unexpected Brexit after a referendum and Donald Trump's victory in U.S. presidential election further increased the volatility in the global exchange market. Under this backdrop, the Company proactively reduced the risk exposure to proprietary foreign exchange business on the one hand, and timely adjusted the quotations for foreign exchange trading on behalf of customers on other hand. As a result, the Company has not only fended off market turbulence successfully, but also recorded satisfactory gains.

(2) Banking book

The exchange rate risk management of banking book of the Company is coordinated by the Head Office. The Asset and Liability Management Department under the Head Office as a treasurer of the Company is in charge of exchange rate risk management of banking book. The treasurer is responsible for managing exchange rate risk of banking book on a prudent basis in accordance with relevant regulatory requirements, and conducting the centralized exchange rate management of banking book through limit management, budget control and other approaches.

The primary exchange rate risk of banking book of the Company comes from the maturity mismatch between foreign currency positions of its non-RMB denominated assets and liabilities. Through rigorous management of exchange rate risk, the Company has kept the exchange rate risk of its banking book within the acceptable range.

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

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. 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 limit monitoring requirement. 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 optimization programme as a reasonable reference for the management's decision-making. In the future, the Company will continue to watch exchange rate movements closely, strengthen exchange rate risk monitoring of banking book and limit authority management to ensure that risks are kept within reasonable limits.

5.11.4 Operational risk management

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

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company took various actions. Firstly, we further optimised the operational risk management tools. Based on the current operational risk management during the reporting period, the Company adjusted the assessment method and organisational structure of operational risk, improved the economic capital allocation indicator system for operational risk by making further adjustments, published the management rules for the events and losses associated with operational risk, and standardised the reporting of large-amount losses, financial treatments and management responsibilities. Secondly, the Company conducted various operational risk assessments. Focusing on its major and key businesses, the Company adopted five approaches, namely trigger assessment, open assessment, questionnaire assessment, routine assessment, and the assessment on new products and businesses, to carry out an in-depth analysis and a comprehensive assessment from various perspectives including personnel, structure, risk management, rule-making and system building. Thirdly, the Company tightened its control over manual business operations, conducted a comprehensive review on the manual operation products of the whole Bank, formulated the IT revamping plan for manual business operations and completed the development of the deposit system. Fourthly, the Company strengthened the management of outsourcing-related risk, business continuity and IT risk. The Company carried out onsite inspections on the risk management of certain outsourced products, conducted prudent review on the demands for new outsourcing products, completed the risk assessment and drillings on the business continuity of the whole Bank and optimised the IT risk indicator monitoring system.

5.11.5 Liquidity risk management

Liquidity risk is the risk where the Company is unable to raise sufficient funds on a timely basis or at reasonable costs to settle liabilities as they fall due, perform other payment obligations and satisfy the funding demand for its normal business development.

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.

Under the principle of separating the formulation, implementation and monitoring functions of liquidity risk management policies, the Company has established a liquidity risk management governance structure, defined the roles, duties and reporting lines of the Board of Directors, the senior management, special committees and related departments in liquidity risk management, so as to enhance the effectiveness of 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 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 Company's liquidity risk management.

The Company's liquidity risk management is conducted under a model that requires overall coordination by the Head Office with each of the branches acting in concert. The Asset and Liability Management Department of the Head Office as a treasurer of the Company is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis in compliance with relevant regulatory requirements, and conducting centralized liquidity management through limit management, budget control, active liability as well as internal funds transfer pricing, etc. The Company measures, monitors and identifies liquidity risk for short-term reserves and duration structure and emergency purpose. It monitors the limit indicators closely at fixed intervals. Specifically, the Company 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.

The Company regularly carries out stress tests to find out whether the Company is able to meet liquidity requirements 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 Company has put in place liquidity contingency plans and organized regular liquidity contingency drillings to guard against any liquidity crisis.

In 2016, with market liquidity at a moderately steady level, the Central Bank adopted a flexible and sound monetary policy which focused on stabilising capital fluctuations by using monetary policy instruments such as open market operations and medium-term lending facility. The liquidity of the Company was relatively stable. As at the end of the reporting period, the Company's liquidity coverage ratio was 111.64%[3], representing 31.64 percentage points higher than the requirement of the CBRC (2016: not less than 80%); while average liquidity coverage ratio for the three months of the fourth quarter of 2016 was 114.59%. Stress test[4] 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.

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 directed its business development by continually using FTP and achieved a balance between the source of funds and use of funds so as to better match assets and liabilities. Secondly, the Company flexibly conducted short-, medium- and long-term active liability taking, including proactively participating in the medium-term lending facility from and the operation in the open market launched by the Central Bank, the issuance of negotiable interbank certificates of deposits and certificates of large-amount deposits. Thirdly, the Company carried out proactive risk management and closely monitored the market trends. Taking into consideration of the development of assets and liabilities business, the Company proactively laid down investment and financing strategies based on its dynamic future cash flow gap forecast, in an attempt to improve capital utilisation efficiency. Fourthly, the Company strengthened liquidity risk management of business lines. Specifically, as for standalone business lines such as bills business and wealth management business, the Company implemented limit management to improve maturity mismatch so as to ensure liquidity risk is under control. Fifthly, the Company progressively pushed forward asset securitisation. In 2016, the Company launched asset securitised products of RMB15 billion.

As at the end of the reporting period, 15% (2015: 15%) of the total RMB deposits and 5% (2015: 5%) of the total foreign currency deposits of the Company were required to be placed with the PBOC.

5.11.6 Reputational risk management

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

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

During the reporting period, the Company continuously improved the reputational risk management and further strengthened the pre- and post-risk accountability mechanism for reputational risk management, thereby effectively mitigating reputational risks, improving the efficiency in responding to public opinions and maintaining the brand reputation of the Company. At the same time, the Company proactively strengthened public relations and guided public opinions, thereby creating a good public opinion environment for business development.

3 Liquidity coverage ratio is an external regulatory indicator – the consolidation calibre, same as below
4 The stress test is the Company's internal management indicator – the domestic calibre

5.11.7 Compliance risk management

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

During the reporting period, the Company proactively adapted to the adjustments in regulatory policies, positively addressed the significant changes in financial situations and risk control. Concentrating its efforts on strategic transformation and the reform of business model as well as management system, the Company formulated and carried out Guiding Opinions for 2016 Internal Control and Compliance Work of the Bank; strengthened the understanding of polices and the circulation and delivery of new regulations in a more timely and targeted manner; carried out legal compliance verification covering all businesses, products, systems and procedures; identified and assessed the compliance risks associated with new products, new businesses and major projects, and supported value innovation on the premise of legal compliance; promoted all entities and organizations of the Bank to develop compliance teams for standardising the duties of compliance staff and performance-related appraisal requirements of the Bank; organized staff of the Bank to conduct incompliance-correction campaign; carried out bank-wide test of compliance knowledge, and actively promoted compliance training with various levels, including requiring the vice president and compliance officer of each domestic branch to attend compliance courses, so as to improve the compliance risk management ability and compliance consciousness of the employees of the whole Bank; enhanced the centralised management of supervision and inspection and rectification of issues to ensure the effectiveness and seriousness of compliance.

5.11.8 Anti-money laundering management

In 2016, the Company set up an anti-money laundering management center in the Legal Compliance Department of the Head Office, to take charge of the anti-money laundering compliance management of the whole Bank. The Company has established three professional anti-money laundering teams in the anti-money laundering management center to improve its expertise in anti-money laundering. The Company also made assessments on the effectiveness of anti-money laundering system and continuously improved the suspicious transaction monitoring system for anti-money laundering, the name-list verification system and the customer risk rating system. In line with its internationalisation drive, the Company has developed the name-list verification system for global anti-money laundering and put it online, tightened the anti-money laundering management on foreign institutions and cross-border businesses and formulated the "Guide for Self-assessment on Anti-money Laundering for Overseas Institutions (《境外機構反洗錢自評估指引》). Furthermore, the Company earnestly implemented the reporting system of large-amount transactions and suspicious transactions, consistently strengthened the identity recognition of customers and due diligence work and carried out the screening and elimination of customers with high risk.

5.12 Profit Appropriation

5.12.1 The profit appropriation plan for 2016

As stated in the audited financial statements of the Company for 2016, 10% of the profit after tax of RMB56.990 billion, equivalent to RMB5.699 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB3.102 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 RMB0.74 (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 2016, 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 2016 Annual General Meeting of the Company.

5.12.2 Profit appropriation for the last three years:

Year	Number of bonus shares for every share held (No. of shares)	Cash dividend for every share held (RMB, inclusive of tax)	Number of shares issued on capitalisation of surplus reserve for every share held (No. of shares)	Total cash dividends (inclusive of tax, in millions of RMB)	Net profit attributable to shareholders in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash bonus to net profit attributable to shareholders in the consolidated financial statements (%)
2014	–	0.67	–	16,897	55,911	30.22
2015	–	0.69	–	17,402	57,696	30.16
2016[Note]	–	0.74	–	18,663	62,081	30.06

Note: The proposal of profit appropriation for 2016 is subject to consideration and approval at the 2016 Annual General Meeting of the Company.

5.12.3 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. (revised in 2014) (the "Articles of Association"), the profit appropriation policies 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 each year in principle shall not be less than 30% of the net profit after taxation 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 dividend appropriation plan 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 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 2015 was implemented in strict accordance with the relevant provisions of the Articles of Association. It was considered and approved by the 45th meeting of the Ninth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2015 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 2016 will also be implemented in strict accordance with the relevant provisions of the Articles of Association. It will be considered and approved by the 10th meeting of the Tenth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2016 Annual General Meeting. The independent directors of the Company have expressed their independent opinions on the profit appropriation plans for 2015 and 2016 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.

5.13 Requirements of the Guidelines for Environmental, Social and Governance Report

During the reporting period, adhering to the social responsibility principle of “Gain from society and contribute to society”, the Company launched poverty alleviation in Wuding County and Yongren County of Yunnan Province and actively made contribution and fulfilled its social responsibilities on green loans, support to SMEs and employee care.

For the environmental, social and governance report prepared and disclosed in accordance with the Hong Kong Listing Rules – “Guides for Environmental, Social and Governance Report“and the details of the Company in fulfillment of its social responsibilities, please refer to the “Corporate Social Responsibility Report of China Merchants Bank for 2016”, which form an integral part of this report, and is available on the websites of the Company, the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

5.14 Compliance with Laws and Regulations

During 2016, so far as the Board is aware, 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.

5.15 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.

5.16 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

24 March 2017

Important Events

6.1 Principal business activities

The Company is engaged in banking and related financial services.

6.2 Financial highlights

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

6.3 Reserve

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

6.4 Fixed assets

Changes in fixed assets of the Company as at 31 December 2016 are set out in Note 25 to the financial statements in this annual report.

6.5 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.

6.6 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.

6.7 Retirement and welfare

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

6.8 Principal customers

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

6.9 Interests and short positions of directors, supervisors and chief executives under Hong Kong laws and regulations

As at 31 December 2016, 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 all the issued shares (%)
Jin Qingjun	Supervisor	A Share	Long position	Beneficial owner	65,800	0.00032	0.00026

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

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

6.11 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.

6.12 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).

6.13 Disciplinary actions imposed on the Company, directors, supervisors, 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.

6.14 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.

6.15 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. (hereinafter referred to as "China Merchants Group"), China Merchants Steam Navigation Company Ltd. and China Ocean Shipping (Group) Company had undertaken that they would not seek for related party transactions on terms more favorable than those given to other shareholders; they would repay the principal and interest of the loans granted by the Company on time; they would not interfere with the daily operations of the Company. Should they participate in the subscription of the rights shares, they would neither transfer nor entrust others to manage the allocated shares within five years from the delivery of such shares, nor would they seek for a repurchase by the Company of the allocated shares held by them. Upon expiration of the lock-up period of the allocated shares, they would not transfer their allocated shares until they obtain the approval from the regulatory authorities on the share transfer and the shareholder qualification of transferees; and upon obtaining the approval from the Board of Directors and shareholders' general meeting of the Company, they would continue to support the reasonable capital needs of the Company; they would not impose unreasonable performance indicators on the Company. For details, please refer to the A Share Rights Issue prospectus dated 22 August 2013 on the website of the Company (www.cmbchina.com).

In order to promote the sustainable, steady and healthy development of the capital market, China Merchants Group and its subsidiaries have undertaken that during periods of exceptional volatility in the stock market(s), they would not dispose of their shareholdings in the Company and instead, they would increase their shareholdings in the Company at appropriate times. For further details, please refer to the announcement of the Company dated 10 July 2015 published on our website.

As far as the Company is aware, as at the date of the report, the above shareholders had not violated the aforesaid undertakings.

6.16 Significant connected transactions

6.16.1 Overview of connected transactions

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

6.16.2 Non-exempt continuing connected transactions

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

On 26 August 2014, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CMFM Group for the year of 2015 and 2016 would be RMB3 billion. On 28 April 2015, with the approval from the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CM Securities Group for the year of 2015, 2016 and 2017 would be RMB500 million. On 16 June 2015, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the year of 2015, 2016 and 2017 would be RMB1.2 billion, respectively. On 24 August 2016, with the approval from the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the year of 2016 and 2017 were adjusted from RMB1.2 billion to RMB1.5 billion. Further details were disclosed in the Announcements on Continuing Connected Transactions issued by the Company on 26 August 2014, 28 April 2015, 16 June 2015 and 24 August 2016 respectively.

CMFM Group

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

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

On 26 August 2014, the Company entered into a Service Cooperation Agreement with CMFM for a term commencing on 1 January 2015 and expiring on 31 December 2016. The Agreement was entered into on normal commercial principles after an arm's length negotiation. The service fees payable by CMFM Group will be calculated at the rates specified in the fund offering documents and/or the offering prospectuses and shall be settled to the Company under the Agreement.

The annual cap for the continuing connected transactions between the Company and CMFM Group for 2016 was RMB3 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements under the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2016, the amount of the continuing connected transactions between the Company and CMFM Group was RMB1,524 million.

CM Securities Group

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

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

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

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2016 was RMB500 million, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

As at 31 December 2016, the amount of the continuing connected transactions between the Company and CM Securities Group was RMB459 million.

Anbang Insurance Group

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

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

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

On 24 August 2016, with the resolution considered and passed at the 3rd Meeting of Tenth Session of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the year of 2016 were adjusted from the previously approved RMB1.2 billion to RMB1.5 billion, of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would be subject only to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

As at 31 December 2016, the amount of the continuing connected transactions between the Company and Anbang Insurance Group was RMB1,270 million.

6.16.3 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 has confirmed the findings, conclusions and the unqualified letter issued by Deloitte Touche Tohmatsu in respect of the aforesaid transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to SEHK.

6.17 Material transactions with related parties

The Company's material transactions with related parties are set out in Note 56 to the financial statements. These transactions entered into with related parties of the Company were in the ordinary course of its business including lending, investment, deposit-taking, securities trading, agency services, custody and other trust services and off-balance sheet transactions. These transactions were entered into by the Company on normal commercial terms in the ordinary and usual course of business, and those which constituted connected transactions under the Hong Kong Listing Rules were in compliance with the applicable requirements of the Hong Kong Listing Rules.

6.18 Material litigations and arbitrations

Several lawsuits were filed during daily operation of the Company, most of which were filed for the purpose of recovering of the non-performing loan. As at 31 December 2016, the number of pending litigation and arbitration cases in which the Company was involved totalled 397 with a total amount of principal and interest of approximately RMB1.849 billion. The Company believed that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

6.19 Material contracts and their performance

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

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

Significant entrustments in respect of fund and asset management

During the reporting period, there was no significant entrustment in respect of fund and asset management.

Significant guarantees

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

Explanatory notes and independent opinions of the independent non-executive directors towards the guarantees of China Merchants Bank

In accordance with CSRC Approval [2003] No.56 and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank carried out a due diligence review of the guarantees of China Merchants Bank for 2016 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of CMB was approved by the CBRC, and it was carried out in the ordinary course of business of the banks as a conventional business. As at 31 December 2016, the balance of the irrevocable guarantees of China Merchants Bank was RMB242.579 billion.

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

Other matters

As considered and approved by the Board of Directors of the Company, during the reporting period, the Company won the bid for the land use right for commercial use of Shenzhen Bay Super Headquarters Base in Nanshan District, Shenzhen (land parcel no. T207-0051) at a total consideration of RMB5.95 billion. The acquisition of the land use right of the land parcel is for the construction of CMB Global Headquarters. For details, please refer to the announcement of the Company on the Acquisition of State-owned Land Use Right dated 26 December 2016.

6.20 Significant event in respect of fund entrusting

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

6.21 Use of funds by related parties

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

6.22 Appointment of accounting firms

According to the resolutions passed at the 2015 Annual General Meeting, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company for 2016 and Deloitte Touche Tohmatsu as the international accounting firm of the Company for 2016. These two certified public accountants have been engaged as auditors of the Company since 2016.

The financial statements of the Group for 2016 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Group as at the year end of 2016 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, and the financial statements for 2016 prepared under International Financial Reporting Standards were audited by Deloitte Touche Tohmatsu Certified Public Accountants. The total audit fees amounted to approximately RMB14.17 million (including fees for the audit on the financial statements of our overseas branches, subsidiaries and their respective subsidiaries), among which the audit fees for internal control was approximately RMB1.24 million. The auditor's responsibility statements made by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu Certified Public Accountants regarding their responsibilities for the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively.

Prior to the engagement of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, the Company's domestic and international accounting firms were KPMG Huazhen (Special General Partnership) and KPMG, respectively.

6.23 Review of annual results

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee under the Board of Directors of the Company has reviewed the financial results and financial statements of the Company for the year ended 31 December 2016.

6.24 Annual general meeting

For the convening of its 2016 Annual General Meeting, the Company will make further announcement.

6.25 Publication of annual report

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

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

Changes in Shares and Information on Shareholders

7.1 Changes in shares of the Company during the reporting period

		31 December 2015		Changes in the reporting period	31 December 2016	
		Quantity (share)	Percentage (%)	Quantity (share)	Quantity (share)	Percentage (%)
I.	Shares subject to trading moratorium	–	–	–	–	–
II.	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	–	–	–	–	–
III.	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 214,596 shareholders, including 177,249 holders of A Shares and 37,347 holders of H Shares. None of their shareholdings is subject to trading moratorium.

As at the end of the previous month (namely 28 February 2017) preceding the date for disclosure of the annual report, the Company had a total of 207,411 shareholders, including 170,232 holders of A Shares and 37,179 holders of H Shares. None of their shareholdings is subject to trading moratorium.

Based on the publicly available information and so far as the Company's directors were aware, as at 31 December 2016, the Company had met the public float requirement of the Hong Kong Listing Rules.

7.2 Top ten shareholders and top ten shareholders 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.	/	4,539,126,386	18.00	H Shares	402,469	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	–	–	–
3	Anbang Property & Casualty Insurance Company Ltd. – traditional products	Domestic legal person	2,704,596,216	10.72	A Shares not subject to trading moratorium	–	–	–
4	China Ocean Shipping (Group) Company	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	1,258,542,349	4.99	A Shares not subject to trading moratorium	–	–	–
6	China Merchants Finance Investment Holdings Co. Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	223,523,762	–	–
7	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
8	China Securities Finance Corporation Limited	Domestic legal person	819,311,178	3.25	A Shares not subject to trading moratorium	220,876,436	–	–
9	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	696,450,214	2.76	A Shares not subject to trading moratorium	–	–	–
10	China Communications Construction Company Limited	State-owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	–	–	–

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

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company 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. As at 31 December 2016, China Merchants Group Ltd. indirectly held an aggregate of 29.97% of the total issued shares of the Company (by way of equity interests held, right of control or relationship of parties acting in concert). Among which, the shares acquired by China Merchants Finance Investment Holdings Co., Ltd. through block trades during the reporting period are all the shares (223,523,762 A Shares) in the Company held by China Merchants Zhi Yuan Zeng Chi Bao No.1 Collective Asset Management Plan (招商智遠增持寶1號集合資產管理計劃) and China Merchants Zhi Yuan Zeng Chi Bao No.2 Collective Asset Management Plan (招商智遠增持寶2號集合資產管理計劃), both are under its control. Guangzhou Maritime Transport (Group) Company Ltd. was the predecessor of COSCO Shipping (Guangzhou) Co., Ltd.. China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd. are controlled by China COSCO Shipping Corporation Limited. The Company is not aware of any affiliated relationships among other shareholders.

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

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

As at 31 December 2016, 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:

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 all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	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 Company Ltd.	A	Long	Beneficial owner	3,289,470,337			
		Long	Interest of controlled corporation	58,147,140	1		
				3,347,617,477		16.23	13.27
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520	1		
		Long	Other	55,196,540	1		
				3,405,129,475		16.50	13.50
Best Winner Investment Limited	A	Long	Beneficial owner	58,147,140	1	0.28	0.23
	H	Long	Beneficial owner	328,776,923	1	7.16	1.30
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	1,258,542,349	1		
		Long	Interest of controlled corporation	944,013,171	1		
				2,202,555,520		10.68	8.73
Anbang Property & Casualty Insurance Company Ltd. -traditional products	A	Long	Beneficial owner	2,704,596,216		13.11	10.72
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
JPMorgan Chase & Co.	H	Long	Beneficial owner	57,264,109			
		Long	Investment manager	185,703,550			
		Long	Custodian	78,961,871			
				321,929,530	2	7.01	1.27
		Short	Beneficial owner	3,923,451	2	0.08	0.01

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 all issued shares (%)
Pagoda Tree Investment Company Limited (中國華馨投資有限公司)	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial owner	477,903,500	3	10.41	1.89
BlackRock, Inc.	H	Long	Interest of controlled corporation	239,286,538	4	5.21	0.94
		Short	Beneficial owner	183,500	4	0.003	0.0007

Notes:

(1) China Merchants Group Ltd. was deemed to hold interests in a total of 6,752,746,952 A shares (Long position) and 806,680,423 H Shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Company Ltd. held 3,289,470,337 A shares (Long position) in the Company. China Merchants Steam Navigation Company Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..

(1.2) China Merchants Finance Investment Holdings Co., Ltd. held 1,147,377,415 A shares (Long position) in the Company. China Merchants Finance Investment Holdings Co., Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, respectively.

(1.3) Best Winner Investment Limited held 58,147,140 A shares (Long position) and 328,776,923 H Shares (Long position) in the Company. Best Winner Investment Limited was an indirect wholly-owned subsidiary of China Merchants Steam Navigation Company Ltd..

(1.4) Shenzhen Yan Qing Investment and Development Company Ltd. held 1,258,542,349 A shares (Long position) in the Company. Shenzhen Yan Qing Investment and Development Company Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.

(1.5) Shenzhen Chu Yuan Investment and Development Company Ltd. held 944,013,171 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment and Development Company Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., referred to in (1.4) above, respectively.

(1.6) China Merchants Union (BVI) Limited held 477,903,500 H shares (long position) in the Company. China Merchants Union (BVI) Limited was held as to 50% by China Merchants Holdings (Hong Kong) Company Limited, which was held as to 10.55% and 89.45% by China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, respectively.

(1.7) On 23 December 2015, China Merchants Finance Investment Holdings Co. Ltd., a wholly owned subsidiary of China Merchants Group Ltd. issued a letter of undertaking that: China Merchants Finance Investment Holdings Co. Ltd. undertook to acquire the 55,196,540 A shares in China Merchants Bank held by China Merchants Industry Development (Shenzhen) Limited (a wholly owned subsidiary of China Merchants China Direct Investments Limited) through block trade or other means permitted by laws provided that the latter gives at least 10 trading days prior notice in writing. As such, China Merchants Finance Investment Holdings Co., Ltd. held 55,196,540 A shares (Long position) in the Company.

(2) JPMorgan Chase & Co. was deemed to hold interests in a total of 321,929,530 H shares (Long position) and 3,923,451 H Shares (Short position) in the Company by virtue of its control over a number of corporations.

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 78,961,871 H shares. Besides, 11,193,451 H shares (Long position) and 3,923,451 H shares (Short position) were held through derivatives as follows:

130,000 H shares (Long position) and 405,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
299,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
58,451 H shares (Long position) and 58,451 H shares (Short position)	–	through physically settled derivatives (off exchange)
11,005,000 H shares (Long position) and 3,161,000 H shares (Short position)	–	through cash settled derivatives (off exchange)

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

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

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

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

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

(4) BlackRock, Inc. was deemed to hold interests in a total of 239,286,538 H shares (Long position) and 183,500 H Shares (Short position) in the Company (of which, 399,500 H shares (Long position) and 24,000 H Shares (Short position) were held through cash settled derivatives (off exchange) by virtue of its control over a number of corporations, which were all indirectly wholly-owned by BlackRock, Inc. except for the following:

(4.1) 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:

(4.1.1) BlackRock Japan Co., Ltd. (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 5,392,945 H shares (Long position) in the Company.

(4.1.2) BlackRock Asset Management Canada Limited held 658,000 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..

(4.1.3) BlackRock Investment Management (Australia) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 535,000 H shares (Long position) in the Company.

(4.1.4) BlackRock Asset Management North Asia Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 1,935,122 H shares (Long position) in the Company.

(4.1.5) BlackRock (Singapore) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 123,500 H shares (Long position) in the Company.

(4.2) BlackRock Group Limited was held as to 90% by BR Jersey International Holdings L.P.(referred to in (4.1)).BlackRock Group Limited held equity interest in the Company through its direct or indirect wholly-owned companies as follows:

(4.2.1) BlackRock (Netherlands) B.V. held 840,500 H shares (Long position) in the Company.

(4.2.2) BlackRock Advisors (UK) Limited held 49,848,895 H shares (Long position) in the Company.

(4.2.3) BlackRock International Limited held 1,553,498 H shares (Long position) in the Company.

(4.2.4) BlackRock Asset Management Ireland Limited held 24,869,784 H shares (Long position) in the Company.

(4.2.5) BLACKROCK (Luxembourg) S.A. held 631,792 H shares (Long position) and 24,000 H shares (Short position) in the Company.

(4.2.6) BlackRock Investment Management (UK) Limited held 16,533,992 H shares (Long position) in the Company.

(4.2.7) BlackRock Asset Management Deutschland AG held 230,731 H shares (Long position) in the Company.

(4.2.8) BlackRock Fund Managers Limited held 1,630,211 H shares (Long position) in the Company.

(4.2.9) BlackRock Life Limited held 307,500 H shares (Long position) in the Company.

(4.2.10) BlackRock Asset Management (Schweiz) AG held 12,000 H shares (Long position) in the Company.

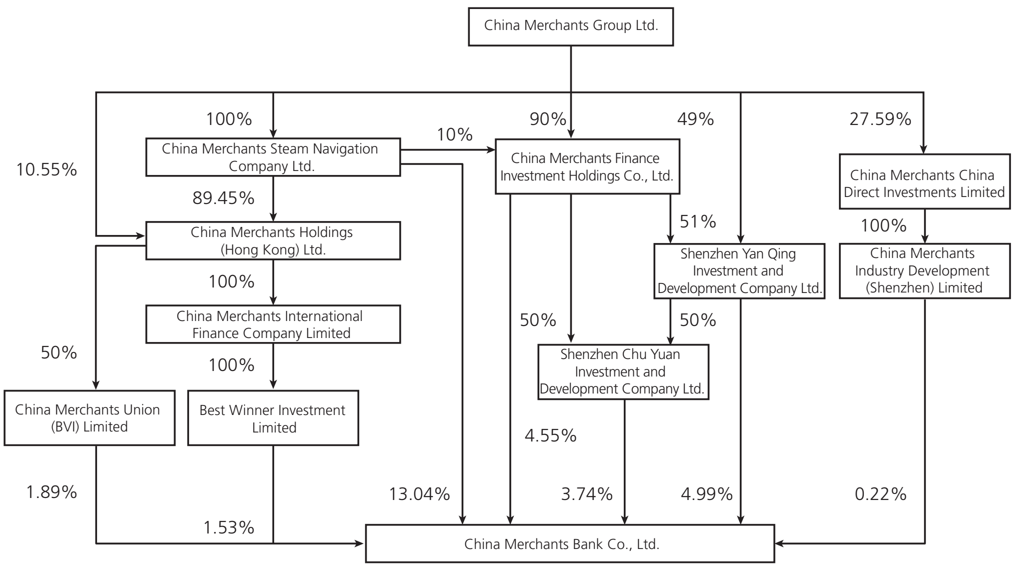
Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the shares and underlying shares of the Company as at 31 December 2016 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

(1) China Merchants Steam Navigation Company Ltd., the largest shareholder of the Company, was founded on 22 February 1992 in Beijing with a registered capital of RMB5.9 billion (organisation code: 10001145-2). Its legal representative is Mr. Li Jianhong. It is a wholly owned subsidiary of China Merchants Group Ltd., and mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc; as well as investment and management of transportation-related financial businesses including banking, securities and insurance.

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

The Company does not have any controlling shareholder or de facto controller. So far as the Company is aware, as at the end of the reporting period, the equity relationship between the Company, and its largest shareholder and parent company of its largest shareholder is illustrated as follows[5]:



So far as the Company is aware, as at 31 December 2016, 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. (In the report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding.)

China Merchants Group Ltd. and China Merchants Steam Navigation Co., Ltd. entered into relevant agreement on 24 February 2017, pursuant to which China Merchants Group Ltd. will transfer its 90% equity interest in China Merchants Finance Investment Holdings Co., Ltd., its 49% equity interest in Shenzhen Yan Qing Investment and Development Company Ltd., and its 10.55% equity interest in China Merchants Holdings (Hong Kong) Company Limited to China Merchants Steam Navigation Co., Ltd. at nil consideration. For details, please refer to the relevant announcement of the Company dated 24 February 2017.

5 China Merchants Finance Investment Holdings Co., Ltd. undertook to acquire the shares in China Merchants Bank held by China Merchants Industry Development (Shenzhen) Limited through block trade or other means permitted by laws provided that the latter gives at least 10 trading days prior notice in writing.

(3) On 28 December 2015, the State-owned Assets Supervision and Administration Commission of the State Council (hereinafter referred to as the "SASAC of the State Council") approved the allocation of Sinotrans & CSC Holdings Co., Ltd. ("Sinotrans & CSC") into China Merchants Group Ltd. at nil consideration. As the relevant change in equity interest triggered an obligation to make a general offer, China Merchants Steam Navigation Company Ltd., as an applicant, has applied to the CSRC for a waiver of its obligation to make a general offer. In order to implement the overall strategy of the CPC Central Committee and the State Council regarding further deepening the reform of state-owned enterprises, and in accordance with the relevant work arrangement of the SASAC, Sinotrans & CSC Holdings Co., Ltd. and its subsidiary Wuhan Changjiang Shipping Company (武漢長江輪船公司) subsequently transferred at nil consideration all their shares in the Company to Guoxin Investment Co., Ltd. (國新投資有限公司), a subsidiary of China Reform Holdings Corporation Ltd.. Therefore, China Merchants Group Ltd. remained to hold an aggregate of 29.97% of the total issued shares of the Company indirectly by way of equity interest, right of control or companies controlled by the parties acting in concert, and will no longer trigger the obligation to make a general offer. In view of this, the CSRC has suspended the examination on the application for administrative permission in relation to a waiver of general offer obligation upon receipt of an application from China Merchants Steam Navigation Company Ltd.. For details, please refer to the relevant announcements published by the Company in China Securities Journal, Shanghai Securities News and Securities Times, and on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

7.5 Information on other shareholders holding more than 10% shares of the Company

As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. held 10.72% of the Company's shares through the securities account for "Anbang Property & Casualty Insurance Company Ltd. – traditional products". Anbang Property & Casualty Insurance Company Ltd. was founded on 31 December 2011 with a registered capital of RMB37.0 billion (Unified Social Credit Code: 91440300599638085R). Its legal representative is Zhang Feng. Anbang Property & Casualty Insurance Company Ltd. is held as to 97.56% by Anbang Insurance Group Co., Ltd.. The business scope of Anbang Property & Casualty Insurance Company Ltd. includes: property damage insurance; liability insurance; credit insurance and guarantee insurance; short-term health insurance and accident insurance; reinsurance of the aforesaid businesses; the investment of insurance premiums as permitted under the national laws and regulations; other businesses as approved by China Insurance Regulatory Commission.

7.6 Share issuance and listing

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

Internal staff shares

The Company had not issued internal staff shares during the reporting period.

Directors, Supervisors, Senior Management, Employees and Organisational Structure

8.1 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
Li Xiaopeng	Male	1959.5	Vice Chairman Non-Executive Director	2015.11-2019.6 2014.11-2019.6	–	–	–	Yes
Tian Huiyu	Male	1965.12	Executive Director President and Chief Executive Officer	2013.8-2019.6 2013.9-2019.6	–	–	474.60	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)	–	–	427.14	No
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8-2019.6	–	–	–	Yes
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2019.6	–	–	–	Yes
Su Min	Female	1968.2	Non-Executive Director	2014.9-2019.6	–	–	–	Yes
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11-2019.6	–	–	–	Yes
Wang Daxiong	Male	1960.12	Non-Executive Director	2016.11-2019.6	–	–	–	Yes
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-2019.6	–	–	50.00	No
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-2017.7 (note 2)	–	–	50.00	No
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7-2018.7 (note 2)	–	–	50.00	No
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11-2017.11 (note 2)	–	–	50.00	No
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1-2019.6	–	–	50.00	No
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2017.2-2019.6	–	–	–	No
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8-2019.6	–	–	379.68	No
Fu Junyuan	Male	1961.5	Shareholder Supervisor	2015.9-2019.6	–	–	–	Yes
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6-2019.6	–	–	–	Yes
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6-2019.6	–	–	–	Yes
Jin Qingjun	Male	1957.8	External Supervisor	2014.10-2019.6	65,800	65,800	40.00	No
Ding Huiping	Male	1956.6	External Supervisor	2016.6-2019.6	–	–	20.00	No
Han Zirong	Male	1963.7	External Supervisor	2016.6-2019.6	–	–	20.00	No
Xu Lizhong	Male	1964.3	Employee Supervisor	2016.6-2019.6	–	–	193.92	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
Huang Dan	Female	1966.6	Employee Supervisor	2015.3-2019.6	–	–	222.99	No
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5-2019.6	–	–	332.22	No
Ding Wei	Male	1957.5	Executive Vice President	2008.5-2019.6	–	–	332.22	No
Zhu Qi	Male	1960.7	Executive Vice President	2008.12-2019.6	–	–	–	No
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2019.6	–	–	332.22	No
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7-present	–	–	332.22	No
Wang Liang	Male	1965.12	Executive Vice President Secretary of Board of Directors	2015.1-2019.6 2016.11-2019.6	–	–	332.22	No
Zhao Ju	Male	1964.11	Executive Vice President	2015.2-2019.6	–	–	–	No
Lian Bolin	Male	1958.5	Executive Assistant President	2012.6-present	–	–	284.76	No
Ma Zehua	Male	1953.1	Former Vice Chairman Former Non-Executive Director	2014.8-2016.6 2014.3-2016.6	–	–	–	No
Li Yinquan	Male	1955.4	Former Non-Executive Director	2001.4-2016.6	–	–	–	Yes
Guo Xuemeng	Female	1966.9	Former Independent Non-Executive Director	2012.7-2017.2	–	–	–	No
Zhu Genlin	Male	1955.9	Former Shareholder Supervisor	2003.5-2016.6	–	–	–	Yes
Liu Zhengxi	Male	1963.7	Former Shareholder Supervisor	2012.5-2016.6	–	–	–	Yes
Pan Ji	Male	1949.4	Former External Supervisor	2011.5-2016.6	–	–	7.50	No
Dong Xiande	Male	1947.2	Former External Supervisor	2014.6-2016.6	–	–	–	No
Xiong Kai	Male	1971.4	Former Employee Supervisor	2014.8-2016.6	–	–	180.95	No
Wang Qingbin	Male	1956.12	Former Executive Vice President and General Manager of Beijing Branch	2011.6-2016.6	–	–	166.11	No
Xu Shiqing	Male	1961.3	Former Secretary of Board of Directors	2013.5-2016.6	–	–	142.38	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. Pursuant to the relevant requirements of the "Guiding Opinions on Establishing the Independent Director System in Listed Companies" (《關於在上市公司建立獨立董事制度的指導意見》), the term of office of independent directors shall not exceed six years. Therefore, the expiration of the term of office of the Independent Director was earlier than that of the Tenth Session of the Board of Directors.

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

4. The remuneration received from the Company by the directors, supervisors and senior management who were appointed or resigned during the reporting period is calculated on the length of their service in the Company during the reporting period.

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

6. 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.

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.

8.2 Appointment and Resignation of Directors, Supervisors and Senior Management

In June 2016, the changes of session for the Board of Directors and the Board of Supervisors were completed.

According to the resolutions passed at the 2015 Annual General Meeting of the Company, Mr. Xu Lirong, Mr. Zhang Jian, Mr. Wang Daxiong and Mr. Zhang Feng were newly elected as Non-executive Directors of the Tenth Session of the Board of Directors of the Company, and Mr. Wong See Hong was newly elected as Independent Non-executive Director of the Tenth Session of the Board of Directors of the Company. The appointment qualifications of Mr. Zhang Jian and Mr. Wang Daxiong for serving as Directors were approved by the CBRC in November 2016. The appointment qualification of Mr. Wong See Hong for serving as a Director was approved by the CBRC at the end of February 2017. The appointment qualifications of Mr. Xu Lirong and Mr. Zhang Feng for serving as Directors are still subject to approval by the CBRC. Mr. Ma Zehua ceased to be the Vice Chairman and Non-executive Director of the Company. Mr. Li Yinquan ceased to be the Non-executive Director of the Company. Ms. Guo Xuemeng ceased to be the Independent Non-executive Director of the Company. Mr. Xu Lirong was elected as the Vice Chairman at the first meeting of the Tenth Session of the Board of Directors of the Company. His appointment qualification for serving as the Vice Chairman is still subject to approval by the CBRC.

According to the resolutions passed at the 2015 Annual General Meeting of the Company, Mr. Wen Jianguo and Mr. Wu Heng were newly elected as Shareholder Supervisors of the Tenth Session of the Board of Supervisors of the Company. Mr. Ding Huiping and Mr. Han Zirong were newly elected as External Supervisors of the Tenth Session of the Board of Supervisors of the Company. Mr. Zhu Genlin and Mr. Liu Zhengxi ceased to be Shareholder Supervisors of the Company. Mr. Pan Ji and Mr. Dong Xiande ceased to be External Supervisors of the Company. According to the voting results at the meeting of employee representatives held on 20 May 2016, Mr. Xu Lizhong was newly elected as Employee Supervisor of the Tenth Session of the Board of Supervisors of the Company, with effect from 28 June 2016. Mr. Xiong Kai, former Employee Supervisor, ceased to be Employee Supervisor of the Company.

According to the resolution passed at the first meeting of the Tenth Session of the Board of Directors of the Company, the Board of Directors appointed Mr. Wang Liang to be the Secretary of the Board of Directors of the Company and his appointment qualification for serving as the Secretary of the Board of Directors was approved by the CBRC in November 2016. The Board of Directors ceased to employ Mr. Wang Qingbin as the Executive Vice President of the Company for reason of his age. Mr. Xu Shiqing ceased to be the Secretary of the Board of Directors of the Company due to job change.

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

8.3 Changes of Information of Directors and Supervisors

1. Mr. Li Xiaopeng, Vice Chairman of the Company, concurrently serves as the Vice Chairman of China Merchants Group Ltd., and ceased to concurrently serve as the Chairman of China Merchants Capital Investments Co., Ltd..

2. Mr. Tian Huiyu, Executive Director, President and Chief Executive Officer of the Company, concurrently serves as the Chairman of Wing Lung Bank, Chairman of CMB International Capital Holdings Corporation Limited, Chairman of China Merchants International Finance Company Limited and Chairman of Board of Supervisors of National Association of Financial Market Institutional Investors.

3. Ms. Sun Yueying, Non-executive Director of the Company, concurrently serves as the Chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), and ceased to be the Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and the Non-executive Director of China COSCO Holdings Company Ltd..

4. Mr. Li Hao, Executive Director and First Executive Vice President of the Company, concurrently serves as the Vice Chairman of Wing Lung Bank, Director of Merchants Union Consumer Finance Co., Ltd., Vice President of Payment and Settlement Association of China, Director and Vice President of Asset Management Association of China and Director of National Internet Finance Association of China.

5. Mr. Fu Gangfeng, Non-executive Director of the Company, ceased to be the Executive Director of China Merchants Port Holdings Company Limited (formerly known as China Merchants Holdings (International) Co., Ltd.) (a company listed on Hong Kong Stock Exchange).

6. Mr. Hong Xiaoyuan, Non-executive Director of the Company, concurrently serves as the CEO of China Merchants Finance Holdings Co., Limited, and ceased to be the Chairman of China Merchants Holdings (U.K.) Co., Ltd..

7. Ms. Su Min, Non-executive Director of the Company, concurrently serves as the Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Merchants Innovative Investment Management Co., Ltd..

8. Mr. Leung Kam Chung, Antony, Independent Non-executive Director of the Company, concurrently serves as the Chairman of Nan Fung Group, Co-Founder and Chairman of New Frontier (新風天域公司) and Director of the Board of Athenex Inc.

9. Mr. Liu Yuan, Chairman of the Board of Supervisors of the Company, concurrently serves as a member of the council of Shenzhen Finance Institute, CUHK (SZ).

10. Mr. Fu Junyuan, Shareholder Supervisor of the Company, concurrently serves as the Director of China Structural Reform Fund Co., Ltd.(中國國有企業結構調整基金股份有限公司).

11. Mr. Jin Qingjun, External Supervisor of the Company, concurrently serves as the Independent Director of Sino-Ocean Group Holding Limited (a company listed on Hong Kong Stock Exchange), and ceased to be the Independent Director of Tianjin Changrong Print and Packing Equipment Co., Ltd. (a company listed on Shenzhen Stock Exchange).

8.4 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
Li Xiaopeng	China Merchants Group Ltd.	Vice Chairman	From March 2016 up to now
		General Manager	From July 2014 up to now
Sun Yueying	China COSCO Shipping Corporation Limited	Chief Accountant	From January 2016 up to now
Fu Gangfeng	China Merchants Group Ltd.	Chief Financial Officer	From November 2011 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager	From September 2011 up to now
Su Min	China Merchants Finance Holdings Co., Limited	General Manager	From September 2015 up to now
Zhang Jian	China Merchants Group Ltd.	General Manager of Finance Department	From September 2015 up to now
Wang Daxiong	COSCO Shipping Financial Holdings Co., Limited	Chairman	From May 2016 up to now
Fu Junyuan	China Communications Construction Co., Ltd.	Executive Director & Chief Financial Officer	From September 2006 up to now
Wen Jianguo	Hebei Port Group Co.,Ltd.	Director & Chief Accountant	From July 2009 up to now
Wu Heng	SAIC Motor Corporation Limited	Deputy General Manager of Finance Department	From May 2015 up to now

8.5 Biography of Directors, Supervisors and Senior Management and Information of Their Concurrent Posts

Directors

Mr. Li Jianhong is the Chairman and Non-executive Director of the Company. Mr. Li obtained a master's degree in Business Administration from East London University, England and a master's degree in Economy and Management from Jilin University. He is a senior economist and the Chairman of China Merchants Group Ltd.. He has been a Director of the Company since July 2014 and the Chairman of the Company since August 2014. He was the vice president of China Ocean Shipping (Group) Company, and the director and president of China Merchants Group Ltd.. He was also the chairman of the board of directors of China Merchants Holdings (International) Co., Ltd. (a company listed on Hong Kong Stock Exchange), the chairman of China International Marine Containers (Group) Limited (a company listed on Hong Kong Stock Exchange and Shenzhen Stock Exchange), the chairman of China Merchants Capital Investments Co., Ltd., the chairman of China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange) and the chairman of China Merchants Huajian Highway Investment Company Limited.

Mr. Li Xiaopeng is the Vice Chairman and Non-executive Director of the Company. Mr. Li obtained his Ph.D. in Finance from Wuhan University. He is a senior economist and the Vice Chairman and General Manager of China Merchants Group Ltd.. He has been a Director of the Company since November 2014 and the Vice Chairman of the Company since November 2015. He is concurrently the Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (formerly known as China Merchants Holdings (International) Co., Ltd.) (a company listed on Hong Kong Stock Exchange), the Chairman of China Merchants United Development Company Limited, the Chairman of China Merchants Investment and Development Co., Ltd. (招商局投資發展有限公司), the Vice Chairman of China Tourism Association, the Vice Chairman of China Urban Financial Society and the Vice Chairman of China Rural Financial Society. He successively served as the vice president of China Huarong Asset Management Corporation, the assistant to the president of Industrial and Commercial Bank of China ("ICBC") and the general manager of ICBC Beijing Branch, the vice president of ICBC, the vice president and executive director of Industrial and Commercial Bank of China Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), and the chairman of the board of supervisors of China Investment Corporation. He also served as the chairman of ICBC International Holdings Ltd., the chairman of ICBC Financial Leasing Co., Ltd., the chairman of ICBC Credit Suisse Asset Management 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 and the chairman of China Merchants Capital Investments Co., Ltd..

Mr. Tian Huiyu is an Executive Director, President and Chief Executive Officer of the Company. He obtained his bachelor's degree in Infrastructure Finance and Credit from Shanghai University of Finance and Economics and his master's degree in Public Administration from Columbia University. He is a senior economist. He is concurrently the Chairman of Wing Lung Bank Limited, the Chairman of CMB International Capital Holdings Corporation Limited, 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 Chief Accountant of China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司). She has been a Director of the Company since April 2001 and the Chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange, formerly known as China Shipping Container Lines Company Limited) 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 is concurrently the Chairman of CMFM and the Vice Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司), the Vice Chairman of Wing Lung Bank Ltd., 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. Fu Gangfeng is a Non-executive Director of the Company. Mr. Fu obtained a bachelor's degree in Finance and a master's degree in Management Engineering from Xi'an Highway College and is a senior accountant. He is the Chief Financial Officer of China Merchants Group Ltd.. He has been a Director of the Company since August 2010, and the Vice Chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) (a company listed on Shenzhen Stock Exchange). He was the deputy director of the Shekou ZhongHua Certified Public Accountants, the director of the Chief Accountant Office and deputy chief accountant of China Merchants Shekou Industrial Zone Co., Ltd., the chief financial officer of China Merchants Shekou Holdings Co., Ltd., the chief financial officer of China Merchants Shekou Industrial Zone Co., Ltd., and the general manager of the Finance Division of China Merchants Group Ltd..

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 is concurrently the Assistant General Manager of China Merchants Group Ltd. and the Chairman and CEO of China Merchants Finance Holdings Company Limited. He has been a Director of the Company since June 2007 and the Chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange) and 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) and the Vice Chairman of China Merchants Capital Investments Co., Ltd..

Ms. Su Min is a Non-executive Director of the Company. Ms. Su obtained a bachelor's degree in Finance from Shanghai University of Finance and Economics and a master's degree in Business Administration from China University of Technology. She is a senior accountant, certified public accountant and certified public valuer. Ms. Su is concurrently the General Manager of China Merchants Finance Holdings Company Limited. She has been a Director of the Company since September 2014, and a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), a Director of China Merchants Innovation Investment Management Co., Ltd. (招商局創新投資管理有限責任公司), the Chairman of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啟航互聯網投資管理有限公司) and a Supervisor of China Merchants Capital Investments Co., Ltd.. She successively served as the deputy director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, the chief accountant of Anhui Energy Group Co., Ltd., a director of Huishang Bank, the chairman and general manager of Anhui Hefei Wanneng Microfinance Company, the deputy general manager and chief accountant of Anhui Energy Group Co., Ltd., the chief accountant and a member of the Communist Party of China Committee of China Shipping (Group) Company, the chairman of CS Finance Company, the chairman of COSCO Financial Leasing Co., Ltd. (中海融資租賃公司), a director of Bank of Kunlun, and a director of China Shipping Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Shipping Container Lines Company Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange).

Mr. Zhang Jian is a Non-executive Director of the Company. Mr. Zhang obtained a bachelor's degree in Economics and Management from the Department of Economics of Nanjing University and a master's degree in Econometrics from the Business School of Nanjing University, and is a senior economist. He is the General Manager of Finance Department of China Merchants Group Co., Ltd. and Deputy General Manager of China Merchants Finance Holdings Co., Ltd.. He has been a Director of the Company since November 2016, and a Director of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., Shi Jin Shi Credit Service Co., Ltd. (試金石信用服務有限公司) and China Merchants Insurance Holdings Co., Ltd. (招商局保險控股有限公司). He had held various positions including general manager of the Suzhou Branch of China Merchants Bank, deputy general manager of the Corporate Banking Department at the Head Office of China Merchants Bank (in charge), corporate business director and general manager of the Corporate Banking Department at the Head Office of China Merchants Bank, corporate business director and general manager of the Credit Risk Management Department at the Head Office of China Merchants Bank and business director and general manager of the Comprehensive Risk Management Office at the Head Office of China Merchants Bank.

Mr. Wang Daxiong is a Non-executive Director of the Company. Mr. Wang obtained a bachelor's degree in Shipping Finance and Accounting from the Department of Marine Transportation Management of Shanghai Maritime University and a master's degree in Business Administration for Senior Management from Shanghai University of Finance and Economics, and is a senior accountant. He is the Chairman of COSCO Shipping Financial Holdings Co., Ltd and the Chief Executive Officer of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He has been a Director of the Company since November 2016. He is concurrently a Director of China Merchants Securities Co., Ltd (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and CIB Fund Management Co., Ltd. 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, and attended Harvard Business School's Program for Management Development and Advanced Management Program. He is concurrently the Chairman and Chief Executive Officer of Nan Fung Group, the Co-founder and Chairman of New Frontier, a member of the Board of Directors of Athenex Inc, the Chairman of charitable organizations, Heifer International – Hong Kong and "Food Angel", and the Chairman of Harvard Business School Association of Hong Kong. He has been an Independent Non-executive Director of the Company since January 2015. Mr. Leung served as a member of Blackstone's Executive Committee, the senior managing director and the chairman of Greater China Region. He also acted as the chairman of Asia for JP Morgan Chase and worked for Citi in various positions, including the country corporate officer for Hong Kong SAR and China, the regional treasurer for North Asia, head of Investment Banking for North Asia, South West Asia and head of Private Banking for Asia. Past board membership of Mr. Leung included an independent director of Industrial and Commercial Bank of China Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), China Mobile Hong Kong Company Limited and American International Assurance, the vice chairman of China National Bluestar Group, a member of the international advisory board of China Development Bank and European Advisory Group. In terms of government services, Mr. Leung had served as Financial Secretary, Non-Official Member of the Executive Council of Hong Kong SAR, Chairman of the Education Commission, Chairman of the University Grants Committee, Member of the Exchange Fund Advisory Committee, Member of the Preparatory Committee for the Hong Kong Special Administrative Region and Election Committee and Hong Kong Affairs Advisors to the Chinese Government, a member of the Board of Hong Kong Airport Authority and a Director of the Hong Kong Futures Exchange.

Mr. Wong Kwai Lam is an Independent Non-executive Director of the Company. Mr. Wong obtained a bachelor's degree from The Chinese University of Hong Kong and Ph. D from Leicester University, U.K.. He is concurrently an honorary fellow of The Chinese University of Hong Kong. He is the Chairman of IncitAdv Consultants Ltd., a Director of Opera Hong Kong, a member of the Strategic Investment Society of The Chinese University of Hong Kong, the Vice Chairman of the Board of Trustee and a member of the Strategic Investment Society of New Asia College of The Chinese University of Hong Kong, the manager of Prosperity Real Estate Investment Trust, an Independent Non-executive Director of K. Wah International Holdings Limited (a company listed on Hong Kong Stock Exchange), and an Independent Non-executive Director of Langham Hospitality Investments Limited (a company listed on Hong Kong Stock Exchange), LHIL Manager Limited and Hutchison Port Holdings Trust (a company listed on SGX-ST). He is concurrently a member of the Governance Committee of Chinese University of Hong Kong Medical Center Co., Ltd. (香港中文大學醫療中心有限公司) and a member of the Governance Committee of Prince of Wales Hospital located in Shatin, Hong Kong. He has been an Independent Non-executive Director of the Company since July 2011. He was the managing director of Merrill Lynch (Asia Pacific) Limited and the chairman of Asia Pacific Investment Banking. Mr. Wong was also a member of Advisory Committee under the Securities and Futures Commission in Hong Kong and its committee on Real Estate Investment Trusts, and a member of the China Committee to the Hong Kong Trade Development Council.

Mr. Pan Chengwei is an Independent Non-executive Director of the Company. Mr. Pan obtained an associate bachelor's degree from Cadre Institute under the Ministry of Transport and is an accountant. He is currently an Independent Non-executive Director of Shenzhen Nanshan Power Co., Ltd. (a company listed on Shenzhen Stock Exchange) and China International Marine Containers (Group) Co., Ltd. (a company listed on Hong Kong Stock Exchange and the Shenzhen Stock Exchange). He has been an Independent Non-executive Director of the Company since July 2012. He was the general manager of the Finance Department of China Ocean Shipping (Group) Company, the general manager of the Finance Department of COSCO (Hong Kong) Group Limited, the general manager of COSCO (H.K.) Property Development Limited, the general manager of COSCO (H.K.) Industry & Trade Holdings Ltd., the chief representative of Shenzhen Representative Office of COSCO HK Group, the general manager of COSCO (Cayman) Fortune Holding Co., Ltd. and its Hong Kong branch, and the compliance manager of the Fuel Oil Futures Department of China Ocean Shipping (Group) Company.

Ms. Pan Yingli is an Independent Non-executive Director of the Company. Ms. Pan obtained a bachelor's degree in Economics from East China Normal University, a master's degree in Economics from Shanghai University of Finance and Economics and a doctorate degree in World Economics from East China Normal University. She is concurrently a Director of Research Center for Global Finance, Shanghai Jiao Tong University, a professor and a tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, the Vice President of Shanghai World Economy Association, the Vice President of Shanghai Institute of International Financial Centers, and the chief expert of Pan Yingli Studio of the Decision-making Consultation Research Base of Shanghai Municipal Government (上海市政府決策諮詢研究基地潘英麗工作室). She has been an Independent Non-executive Director of the Company since November 2011. She was an associate professor, a professor and a tutor of doctorate candidates in East China Normal University, and became a faculty member at Shanghai Jiao Tong University in November 2005. From 1998 to 2007, she served as an invited expert of Shanghai Municipal Government on decision-making consultation.

Mr. Zhao Jun is an Independent Non-executive Director of the Company. Mr. Zhao obtained a bachelor's degree from the Department of Shipbuilding Engineering of Harbin Engineering University, a master's degree from the Department of Ocean Engineering of Shanghai Jiao Tong University, a doctorate degree in Civil Engineering from the University of Houston and a master's degree in Financial Management from the School of Management of Yale University. Mr. Zhao is currently the Chairman of Beijing Fellow Partners Investment Management Ltd.. He has been an Independent Non-executive Director of the Company since January 2015. 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) and EC World Asset Management Private Limited. He has been an Independent Non-executive Director of the Company since February 2017. He previously served as the deputy chief executive of BOCHK, executive vice president and country executive of ABN AMRO Bank, managing director and president for the Southeast Asia region, and the head of the Financial Market Department in Asia (亞洲區金融市場部主管), a director of Bank of China Group Insurance Company Limited, the chairman of the board of BOC Group Trustee Company Limited, the chairman of BOCI-Prudential MPF (中銀保誠強積金), the chairman of BOCHK Asset Management Limited, a member of the board of directors of the Civil Servants Institute of Prime Minister's Office Singapore (新加坡總理辦公室公務員學院), Client Consulting Commission of Thomson Reuters (Thomson Reuters客戶諮詢委員會) and Financial Management Commission of the Hong Kong Administration Society (香港管理學會財務管理委員會).

Supervisors

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

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

Mr. Wen Jianguo is a Shareholder Supervisor, a university graduate and an accountant. Mr. Wen has been a Shareholder Supervisor of the Company since June 2016. He has been a Director and Chief Accountant of Hebei Port Group Co., Ltd. (河北港口集團有限公司). He has concurrently been 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 once served as a Shareholder Supervisor of the Company from June 2010 to May 2013.

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

Mr. Jin Qingjun is an External Supervisor of the Company. He obtained a master's degree in Law from the Graduate School of China University of Political Science and Law. Mr. Jin has been an External Supervisor of the Company since October 2014. He has been the senior partner of King & Wood Mallesons, Beijing. He is concurrently a part-time professor at the School of Law, China University of Political Science and Law and the School of Law, 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), Guotai Junan Securities Co., Ltd. (a company listed on Shanghai Stock Exchange), Gemdale Corporation (a company listed on Shanghai Stock Exchange), Invesco Great Wall Fund Management Company Limited, Times Property Holdings Limited (a company listed on Hong Kong Stock Exchange), as well as a director of Konka Group Co., Ltd. (a company listed on Shenzhen Stock Exchange). He was a legal counsel in Hong Kong and the UK and also worked at Jang Shinn Law Office (中信律師事務所) as a legal counsel from August 1987 to October 1993. He was an executive partner at Shu Jin Law Firm (信達律師事務所) from October 1993 to August 2002. He once served as an independent director of China International Marine Containers (Group) Co., Ltd. (a company listed on Hong Kong Stock Exchange), New China Asset Management Co., Ltd., Xi'an Dagang Road Machinery Co., Ltd. (a company listed on Shenzhen Stock Exchange) and Tianjin Changrong Print and Packing Equipment Co., Ltd. (a company listed on Shenzhen Stock Exchange). In 2012, he was titled one of the Top 10 PRC Lawyers of the Year and PRC Securities Lawyer of the Year.

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

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

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

Ms. Huang Dan is an Employee Supervisor of the Company. Ms. Huang obtained a bachelor's degree in Computer Software from Huazhong University of Science and Technology, and a master's degree in Finance from Southwestern University of Finance and Economics and is an engineer. She has been an Employee Supervisor of the Company since March 2015. She is the Deputy Director of the Labor Union of the 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 China Merchants Bank in April 1994 and successively served as assistant manager, deputy manager, manager and senior manager. She successively served as the assistant general manager and deputy general manager in the Human Resources Department of the Head Office of China Merchants Bank from April 2005 to December 2014.

Senior Management

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

Mr. 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.

Mr. Ding Wei is an Executive Vice President of the Company. Mr. Ding obtained a master's degree in Financial Management from Hangzhou University and is an associate researcher. He joined the Company in December 1996. He successively served as the director of the General Office and the general manager of the Banking Department of Hangzhou Branch, the assistant general manager of Hangzhou Branch, the deputy general manager of Hangzhou Branch, the general manager of Nanchang Sub-branch, the general manager of Nanchang Branch, the general manager of the Human Resources Department of the Head Office, and an executive assistant president of the Head Office. He has been an Executive Vice President of the Company since May 2008. He is concurrently the Director of the Labor Union of the Head Office and a Director of CMB International Capital Holdings Corporation Limited.

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

Mr. Liu Jianjun is an Executive Vice President of the Company. Mr. Liu obtained a master's degree in National Economics from Dongbei University of Finance and Economics and is a senior economist. He has successively served as the deputy general manager of Jinan Branch of the Company, the general manager of the Retail Banking Department under the Head Office, a senior vice president of the Retail Banking Department under the Head Office and the business executive since September 2000. He has been an Executive Vice President of the Company since December 2013. He is concurrently the Chairman of CIGNA & CMB Life Insurance and a Director of China UnionPay Co., Ltd..

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 the general manager of Beijing Branch since June 2012. He ceased to serve as the general manager of Beijing Branch in November 2013, and has served as an Executive Vice President of the Company since January 2015. He has concurrently served as the Secretary of the Board of Directors of the Company since November 2016.

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

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

Joint Company Secretaries

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

Mrs. Seng Sze Ka Mee, Natalia has served as the Company's Joint Company Secretary since August 2006. Mrs. Seng is the Chief Executive Officer of Tricor Group/Tricor Services Limited (hereinafter referred to as "Tricor") in China (including Hong Kong), and also a practice leader of Tricor's Corporate Services and China Consultancy Services. Mrs. Seng has over 30 years of experience in professional secretarial, business advisory and fiduciary services. Mrs. Seng is a Chartered Secretary, a former President (2007-2009) and a retired Council Member (1996-2012) of The Hong Kong Institute of Chartered Secretaries ("HKICS"). Mrs. Seng has been appointed by the government as a member of the Standing Committee on Company Law Reform ("SCCLR") for a period of two years from February 2016 to January 2018. Mrs. Seng is a Fellow of both The Taxation Institute of Hong Kong and The Hong Kong Institute of Directors, and an appointed member of the Inland Revenue Department Users Group since 2009. Mrs. Seng holds a master's degree in Business Administration (Executive) from City University of Hong Kong.

8.6 Explanation on the office location of Chairman of the Company

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

8.7 Evaluation and incentive system for directors, supervisors and senior management

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

According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)", the Board of Supervisors of the Company evaluates the annual duty performance of the directors through monitoring their duty performance in the ordinary course, reviewing their annual duty performance record (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the "Annual Duty Performance Self-Evaluation Questionnaire" completed by each director and work summaries, and then reports the same to the general meeting and regulatory authorities. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released in 2016) and the "Assessment Standards of the H-Share Appreciation Rights Incentive Scheme for the Senior Management".

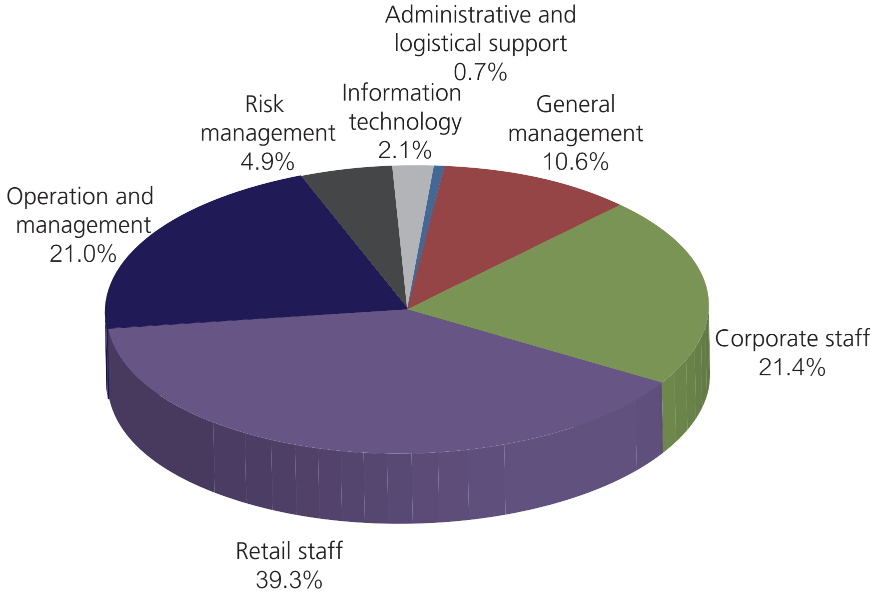
8.8 Progress on Employee Stock Ownership Scheme and H Share Appreciation Rights Scheme

The Company considered and approved the "Resolution Regarding the 2015 First Phase Employee Stock Ownership Scheme (by way of subscribing A shares in the Private Placement)" and the "Resolution Regarding the Termination by China Merchants Bank Co., Ltd. of its H Share Appreciation Rights Scheme" at the 2014 Annual General Meeting of the Company. In accordance with those resolutions, as the purpose of the proposed 2015 First Phase Employee Stock Ownership Scheme was in line with that of the existing H Share Appreciation Rights Scheme of the Company, the H share appreciation rights not granted would be suspended following the approval of the 2015 First Phase Employee Stock Ownership Scheme at the general meeting of the Company. As the "Resolution Regarding the Private Placement of A Shares by China Merchants Bank Co., Ltd. to Designated Placees" and the "Resolution Regarding the General Meeting of China Merchants Bank Co., Ltd. to Confer Full Powers on the Board of Directors and the Persons Authorised by the Board of Directors to Handle the Matters Relating to the Private Placement of A Shares" expired in June 2016, the private placement plan regarding the implementation of the employee stock ownership scheme by way of private placement lapsed accordingly. In view of the above, the implementation of the "2015 First Phase Employee Stock Ownership Scheme (Draft) of China Merchants Bank Co., Ltd. (by way of subscribing A shares in the Private Placement)" has been suspended. On 4 November 2016, as considered and approved at the 2016 First Extraordinary General Meeting of the Company, the Company may resume the grant of the H Share Appreciation Rights, including the supplemental grant of the 2015 Eighth Phase H Share Appreciation Rights and the grant of the 2016 Ninth Phase H Share Appreciation Rights to the relevant persons, and the Board of Directors may also grant the 2017 H Share Appreciation Rights in accordance with the requirements of the H Share Appreciation Rights Scheme within the effective period of the scheme. The Company had implemented the supplemental grant of the Eighth Phase H Share Appreciation Rights and the grant of the Ninth Phase H Share Appreciation Rights during the reporting period. For details of the abovementioned matters, please refer to the relevant announcements dated 24 August and 4 November 2016 published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and the Company's circular dated 19 September 2016 published on the websites of Hong Kong Stock Exchange and the Company.

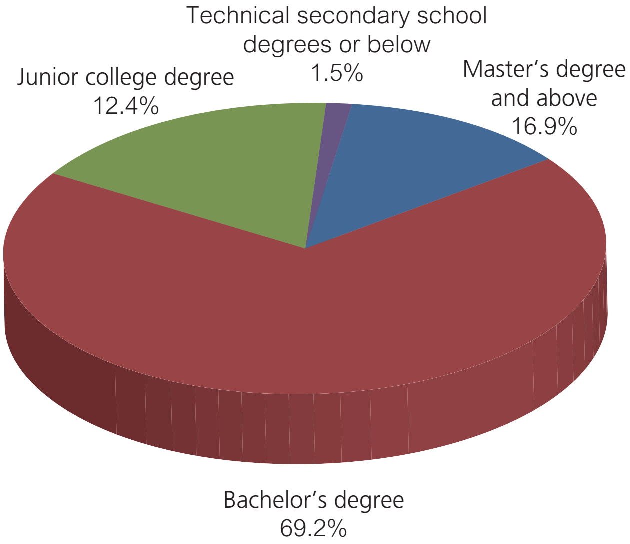
8.9 Information about Employees

As at 31 December 2016, the Company had 70,461 employees (including dispatched employees)[6]. The composition of our employees in service is set out as follows:

(1) Professional Structure



(2) Educational Structure



6 In 2016, in accordance with the requirements of the laws and regulations of the PRC, the Company reduced the percentage of dispatched employees by adjusting its labor employment, and with the relevant risk and service quality put under control, commissioned professional service suppliers to complete the non-core services which were previously engaged by part of its dispatched employees.

Core technical team and key technical personnel

During the reporting period, there was no change in the personnels including the Company's core technical team and key technical staff (other than the directors, supervisors or senior management personnels) 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 organisational performance and minimise its operating risk. The remuneration policy adheres to the principles of remuneration management featuring "strategic orientation, performance enhancement, risk control, internal fairness and market adaptation" and reflects the remuneration concept of "fixing remuneration based on positions and workload".

Staff Training Program

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

8.10 Branches and Representative Offices

In 2016, the Company continued to push forward expansion of its branch network. In China, Yantai Branch (second-level) got approval to upgrade to first-level branch, three second-level branches, namely: Nanyang Branch, Fujian Pilot Free Trade Zone Xiamen Branch and Jilin Branch got approval to start business; Guangzhou Nansha Sub-branch got approval to upgrade to Guangdong Pilot Free Trade Zone Nansha Branch, Langfang Branch (second-level) got approval to prepare for establishment. Outside Mainland China, London Branch got approval to start business; China Merchants Bank (Europe) Co., Ltd. (招商銀行（歐洲）有限公司) got approval from the CBRC to prepare for establishment.

The following table sets forth the branches and representative offices as at 31 December 2016:

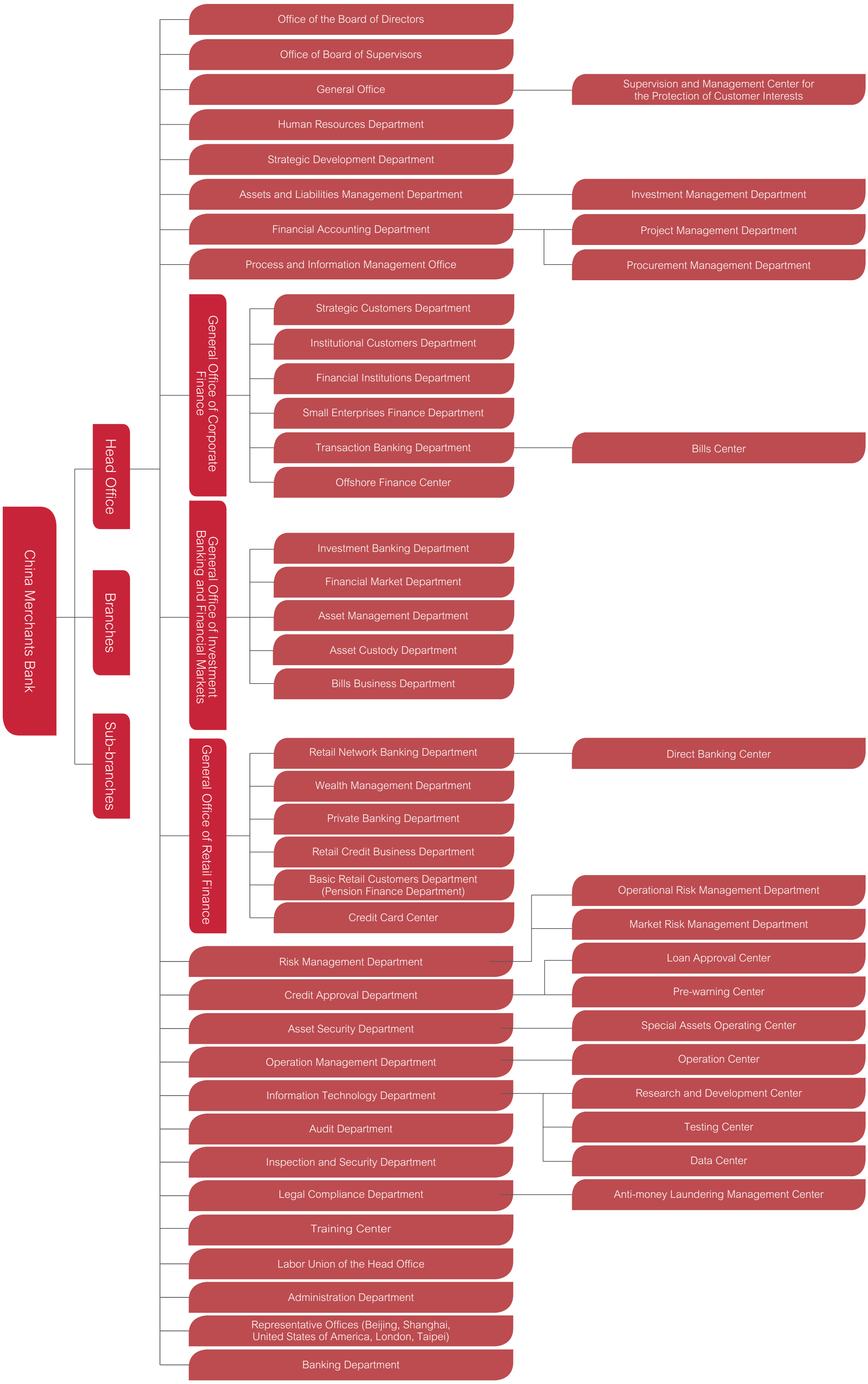
Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,048	2,285,182
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,240	400,258
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	110	4,895	209,920
	Shanghai Pilot Free Trade Zone Branch	Waigaoqiao Building, 6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	42	20,592
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	78	2,734	148,346
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	76	2,497	139,734
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	30	1,169	59,641
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	36	1,181	107,631
	Wuxi Branch	9 Xueqian Road, Wuxi	214001	16	701	28,587
	Wenzhou Branch	1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	12	510	31,245
	Nantong Branch	111 Gongnong Road, Nantong	226007	13	476	22,958

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	9	0
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	114	4,879	247,267
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	48	1,603	48,459
	Tianjin Branch	Yujia Building, 255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300204	42	1,653	75,202
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	56	1,663	69,936
	Yantai Branch	133 Yingchun Street, Laishan District, Yantai	264003	18	491	12,034
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	15	338	9,781
	Tangshan Branch	44 Beixin Road West, Lubei District, Tangshan	063000	3	199	2,641
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	76	2,598	105,308
	Shenzhen Branch	Xinwen Building, 1002 Shennan Road Central, Shenzhen	518001	107	4,806	325,040
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	39	1,137	54,234
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361001	33	929	48,355
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	18	458	22,578
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	32	923	35,288
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	33	1,046	45,063
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	56	1,660	44,040
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	38	1,261	46,462
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	38	1,036	40,771
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	29	631	26,436
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	81	2,313	107,888
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330003	51	1,339	69,632
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	54	1,361	41,431
	Hefei Branch	China Merchants Bank Mansion, 169 Funan Road, Hefei	230006	42	1,161	47,048
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	40	1,182	47,044
	Taiyuan Branch	8 Xinjian Road South, Taiyuan	030001	30	855	30,640
	Haikou Branch	Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	10	267	10,087

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	52	1,537	49,957
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	28	821	26,491
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	62	1,801	59,166
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	46	1,465	65,448
	Urumchi Branch	China Merchants Bank Mansion, 2 Huanghe Road, Urumchi	830000	18	697	23,896
	Kunming Branch	CMB Building, 1 Chongren Street Wuhua District, Kunming	650051	45	1,253	57,564
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	20	638	26,698
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	480	19,475
	Guiyang Branch	284 Zhonghua Road North, Yunyan District,Guiyang	550001	19	422	17,153
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	13	356	12,609
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	9	253	10,027
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	194	105,077
	USA Representative Office	509 Madison Avenue, Suite 306, New York, U.S.A	10022	1	1	1
	New York Branch	535 Madison Avenue 18th Floor, New York, U.S.A	10022	1	124	41,442
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	46	8,882
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	1	61
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	2	2
	Luxembourg Branch	5th floor, 4rue Jean Monnet, Luxembourg	L-2180	1	21	14,037
	London Branch	18/F, 20 Fenchurch Street, London, UK		1	27	7,834
Other assignments					31	–
Total		–	–	**1,819**	**70,461**[Note]	**5,612,579**

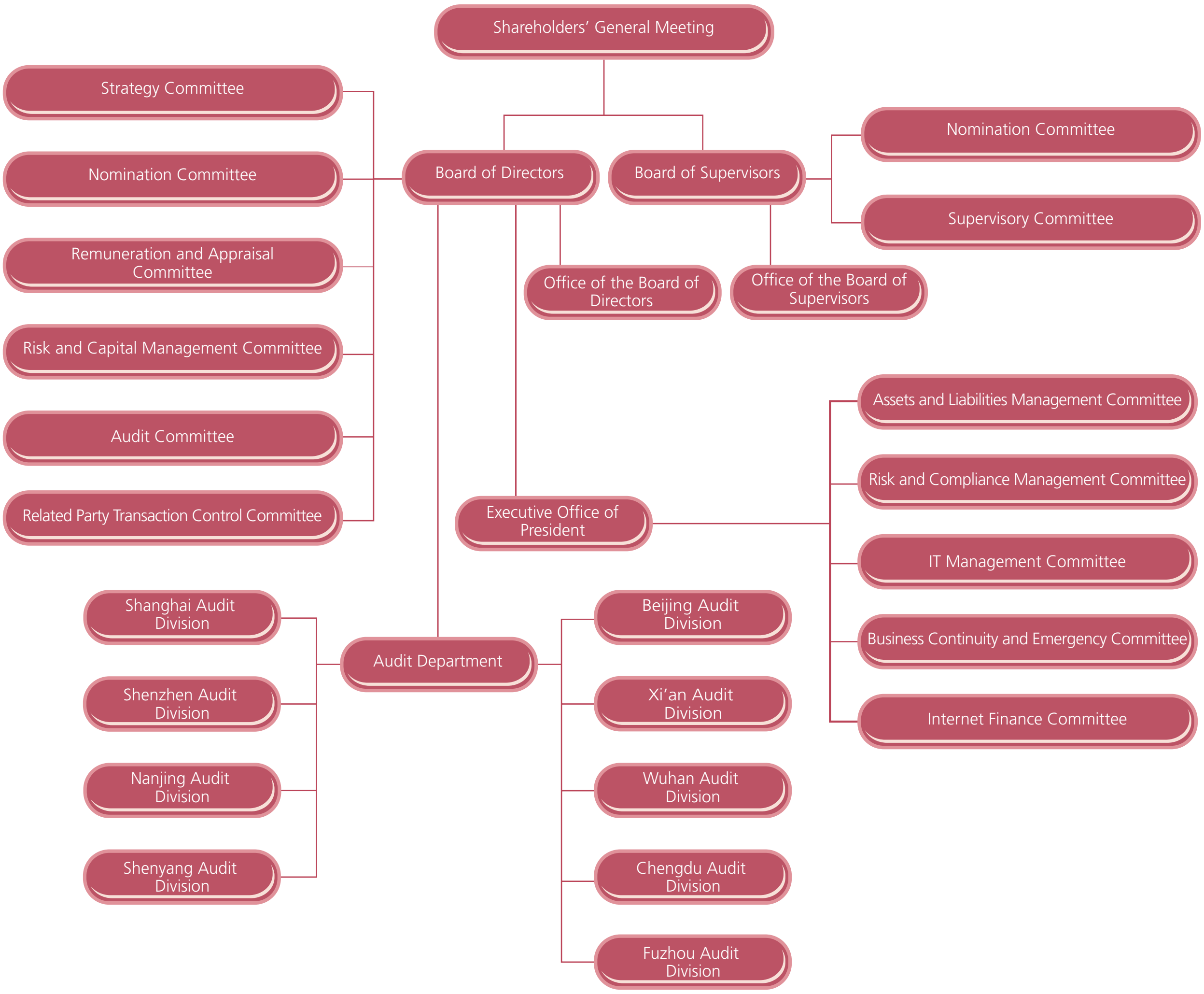
Note: In 2016, in accordance with the requirements of the laws and regulations of the PRC, the Company reduced the percentage of dispatched employees by adjusting its labor employment, and with the relevant risk and service quality put under control, commissioned professional service suppliers to complete the non-core services which were previously engaged by part of its dispatched employees.

8.11 The Company's Organisational Structure:



Corporate Governance

9.1 Corporate Governance Structure:



9.2 Overview of Corporate Governance

2016 was the starting year of the "Thirteenth Five-Year Plan". With increased uncertainties in global economic recovery, numerous compelling contradictions and problems in domestic economic development, emerging financial risks in certain sectors and inadequate impetus in endogenous economic growth, the supply-side structural reform has a long way to go. Facing complicated economic situations at home and abroad and various severe challenges in bank operation, the Board of Directors, the Board of Supervisors and the special committees, following the requirements of internal and external corporate governance, performed their duties diligently, standardised business operations efficiently, promoted business development through strategic planning, stuck to the bottom line of risks strictly, strengthened vertical management of internal auditing, enhanced the incentive and constraint mechanism, protected shareholders' interests, and push forward the Company's strategic transformation towards "One Body with Two Wings" and "Light-operation Bank" steadily. Particulars of their achievements are set out as follows:

During the year, the Company convened a total of 61 important meetings at which 234 proposals were reviewed and 60 reports were delivered. Among the 61 meetings there were 2 shareholders' general meetings (18 proposals were reviewed), 12 meetings of the Board of Directors (85 proposals were reviewed and 14 reports were delivered), 10 meetings of the Board of Supervisors (35 proposals were reviewed and 9 reports were delivered), 29 meetings of the special committees of the Board of Directors (83 proposals were reviewed and 31 reports were delivered), 6 meetings of the special committees of the Board of Supervisors (9 proposals were reviewed), 1 meeting of non-executive directors (1 report was delivered) and 1 meeting of independent non-executive directors (4 proposals were reviewed and 5 reports were delivered). Two activities including research, field study and training were organised by the Board of Directors, and 4 by the Board of Supervisors.

As decided at its meeting, the Board of Directors focused on promoting the following works and made great progress: smoothly completed the election of a new session of the Board of Directors; took full advantage of strategic management functions to formulate and implement the strategic five-year development plan; enhanced its risk management capability in adherence to its prudent risk management concept; improved remuneration management and promoted the continuous operation of medium-to-long incentive and constraint mechanism; promoted the improvement in the quality of external auditing and made remarkable achievements in the vertical management of internal auditing; and strictly implemented the name-list management of related party transactions and related parties, which have continuously enhanced the core competitiveness and innovative capability of the Company and ensured the sustainable and healthy development of the Company. The special committees under the Board of Directors considered the resolutions proposed to the Board of Directors in advance, reviewed topical-specific reports, studied and considered the resolutions professionally, expressed their opinions and advices for the decision-making of the Board of Directors, and further promoted the efficient operation of the Board of Directors and enabled the Board of Directors to make decisions in a scientific way.

Through their presence at meetings of the Board of Directors and the special committees under the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors supervised the convening, reviewing and voting procedures of the meetings of the Board of Directors and its special committees and the Shareholders' General Meetings, as well as the performance of duties by the Directors, and made sure they were compliant with the rules.

For details of information disclosure and management of investor relations of the Company, please refer to the section headed "Communication with Shareholders" of this report.

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

During the reporting period, the Company received recognitions from the capital markets and regulatory authorities in respect of corporate governance, information disclosure as well as investor relations management, and won a number of awards, mainly including the "Best Board of Directors Award" in the selection of the "Twelfth Gold Round Table Award for Board of Directors of Chinese Listed Companies", the first prize of the "Award for Best Practice of the Board of Supervisors among Listed Companies" initially organised by Chinese Association of Listed Companies jointly with Shenzhen Stock Exchange and Shanghai Stock Exchange, the "Award for the Best Activity Day" sponsored by *Institutional Investor*, the "Golden Bull Award" hosted by China Securities Journal, the "Gold Award for Annual Reports Worldwide" selected by League of American Communications Professionals LLC (LACP), etc..

9.3 Information about General Meetings

During the reporting period, the Company convened 2 shareholders' general meetings.

On 28 June 2016, the Company held the 2015 Annual General Meeting in Shenzhen to consider and approve 15 resolutions, which mainly include the consideration of the report of the Board of Directors, the report of the Board of Supervisors, the profit distribution plan, the annual report for 2015, the engagement of an accounting firm for 2016, the election of members of the 10th Session of the Board of Directors and the Board of Supervisors, and the amendments to the Articles of Association.

On 4 November 2016, the Company held the 2016 First Extraordinary General Meeting in Shenzhen at which three resolutions were considered and approved, including the resumption of grant of the H Share Appreciation Rights, adjustment to the remuneration of Independent Non-executive Directors and adjustment to the remuneration of external supervisors.

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.

9.4 Board of Directors

The Board of Directors is the core of our corporate governance. The Company implements a system under which the President assumes full responsibility under the leadership of the Board of Directors, which in turn is an independent policy-making body of the Company, responsible for the execution of resolutions passed by the general meetings; formulation 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's 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.

In institutional development and actual operation, the Board of Directors places great emphasis on the "Unity of Form and Spirit". With respect to the development of organisational structure, the Board of Directors facilitates scientific and reasonable decision-making through the establishment of a diversified directorship structure, and improves the decision-making ability and operational efficiency through promoting the effective operation of special committees. With respect to the operation, the Board of Directors focuses on key issues, directions, and strategies. The Board of Directors continues to strengthen the scientific concept of development to seek balance, health and sustainability; ensures the Company's healthy, sustainable and sound development through effective management of its strategy, risks, capital, remuneration, audit and connected transactions, etc., thus providing a solid basis for the Company to enhance its operation and management capabilities.

9.4.1 Composition of the Board of Directors

As at 31 December 2016, the Board of Directors of the Company had 16 members, including eight non-executive directors, two executive directors, and six independent non-executive directors. All eight non-executive directors come from large state-owned enterprises where they hold key positions such as the chairman of the board of directors, general manager or deputy general manager and chief financial officer. They have extensive experience in management, finance and accounting fields. Both executive directors have extensive experience in financial management. Among the six independent non-executive directors, two are renowned experts in finance and accounting, two are renowned experts in finance, management and capital market, and two are financial experts and investment bankers with international vision, and they all have extensive knowledge of the development of domestic and overseas banking industry, with two independent non-executive directors from Hong Kong who are proficient in international accounting standards and the requirements of Hong Kong capital market. As at the end of the reporting period, the Board of Directors of the Company has four 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. The Company 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 at least once a year 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 VIII 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.

9.4.2 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. The term of office for a director of the Company shall commence 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.

9.4.3 Responsibilities of directors

During the reporting period, all directors of the Company cautiously, earnestly and diligently exercised their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured that the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All directors of the Company were aware of their joint and individual responsibilities towards shareholders. During the year, the average attendance rate of directors at meetings of the Board of Directors and the special committees under the Board of Directors was over 93%, of which the attendance rate at meetings of special committees was 100%.

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

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

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

During the reporting period, the Company initiated annual appraisal of the performance of directors performed by the Board of Supervisors, and annual report and cross-appraisal performed by independent non-executive directors. The appraisal results have been reported to the general meeting.

9.4.4 Chairman of the Board and the President

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

9.4.5 Attendance of directors at relevant meetings

The following table sets forth the records of attendance of each director at the meetings convened by the Board of Directors and by special committees under the Board of Directors and at the shareholders' general meetings held in 2016.

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 Transaction Control Committee	Shareholders' General Meeting
	Actual times of attendance/Required times of attendance[2]							
Non-executive directors								
Li Jianhong	12/12	4/4	2/2	/	/	/	/	2/2
Ma Zehua (resigned)	6/6	3/3	/	/	/	/	/	0/1
Li Xiaopeng	11/12	4/4	/	/	/	/	/	1/2
Li Yinquan (resigned)	6/6	/	/	/	/	/	/	0/1
Sun Yueying	12/12	/	/	1/1	9/9	5/5	/	2/2
Fu Gangfeng	11/12	/	/	/	/	8/8	2/2	2/2
Hong Xiaoyuan	12/12	/	/	1/1	9/9	/	/	2/2
Su Min	12/12	3/3	/	/	9/9	/	3/3	2/2
Zhang Jian	2/2	/	/	/	1/1	/	/	/
Wang Daxiong	2/2	/	/	/	/	1/1	/	/
Executive directors								
Tian Huiyu	11/12	4/4	2/2	/	/	/	/	2/2
Li Hao	12/12	/	/	/	9/9	/	5/5	1/2
Independent non-executive directors								
Leung Kam Chung, Antony	10/12	/	2/2	1/1	9/9	/	/	2/2
Wong Kwai Lam	12/12	/	/	1/1	/	8/8	/	1/2
Pan Chengwei	12/12	/	2/2	/	/	8/8	5/5	2/2
Pan Yingli	12/12	/	2/2	1/1	/	/	/	2/2
Guo Xuemeng (resigned)	12/12	/	/	/	/	8/8	5/5	2/2
Zhao Jun	11/12	/	/	/	5/5	/	5/5	2/2

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

2. Actual number of attendance does not include attendance by proxy. The above directors who did not attend the meetings in person had appointed other directors to attend such meetings on their behalf.

9.4.6 Securities transactions of directors, supervisors and relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2016.

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

9.4.7 Performance of duties by independent non-executive directors

The Board of Directors of the Company currently has six independent non-executive directors, which meets the requirement that at least one third of the total directors of the Company shall be independent directors. The qualification, number and proportion of independent non-executive directors are in compliance with relevant requirements of the CBRC, the CSRC, Shanghai Stock Exchange and the Hong Kong Listing Rules. All six independent non-executive directors of the Company are not involved in the circumstances set out in Rule 3.13 of Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from the independent non-executive directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of Hong Kong Listing Rules. Therefore, the Company is of the opinion that all independent non-executive directors have complied with the requirement of independence set out in Hong Kong Listing Rules. The majority of the members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transaction Control Committee under the Board of Directors of the Company are Independent Non-executive directors, and all of such committees are chaired by an independent non-executive director. During the reporting period, the six independent non-executive directors maintained communication with the Company through personal attendance at the meetings, on-site visits, research and investigations and conferences. They effectively performed their roles as independent non-executive directors by diligently attending meetings held by the Board of Directors and the special committees, actively expressing their opinions and suggestions and attending to the interests and requests of small and medium shareholders. For details of the attendance of independent non-executive directors at the meetings convened by the Board of Directors and the special committees, please refer to "9.4.5 Attendance of directors at relevant meetings" in this report.

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

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

1. The independent non-executive directors listened to reports on the performance of the Company in 2016 made by the management and Chief Financial Officer. The independent non-executive directors believed that the reports made by the management of the Company had fully and objectively reflected the operations of the Company in 2016 as well as the progress of significant matters. They recognised and were satisfied with the work performed by the management team and the results achieved in 2016.

2. The independent non-executive directors reviewed the work plan for preparing the annual report and the unaudited financial statements of the Company.

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

4. After receiving the initial audit opinions from the auditors, the independent non-executive directors discussed with the auditors in respect of major matters and prepared their written opinions.

5. The independent non-executive directors reviewed the procedures for convening Board meetings in the year, the decision-making procedures for matters on the agenda and the adequacy of information for making reasonable and accurate judgment.

6. The independent non-executive directors reviewed the continuing connected transactions of the Company and made confirmations as required by the Hong Kong Listing Rules.

9.5 Special Committees of the Board of Directors

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

In 2016, all special committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 29 meetings to study and review 114 significant issues, including strategic planning and implementation, profit appropriation preliminary plan, annual financial budget and final account report, election and change of session of the board of directors, risk and capital management, remuneration and appraisal, financial supervision and internal control, external investments, related party transactions, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence effectively assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees as well as their work in 2016 are summarized as follows:

9.5.1 Strategy Committee

The Strategy Committee consists of directors nominated by the shareholders and directors from senior management. The current members of the Strategy Committee are Li Jianhong (Chairman), Li Xiaopeng and Tian Huiyu (an executive director). It is mainly responsible for studying the medium-to-long term development strategies and significant investment decisions of the Bank and making relevant proposals, and decide on the annual operation plan.

Main authorities and duties:

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

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

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

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

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

In 2016, the Strategy Committee mainly studied and formulated the "Strategic Development Plan of China Merchants Bank (2016-2020)". Based on the review and conclusion of the implementation results over the past five years, the Strategy Committee made it clear that the development vision of the Company is "to build itself into the best commercial bank in China featuring innovation-driven development, the retail banking-prioritised business strategy and distinguished advantages. It also required the Company to adjust the development plan on an annual basis in the next five years and actively respond to crisis and risks by "adjusting itself in changing environment", so as to lay a solid foundation for the Company to maintain strategic competitiveness. The Strategy Committee also studied and considered the annual operation budget indicators and their implementation results to ensure that the short-term operation goal is in line with the long-term strategic goal.

In order to promote the implementation of the strategic plan across the Bank and strengthen its overall business operation, the Strategy Committee listened to a special report on the internet strategy of the Company and expressed that it will fully support the development of CMB's financial technologies in the aspects of system building and resource input. It has also considered certain major issues such as the establishment of subsidiaries in Europe, the capital increase in CIGNA & CMB Life Insurance and the restructuring of CMB Financial Leasing, revised the Articles of Association of China Merchants Bank Co., Ltd. and the "Measures for Equity Investment and Management of China Merchants Bank Co., Ltd.", optimised the investment management decision-making mechanism, and approved the award-winning project of financial innovation for the first time to vigorously support the Company's innovation and development.

9.5.2 Nomination Committee

The majority of the Nomination Committee are independent non-executive directors, the chairman as well. The current members of the Nomination Committee include Pan Chengwei (Chairman), Pan Yingli, Zhao Jun (all being independent non-executive directors), Li Jianhong (a non-executive director) and Tian Huiyu (an executive director). It is mainly responsible for selecting candidates for directors and senior management of the Company, determining the standards and procedures for such selection and making relevant proposals.

Main authorities and duties:

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

(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 2016, the Nomination Committee made comparison and analysis on the number and structure of the Ninth Session of the Board of Directors, and the changes in the shareholder structure of the Company and the members of the Board of Directors in recent two years, and worked out the plan for a change of the Tenth Session of the Board of Directors of the Company with reference to external supervision and the relevant requirements of the Articles of Association regarding the structure of the Board of Directors and the nomination and election of directors. We preliminarily reviewed the appointment qualifications of 18 candidates for directors and submitted the candidate list to the Board of Directors and the general meeting, which provided important guarantee for the successful completion of the election of a new session of the Board of Directors.

9.5.3 Remuneration and Appraisal Committee

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

Main authorities and duties:

(1) study the appraisal standards for directors and senior management, and conduct appraisals and make recommendations based on the actual conditions of the Bank;

(2) 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;

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

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

In 2016, the Remuneration and Appraisal Committee studied and proposed to continuously promote the H Share Appreciation Rights Scheme which was suspended due to the Employee Stock Ownership Scheme, added suggestions of granting Phase VIII and Phase IX Share Appreciation Rights, and determined the grant date and grant price of Phase VIII Share Appreciation Rights. Approved by the Board of Directors and general meeting, the grant of Phase VIII and Phase IX Share Appreciation Rights had been completed successfully. During the reporting period, in line with the H Share Appreciation Rights Scheme, the Remuneration and Appraisal Committee conducted efficiency appraisal and price adjustment to the appreciation rights granted, which ensured the continuity of the Company's medium-to-long term incentive mechanism.

In 2016, the Remuneration and Appraisal Committee revised the policies on remunerations of senior management, reviewed and determined the total staff costs and the performance bonus of senior management for 2015, studied and proposed to make adjustments in remunerations of independent directors, which further perfected the incentive and restraint mechanism of the Board of Directors.

9.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee currently are Hong Xiaoyuan (Chairman), Sun Yueying, Su Min, Zhang Jian (all being non-executive directors), Li Hao (an executive director) and Leung Kam Chung, Antony (an independent non-executive director). It is mainly responsible for control, management, supervision and assessment of risks of the Bank.

Main authorities and duties:

(1) 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;

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

(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 Bank;

(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 2016, the Risk and Capital Management Committee persisted in prudent risk concept, and stuck to the bottom line of risk control. It significantly promoted the Board of Directors to revise the quantitative authorisation standards for senior management, risk appetite statement as well as risk management and appraisal indicators; optimised the management and transmission mechanism of risk appetite, and effectively improved the risk control capability of the Board of Directors; specifically reviewed the work report on disposal of non-performing loans, and provided strategic guidance for it; and reviewed the report on audit findings, the work report on prevention of relevant cases and violation accountability report, which promoted the arrangement and improvement of the overall business process and system and to enhance the violation accountability.

The Risk and Capital Management Committee also reviewed the quarterly reports on comprehensive risk, capital management plan (2016-2018) and the report on risk appetite execution as well as subjects of capital increase or reform in subsidiaries, etc.. Furthermore, it put forward various proposals and suggestions, including perfecting risk appetite accountability mechanism, strengthening assets portfolio management, making full use of measurement model and rating system to conduct routine risk management, strictly controlling new non-performing loans, reviewing and approving credit in line with the local conditions, proactively making innovation in risk management concept and methods etc.. It also efficiently performed duties of risk management and capital management.

9.5.5 Audit Committee

The majority of members and the chairman of the Audit Committee are independent non-executive directors. The current members of the Audit Committee are Wong See Hong (Chairman), Wong Kwai Lam, Pan Chengwei (all being independent non-executive directors), Fu Gangfeng and Wang Daxiong (both being non-executive directors). It was verified that no member of the Audit Committee has ever served as a partner of the current auditors of the Company. The Audit Committee is mainly responsible for communication, supervision and verification of internal and external auditing issues of the Bank.

Main authorities and duties:

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

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

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

(4) 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;

(5) examine the internal control system of the Bank, and make recommendations for improvement in the internal control of the Bank;

(6) 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;

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

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

In 2016, the Audit Committee enhanced the vertical management of internal audit, further improved the comprehensiveness, independence as well as effectiveness of internal audit. It conducted the following works, including listening to the audit report on a quarterly basis, timely obtaining audit findings, focusing on rectification and accountability, promoting the management to study and formulate relevant measures and improving the enforcement of accountability and punishment, so as to demonstrate the value of internal audit; strengthening the promotion of performance appraisal methods, guiding the internal audit department to focus on core risk points, so as to promote the further improvement of audit ability.

In 2016, as the Company changed its external auditors, the Audit Committee urged the new and the former accounting firms to duly perform the transitional work and ensure the continuity and stability of the external audit. In view of the great pressure in maintaining asset quality, the Audit Committee required the external auditors to closely trace the development trend of asset quality, concentrate efforts on investigating non-performing assets and analyse and disclose the causes. It also required the external auditors to put forward specific management suggestions in respect of credit risk management, so as to realise obvious improvement in the quality of external audit results. Moreover, the Audit Committee regularly reviewed the performance reports, audit reports from external audit institutions, appraisal reports on internal control, etc.. It also monitored and verified the truthfulness, accuracy, completeness and timeliness of the information contained in financial reports, as well as the effectiveness of internal control.

According to "Work Procedures on Annual Reports for Audit Committee of the Board of Directors" adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the annual report for 2016:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the audit plan of the accounting firm for 2016, including the composition of the auditing team, schedule and programme of audit, the priorities of audit work, communication mechanism and quality control. They also reviewed the plan for preparing the annual report and the unaudited financial statements of the Company.

2. In the course of annual audit and after the issue of a preliminary audit opinion by the accounting firm in charge of annual audit, the Audit Committee reviewed the management's report on the operations of the Company for 2016. The Audit Committee exchanged opinions on significant matters and the audit progress with the accounting firm in charge of annual audit, and reviewed the financial statements of the Company. The Audit Committee then formed written opinions for the above issues.

3. Before the convening of the annual meeting of the Board of Directors, the Audit Committee reviewed and prepared a resolution on the Company's Annual Report for 2016 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2016 to the Board of Directors.

9.5.6 Related Party Transaction Control Committee

The majority of members and the chairman of Related Party Transaction Control Committee are independent non-executive directors. The current members of the Related Party Transaction Control Committee are Pan Chengwei (Chairman), Zhao Jun, Wong See Hong (all being independent non-executive directors), Su Min (a non-executive director) and Li Hao (an executive director). It is mainly responsible for inspection, supervision and review of related party transactions of the Company.

Main authorities and duties:

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

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

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

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

In 2016, the Related Party Transaction Control Committee considered and approved five related party transactions between the Company and China Merchants Group Ltd., China Communications Construction Company Limited, Merchants Union Consumer Finance Company Limited, CMB Financial Leasing Co., Ltd. as well as Anbang Life Insurance Co., Ltd. (安邦人壽保險股份有限公司), respectively. Besides, the Related Party Transaction Control Committee reviewed and approved the establishment of an industrial investment fund project by the Company and China Merchants Capital Holdings Co., Ltd. (招商局資本控股有限責任公司), set the annual caps of continuing related party transactions with each of Anbang Insurance Group and CMFM Group, and assisted the Board of Directors to review the fairness of such related party transactions. The Related Party Transaction Control Committee also recognized the changes in the list of related parties on a quarterly basis and then reported to the Board of Directors and the Board of Supervisors. It put more efforts in the enquiry on the list of related parties in accordance with the new requirements of CBRC on the definition of related parties, so as to ensure the accuracy and completeness of the list of related parties.

9.6 Corporate Governance Functions

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

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

(2) inspecting and supervising the trainings and continuing professional development of directors and senior management;

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

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

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

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

9.7 Board of Supervisors

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

9.7.1 Composition of the Board of Supervisors

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

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

9.7.2 How the Board of Supervisors performs its supervisory duties

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

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

During the reporting period, the Board of Supervisors convened 10 meetings, of which 3 were on-site meetings and 7 were meetings convened and voted by correspondence. 35 proposals regarding strategic planning, business operations, financial activities, internal control, risk management, consolidated statement management, related party transaction, corporate governance, change of session of the Board of Supervisors, evaluation of the duty performance of the directors and supervisors and resignation audit on senior management members were considered, 9 of special reports involving strategic management, internal capital adequacy assessment, internal audit, disposal of non-performing assets, the prevention and control of crimes, handling cases of non-compliance and consumer rights protection were reviewed at these meetings.

In 2016, the Company convened 2 shareholders' general meetings and 3 on-site board meetings. Supervisors attended the general meetings and were present at all the on-site board meetings, and supervised compliance with the relevant laws and regulations, voting procedures of the general meetings and board meetings, the directors' attendance, statements made and voting at the general meetings and board meetings, respectively.

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

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

9.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervisory Committee are established under the Board of Supervisors, each consisting of four supervisors. The chairman of each committee is served by an external supervisor.

The Nomination Committee under the Board of Supervisors

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

In 2016, the Nomination Committee under the Board of Supervisors convened 4 meetings where proposals regarding the change of session of the Tenth Session of the Board of Supervisor, the evaluation report on duty performance of the directors in 2015, the evaluation report on duty performance of the supervisors in 2015, lists of candidates for shareholder supervisors and external supervisors of the Tenth Session of the Board of Supervisor, annual performance interview system for directors and senior management members by the Board of Supervisors (Trial) and performance evaluation system for senior management members by the Board of Supervisors (Trial) were reviewed and considered.

The Supervisory Committee under the Board of Supervisors

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

In 2016, the Supervisory Committee under the Board of Supervisors convened 2 meetings where the work plan of the Board of Supervisors in 2016 and the audit opinions on resignation of senior management members were reviewed and considered. In addition, members of the Supervisory Committee under the Board of Supervisors were also present at various on-site meetings convened by the Risk and Capital Management Committee and Audit Committee of the Board of Directors. They also reviewed the consideration and discussion on the financial decisions, risk management, internal management and capital management of the Company, supervised the duty performance of the directors and offered comments and suggestions on some issues, and monitoring records were kept.

9.8 Trainings and Investigations/Surveys Conducted by Directors and Supervisors During the Reporting Period

During the reporting period, the Company's Board of Directors and Board of Supervisors organised 6 investigations/surveys and 1 training activity. The Chairman of the Board of Supervisors conducted investigations/surveys on 14 operating entities of the Company. The performance and effectiveness of decision-making and supervision of Directors and Supervisors continued to improve.

During the reporting period, the Company organised Directors and Supervisors who were newly appointed to participate in job-focused training sessions provided by relevant regulatory authorities and authorised institutions as well as arranged banking management training. The purpose of which is to enable them to obtain proper understanding of the operation and businesses of the Company and its duties under relevant laws, regulations and rules. The Company regularly and from time to time delivered reading materials such as CMB Operation Information Monthly Magazine, monthly operating indicators, Monthly Magazine of Capital Market Information and relevant regulatory polices to directors and ensured them to obtain necessary information to perform their duties in a timely manner. The Company also provided its directors with the latest information and relevant trainings on the Listing Rules and other applicable regulatory requirements to ensure that they follow and better understand good corporate governance. Two investigations/surveys/visits by Directors were organised which involved visiting subsidiaries such as branches to get familiar with overall business operations of the branches and subsidiaries, the implementation of the transformation strategies of "Light-operation Bank" and "One Body with Two Wings", risk management, as well as problems and challenges encountered.

During the reporting period, the Board of Supervisors constantly innovated and enriched methods of investigation/survey, and continuously improve investigation quality and performance of duties, by focusing on major issues such as assets quality, structural adjustment, system reform and risk prevention across the Bank in combination with major issues concerned by the Board of Supervisors. The Board of Supervisors organised four investigations/surveys on a collectively basis during the year, with a total of 11 branches and affiliated entities involved. The Board of Supervisors, based on those investigations/surveys, put forward a number of targeted and practical proposals regarding internal control and compliance, risk prevention, performance appraisal and incentive and restrain, operation and management of second-level branches, synergy and coordination between departments, employee care and education and training. Based on the actual situation, the Board of Supervisors classified the investigation/survey results so as to effectively pass them in the form of investigation/survey reports and work briefs to the Board of Directors, senior management, each department and branch, and reported the same to the regulatory authorities, thus fully exerting its supervisory duty.

According to the training records for 2016 kept by the Company for Directors, the status of relevant trainings is as follows:

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

9.9 Company Secretary under Hong Kong Listing Rules

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

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

9.10 Misconduct Reporting and Monitoring

In 2016, the Company had no internal cases causing huge losses, external cases or incidents involving theft or robbery, or material safety issues.

9.11 Communication with Shareholders

Investor relations

In 2016, adhering to the basic investor-oriented principle of improving investor experience and increasing efficiency,the Company focused on market trend, sticked to fundamental analysis, maintained continuous and positive communication with various investors and analysts in the capital markets with an innovative, professional, open and positive attitude We delivered the strategies, results of operation, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. Mr.Li Jianhong, Chairman of the Board, President Mr. Tian Huiyu paid high attention to the management of investor relations, personally attended the annual results, interim results conferences, and marketing conferences and answered concerns from investors and analysts one by one. After the issue of annual results, President Mr. Tian Huiyu leading a team conducted worldwide road show in Hong Kong, American and Europe, visited 114 important institutions every 5 conferences a day, further conducted recommendation and communication upon the problems of business development, advantages and characteristics, future strategy and valuation improvement.

During the reporting period, the Company held two results announcements and analyst meetings, one press conference, one annual results, global roadshow and one specific investor activity. The Company made arrangement for reception of 100 visits made by 205 domestic and foreign institutional investors and investment banks, brokerage analysts; attended investor conferences held by 30 major domestic and foreign investment banks and brokerages, and conducted effective communication with a total of 716 institutional investors; answered 358 calls from investors, handled 1,684 online messages from investors. These measures have effectively satisfied the needs of domestic and foreign investors and analysts to communicate with the Company.

Having perfectly completed all its tasks for the year, the Company forged ahead with implementing the transformation strategies of "Light-operation Bank" and "One Body with Two Wings". The Company organised a series of communications in respect of different themes on the capital market, and communicated the suggestions and opinions on the capital market to its management in a timely manner, thus better playing its role in facilitating interactions and communications between the management and the capital market. In 2016, in the context of continuous business transformation in the banking sector, the Company maintained its leading position in A+H market valuation among its peers, showing certain effect of its market value management.

During the reporting period, thanks to good corporate governance, clear and advanced development strategies and outstanding operating results, as well as the effective guidance and communication associated with the capital market, the Company won the "Best Activity Day Award", the "Best CFO Award" presented by *Institutional Investor*, and the 12th Session "New Fortune Gold Secretary to the Chairman", the "Golden Bull Award" presented by China Securities Journal, the "Top 100 Listed Companies in Hong Kong 2015" by www.qq.com, and www.chw.net.cn, etc.. These awards revealed high recognition and good ratings given to the Company by the capital market.

Information Disclosure

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

During the reporting period, the Company has disclosed material information in a true, accurate, complete, timely and fair manner in strict accordance with the requirements of relevant laws and regulations governing information disclosure. It has issued 268 disclosure documents in aggregate on Shanghai Stock Exchange and Hong Kong Stock Exchange, including periodic reports, announcements, corporate governance documents, circulars to shareholders, proxy forms and reply slips in a total size of more than 2.06 million words. Apart from fulfilling its statutory obligation of information disclosure, the Company continued to be more initiative in information disclosure in its periodic reports, placing special emphasis on hot issues that concern investors and information particularly related to the banking sector, further establishing a concept of information disclosure tailored to investor demand, improving initiative and transparency in information disclosure in periodic reports.

During the reporting period, the Company constantly perfected and optimised the relevant work procedures for information disclosure to improve work efficiency in accordance with new regulatory requirements and daily work practice, continuously strengthened the compliance education for the insiders of the whole Bank who had access to its insider information, strictly implemented the insider information confidentiality system, standardised the information transmission process and proactively prevented the divulging of insider information and insider trading risk.

Through plenty of carefully executed and effective work, the Company's information disclosure has won recognition from the capital market. The Company's Annual Report 2015 had the honor to win Gold Award for Banking Annual Report in the League of American Communications Professionals LLC (LACP), one of the world's leading annual report competitions. The Company's Annual Report 2015 was also elected "Top 50 Annual Reports in China" and "Top 80 Annual Reports in the Asia-Pacific Region".

9.12 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.

Two or more shareholders holding more than 10% of the voting shares at the proposed general meeting may sign one or several same written requests requisitioning the Board of Directors to convene an extraordinary general meeting or class meeting and stating the subjects to be considered at the meeting. The number of shares held referred to above shall be calculated on the date the shareholders submit their written request. The Board of Directors shall give written replies as to whether it agrees or disagrees to the convening of the extraordinary general meeting or class meeting within 10 days after receiving the request according to the provisions of laws, administrative regulations and the Articles of Association of the Company.

If the Board of Directors agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice on convening the shareholders' general meetings or class meeting within 5 days after passing the board resolution. Any change to the original proposal as stated in the notice shall be approved by the relevant shareholders.

Making proposals at the shareholders' general meeting

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

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

Convening of extraordinary board meeting

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

Making inquiries to the Board of Directors

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

9.13 Major Amendments to the Articles of Association of the Company

During the reporting period, the Company amended the Articles of Association, which further clarified the interpretation and management authority of external investment. For details, please refer to the announcement, shareholders' circular and the documents of shareholders' general meetings of the Company published on 30 March 2016, 13 May 2016 and 13 June 2016 respectively. The amended Articles of Association is subject to the approval of the CBRC.

9.14 Statement Made by the Directors about Their Responsibility on the Financial Statements

The senior management of the Company provided the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2016 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.

9.15 Compliance with the Corporate Governance Code

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

9.16 Internal Control

During the reporting period, according to the development strategy of "One Body with Two Wings" strategy and "Light-operation Bank", the Company precisely rolled out four major areas of work including "asset quality", "structural adjustment", "system reform" and "strict management of the Bank", fully promoted branch system reform, formulated and issued the "Notice of Strengthening Risk and Internal Control Compliance Management in System Reform", and consistently enhanced the independence, specialisation and flattening of risk management and internal control compliance. Relying on the platform of Risk and Compliance Management Committee, the Company held risk situation briefings on a quarterly basis and risk and compliance regular meeting on a monthly basis, and timely reported major risks and problems arising in the course of business development, research, decision-making, risk management and significant events and management measures in internal control. The Company organized and held remedial activities to remedy staff's non-compliance behavior, reinforced the transmission and learning of the regulations and rules for staff and continuously improved staff's compliance concept across the Bank. In accordance with the unified arrangement of CBRC, the Company conducted review on the work of "two reinforcements and two restraints", and established long-term mechanism to restrain non-compliance behavior and cases. Combining with the actual needs in the process of system reform, the Company issued a number of fundamental management systems such as "Group Compliance Policies", "Compliance Management Rules (Second edition)", "Staff Conduct Management Regulations", "Administrative Measures for Staff's Lists of Violation Restriction", "Administrative Measures for Internal Control Information" and "System Management Regulation (Third edition)", thus further improved and perfected the Company's internal control compliance management system. The Company unswervingly strengthened the monitoring, inspection and non-compliance accountability, line inspection, internal control supervision, audit monitoring and inspection by dual cooperation between Party and Committee, seriously implemented the requirement of strict management of the Bank, and ensured the compliance operation and healthy development of each business.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2016 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 "2016 Report on Assessment of Internal Control of China Merchants Bank Co., Ltd.", and the "Auditors' Report on Internal Control" issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP with standard unqualified opinions.

9.17 Internal Audit

The Company has established a sound internal audit mechanism. Firstly, the Company has formulated an independent and vertical internal audit management system. The Head Office has an audit department which consists of 9 audit divisions. The audit department at the Head Office carries out the examination, supervision and appraisal functions independently, and reports to the Board of Directors and its audit committee. The person in charge of the audit department at the Head Office shall be appointed by the Board of Directors. The annual audit plan shall be approved by the Board of Directors and the audit results shall be reported to the Board of Directors. Secondly, the Company formulated a set of systems comprising of general rules, operational rules and practice based on the "Internal Audit Constitution of China Merchants Bank" and established an inspection model that gives equal emphasis on on-site and off-site checks.

The Audit Department of the Company shall supervise, inspect and assess the effectiveness of the management activities, risk profile and internal control of the whole Bank (including domestic and overseas branches, business management departments, affiliates), follow up the rectification of audit findings, provide independent audit advices and the recommendations on operation management to the Board of Directors, promote the rectification of any audit findings, and strengthen the assessment and utilisation of any rectification results.

In 2016, in accordance with the "Commercial Banks Internal Audit Guidelines" issued by CBRC, the Company revised its CMB Internal Audit Rules, further specified the job duties of internal audit, work process, reporting system, regulated outsourcing of internal audit work and internal audit work of oversea branches, thus promoted the standardisation and effectiveness of internal audit. Meanwhile, the Company also innovated subsequent audit methods, implemented follow-up measures of tracking, remedy and assessment, further reinforced off-site audit, fully performed the duties of monitoring of error correction and disclosure of risk responsibilities, and gave full play to the monitoring, assessment and value-added functions of internal audit in promoting the implementation of strategic decisions and operation strategy across the Bank.

Report of the Board of Supervisors

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

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

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

Authenticity of financial statements

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have audited the financial reports for 2016 in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively and have each produced a standard unqualified audit report, stating that the financial reports have given a true, objective and accurate view of the financial position and operating results of the Company.

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 2016, 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 2016", 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

24 March 2017

Financial Reports

(See Annex)

Independent Auditor's Report

DTTHK(A)(17)I00018

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 167 to 314, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers and Debt securities classified as receivables	
We identified impairment of loans and advances to customers and debt securities classified as receivables as a key audit matter due to the materiality of the balances and the subjective judgement applied by management in determining whether objective evidence of impairment exists and the related estimation uncertainty in the measurement of impairment allowance. As at 31 December 2016, as set out in note 19 to the consolidated financial statements, loans and advances to customers, comprising mainly corporate and retail loans and advances, amounted to RMB3,151,649 million, against which related impairment allowance of RMB110,032 million has been made. While, as set out in note 21(d) to the consolidated financial statements, debt securities classified as receivables amounted to RMB528,748 million, against which related impairment allowance of RMB6,176 million has been made. Significant judgement is required to determine the recoverability of the loans and advances and debt securities classified as receivables, which takes into account several factors including the financial strength of the borrowers and the guarantors, collateral pledged and the risk of specific transactions. Principal accounting policies, accounting estimates and judgements applied in determining the impairment allowance of loans and advances to customers and debt securities classified as receivables are set out in note 2(n) to the consolidated financial statements. The provision of portfolio impairment allowances are based on the portfolio structure of loans and advances to customers and debt securities classified as receivables, the historical loss experience of similar credit risk characteristics and current economic conditions.	Our procedures in relation to impairment of loans and advances to customers and debt securities classified as receivables included evaluating the design and testing automated and manual controls over the timely recognition of impaired loans and advances to customers and debt securities classified as receivables, and controls over the impairment calculation models including data inputs and the calculation of the impairment provisions. For a sample of loans and advances to customers and debt securities classified as receivables, we conducted credit reviews to form our own assessment as to whether impairment events had occurred and to assess whether impairment has been properly identified in a timely manner. We also tested the management's estimation of the expected future cash flows from customers, including expected recoverable amount of collateral held, recalculated the impairment allowance and compared the results in order to assess whether there was any material misstatement. In addition, for the collectively assessed loans and advances to customers and debt securities classified as receivables, we evaluated the appropriateness of the model used by the Group for determining the loss ratios with reference to market practice and sample checked the historical data and the relevant calculations.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified goodwill as a key audit matter due to the size of the balance, the subjective judgement applied by management in determining whether it is impaired and the inherent uncertainty in the estimation of the discounted future cash flows. An assessment is required annually to determine if any impairment is required. Goodwill is allocated to the Group's subsidiaries, Wing Lung Bank Limited (WLB) which was acquired on 30 September 2008 and China Merchants Fund Management Co., Ltd. (CMFM) which was acquired on 28 November 2013. The net amount of goodwill at 31 December 2016 amounted RMB9,954 million, after impairment of RMB579 million (note 28 in the consolidated financial statements). The impairment assessment relied on the calculation of a value-in-use for each of the subsidiaries. These calculations used cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period were extrapolated using a steady growth rate. In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM.	Our procedures in relation to impairment of goodwill included critically assessing the assumptions, primarily the discount rate and terminal growth rates, used in the discounted cash flow models and the methodology used for determining the value-in-use model. We also tested the calculations used in the discounted cash flow models and agreed key inputs in the model to externally derived data used and historical information.
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 classification of structured entities 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. disclosed in note 59 in the consolidated financial statements. When performing the assessment of whether the Group has control of structured entities, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services and the Group's exposure to variability of returns from other interests that it holds in the structured entities.	Our procedures in relation to consolidation of structured entities included assessing and evaluating the management process in determining the consolidation scope for interests in structured entities as well as the purpose for setting up the structured entities. We also evaluated management judgement in applying consolidation concept to each of the significant 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 underlying assets 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 determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Eric Tong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2016	2015 (Restated)
Interest income	3	215,481	235,976
Interest expense	4	(80,886)	(98,390)
Net interest income		134,595	137,586
Fee and commission income	5	66,003	57,100
Fee and commission expense		(5,138)	(4,091)
Net fee and commission income		60,865	53,009
Other net income	6	14,489	11,571
Operating income		209,949	202,166
Operating expenses	7	(64,900)	(67,670)
Charge for insurance claims		(248)	(287)
Operating profit before impairment losses		144,801	134,209
Impairment losses	11	(66,159)	(59,266)
Share of profits of associates		29	2
Share of profits of joint ventures		292	134
Profit before taxation		78,963	75,079
Income tax	12	(16,583)	(17,061)
Profit for the year		62,380	58,018
Attributable to:			
Equity shareholders of the Bank		62,081	57,696
Non-controlling interests		299	322
Earnings per share			
Basic and diluted (RMB)	14	2.46	2.29

The notes on pages 174 to 314 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2016	2015
Profit for the year		62,380	58,018
Other comprehensive income for the year after tax and reclassification adjustments			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of financial statements of overseas subsidiaries		1,859	966
Available-for-sale financial assets: net movement in fair value reserve		(4,620)	4,224
Cash flow hedge: net movement in hedging reserve		(260)	404
Equity-accounted investees share of other comprehensive (expense) income		(141)	64
		(3,162)	5,658
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		31	(53)
Other comprehensive income for the year, net of tax	13	(3,131)	5,605
Attributable to:			
Equity shareholders of the Bank		(3,135)	5,603
Non-controlling interests		4	2
Total comprehensive income for the year		59,249	63,623
Attributable to:			
Equity shareholders of the Bank		58,946	63,299
Non-controlling interests		303	324

The notes on pages 174 to 314 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2016

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2016	2015 (Restated)
Assets			
Cash		16,373	14,381
Precious metals		2,981	16,099
Balances with central bank	15	581,156	569,961
Balances with banks and other financial institutions	16	103,013	63,779
Placements with banks and other financial institutions	17	200,251	185,693
Amounts held under resale agreements	18	278,699	343,924
Loans and advances to customers	19	3,151,649	2,739,444
Interest receivable	20	26,251	24,934
Financial assets at fair value through profit or loss	21(a)	55,972	59,081
Derivative financial assets	55(f)	8,688	10,176
Available-for-sale financial assets	21(b)	389,138	299,559
Held-to-maturity investments	21(c)	477,064	353,137
Debt securities classified as receivables	21(d)	528,748	716,064
Interest in joint ventures	23	3,630	2,732
Interest in associates	24	82	54
Property and equipment	25	43,857	31,835
Investment properties	26	1,701	1,708
Intangible assets	27	3,914	3,595
Goodwill	28	9,954	9,954
Deferred tax assets	29	31,010	16,020
Other assets	30	28,180	12,848
Total assets		5,942,311	5,474,978

The notes on pages 174 to 314 form part of these consolidated financial statements.

	Note	2016	2015 (Restated)
Liabilities			
Borrowing from central bank		330,108	86,639
Deposits from banks and other financial institutions	31	555,607	711,561
Placements from banks and other financial institutions	32	248,876	178,771
Amounts sold under repurchase agreements	33	162,942	161,613
Deposits from customers	34	3,802,049	3,571,698
Interest payable	35	36,246	39,073
Financial liabilities at fair value through profit or loss	36	23,576	20,227
Derivative financial liabilities	55(f)	11,152	7,575
Debt securities issued	37	275,082	251,507
Salaries and welfare payable	38(a)	7,048	6,524
Tax payable	39	19,523	12,820
Deferred tax liabilities	29	897	867
Other liabilities	40	65,843	64,345
Total liabilities		5,538,949	5,113,220
Equity			
Share capital	41	25,220	25,220
Capital reserve	42	67,523	67,523
Investment revaluation reserve	43	1,454	6,188
Hedging reserve	44	(19)	241
Surplus reserve	45	39,708	34,009
Regulatory general reserve	46	67,838	64,679
Retained profits		180,447	145,887
Proposed profit appropriations	47(b)	18,663	17,402
Exchange reserve	48	1,516	(343)
Total equity attributable to equity shareholders of the Bank		402,350	360,806
Non-controlling interests	57	1,012	952
Total equity		403,362	361,758
Total equity and liabilities		5,942,311	5,474,978

The notes on pages 174 to 314 form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 24 March 2017.

Li Jianhong
Director

Tian Huiyu
Director

Company Chop

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(Expressed in millions of Renminbi unless otherwise stated)

		2016											
		Total equity attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2016		25,220	67,523	6,188	241	34,009	64,679	145,887	17,402	(343)	360,806	952	361,758
Changes in equity for the year		–	–	(4,734)	(260)	5,699	3,159	34,560	1,261	1,859	41,544	60	41,604
(a) Net profit for the year		–	–	–	–	–	–	62,081	–	–	62,081	299	62,380
(b) Other comprehensive income for the year	13	–	–	(4,734)	(260)	–	–	–	–	1,859	(3,135)	4	(3,131)
Total comprehensive income for the year		–	–	(4,734)	(260)	–	–	62,081	–	1,859	58,946	303	59,249
(c) Changes by the shareholder's equity													
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(166)	(166)
(d) Profit appropriations													
(i) Appropriations to statutory surplus reserve	45	–	–	–	–	5,699	–	(5,699)	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	46	–	–	–	–	–	3,159	(3,159)	–	–	–	–	–
(iii) Dividends declared and paid for the year 2015		–	–	–	–	–	–	–	(17,402)	–	(17,402)	(77)	(17,479)
(iv) Proposed dividends for the year 2016		–	–	–	–	–	–	(18,663)	18,663	–	–	–	–
At 31 December 2016		25,220	67,523	1,454	(19)	39,708	67,838	180,447	18,663	1,516	402,350	1,012	403,362

		2015											
		Total equity attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2015		25,220	67,523	1,902	(163)	28,690	53,979	121,665	16,897	(1,309)	314,404	656	315,060
Changes in equity for the year		–	–	4,286	404	5,319	10,700	24,222	505	966	46,402	296	46,698
(a) Net profit for the year		–	–	–	–	–	–	57,696	–	–	57,696	322	58,018
(b) Other comprehensive income for the year	13	–	–	4,286	404	–	–	(53)	–	966	5,603	2	5,605
Total comprehensive income for the year		–	–	4,286	404	–	–	57,643	–	966	63,299	324	63,623
(c) Changes by the shareholder's equity													
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	83	83
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(83)	(83)
(d) Profit appropriations													
(i) Appropriations to statutory surplus reserve	45	–	–	–	–	5,319	–	(5,319)	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	46	–	–	–	–	–	10,700	(10,700)	–	–	–	–	–
(iii) Dividends paid for the year 2014		–	–	–	–	–	–	–	(16,897)	–	(16,897)	(28)	(16,925)
(iv) Proposed dividends for the year 2015		–	–	–	–	–	–	(17,402)	17,402	–	–	–	–
At 31 December 2015		25,220	67,523	6,188	241	34,009	64,679	145,887	17,402	(343)	360,806	952	361,758

The notes on pages 174 to 314 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

(Expressed in millions of Renminbi unless otherwise stated)

	2016	2015 (Restated)
Cash flows from operating activities		
Profit before tax	78,963	75,079
Adjustments for:		
– Impairment losses on loans and advances	64,560	57,507
– Impairment losses on investments and other assets	1,599	1,759
– Unwind of discount	(1,001)	(1,137)
– Depreciation of properties and equipment and investment properties	4,287	4,086
– Amortisation of other assets	576	436
– Net gain on debt securities and equity investments	(11,632)	(9,008)
– Interest income on investments	(45,721)	(48,173)
– Interest expense on issued debt securities	9,925	7,150
– Share of profits of associates	(29)	(2)
– Share of profits of joint ventures	(292)	(134)
– Net gains on disposal of properties and equipment	(329)	(4)
Changes in:		
Balances with central bank	(40,633)	38,689
Loans and advances to customers	(470,444)	(347,286)
Other assets	(17,264)	(26,685)
Deposits from customers	230,351	267,260
Deposits and placements from banks and other financial institutions	(108,559)	192,906
Balances and placements with banks and other financial institutions with original maturity over 3 months	(51,432)	125,226
Borrowing from central bank	267,508	66,639
Other liabilities	(6,732)	18,923
Cash (used in) generated from operating activities	(96,299)	423,231
Income tax paid	(24,316)	(22,811)
Net cash (used in) generated from operating activities	(120,615)	400,420
Investing activities		
Payment for the purchase of investments	(794,146)	(865,591)
Proceeds from the disposal of investments	765,069	451,491
Investments and net gains received from investments	60,509	51,407
Payment for the subsidiaries, associates, joint venture	(774)	–
Payment for the purchase of properties and equipment and other assets	(17,504)	(9,079)
Proceeds from the disposal of properties and equipment and other assets	561	167
Loans repaid by joint ventures	5	2
Net cash generated from(used in) investing activities	13,720	(371,603)

The notes on pages 174 to 314 form part of these consolidated financial statements.

	Note	2016	2015
Financing activities			
Proceeds from the issue of debt securities		**12,432**	200
Proceeds from the issue of medium term notes		**–**	3,046
Proceeds from the issue of negotiable interbank certificates of deposits		**190,800**	290,867
Proceeds from the issue of certificates of deposits		**14,740**	23,105
Proceeds from non-controlling shareholders		**–**	83
Repayment of issued debt securities		**(5,227)**	–
Repayment of negotiable interbank certificates of deposits		**(178,580)**	(143,500)
Repayment of certificates of deposit		**(8,019)**	(28,812)
Payment for acquiring additional non-controlling equity		**(166)**	(83)
Dividends paid		**(17,402)**	(16,925)
Interest paid on issued debt securities		**(12,574)**	(3,096)
Net cash (used in) generated from financing activities		**(3,996)**	124,885
Net (decrease) increase in cash and cash equivalents		**(110,891)**	153,702
Cash and cash equivalents as at 1 January		**635,843**	471,471
Effect of foreign exchange rate changes		**7,160**	10,670
Cash and cash equivalents as at 31 December	50(a)	**532,112**	635,843
Cash flows from operating activities include:			
Interest received		**169,991**	189,783
Interest paid		**73,803**	99,409

The notes on pages 174 to 314 form part of these consolidated financial statements.

Notes to the Financial Consolidated Statements

For the year ended December 31, 2016

(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(a) Organisation

China Merchants Bank Co., Ltd. ("the Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2016, apart from the Head Office, the Bank had 50 branches in the Mainland China, Hong Kong, New York, Singapore, London and Luxembourg. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

(b) Principal activities

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

2. Basis of preparation, principal accounting policies, accounting estimates and judgements

(a) Statement of compliance and basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

(b) Changes in accounting policies

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

Amendments to IAS 1	Disclosure Initiative
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

The adoption of these amendments to IFRSs has had no significant impact on the operating results, comprehensive income, or financial position of the Group for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(b) Changes in accounting policies *(continued)*

ii Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to IFRS10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	a date to be determined
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017 or 1 January 2018, as appropriate
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements for IFRS 9

– All recognised financial assets that are within the scope of IFRS 9 are required to determine initial classification and measurement based on the contractual cash flows characteristics and their business model. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(b) Changes in accounting policies *(continued)*

ii Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

***IFRS 9 Financial Instruments** (continued)*

Key requirements for IFRS 9 (continued)

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

– In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 and the facts and circumstances that exist at the date, the Group have performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Application of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets. The Group's debt investments of available-for-sale investments will either be measured at 1) fair value through profit or loss; 2) FVTOCI; 3) amortised cost. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

The Group anticipate that the application of new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

The change in fair value of the Group's financial liabilities designated at fair value through profit or loss that is attributable to changes in credit risk could be presented in other comprehensive income.

However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(b) Changes in accounting policies *(continued)*

ii Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, Clarifications to IFRS 15 are issued in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Group do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(b) Changes in accounting policies *(continued)*

ii Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB14,559 millions as disclosed in note 53. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Group complete a detailed review.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(c) Basis of measurement

Unless otherwise stated, the consolidated financial statements are presented in Renminbi ("RMB"), which is the Bank's functional and presentation currency, rounded to the nearest million, unless otherwise stated.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future period are discussed in Note 2(z).

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(d) Subsidiaries and non-controlling interests and business combination

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's identifiable net assets. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(i)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 2(e)) or, an associate (see Note 2(f)).

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 -Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquire's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(e) Joint ventures

A joint venture is an arrangement in which the Group has joint control, where by the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judge whether there is a joint control, the Group usually considers the following cases:

– whether any party within the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

Interests in the joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the joint ventures, until the date on which significant influence or joint control ceases.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the joint ventures' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes post-tax results of the joint ventures for the year, including any impairment loss on goodwill relating to the investment in the joint ventures recognised for the year (see Notes 2(g) and 2(n)(ii)).

When the Group's share of losses exceeds its interest in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures. For these purposes, the Group's interest in the joint ventures is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(i)).

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(f) Associates

Associate is an entity in which the Group has significant influence, but not control, or joint control, over its management, 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 judge 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.

Investment in associates is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes the Group's post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see Notes 2(g) and 2(n)(ii)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For these purposes, the Group's interest in the associates is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(i)).

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest 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 CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(n)(ii)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see Note 2(n)(ii)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2016.

The amortization period of intangible assets is as follow:

Land use right	Software and Others	Core deposit
50years	2~20years	28years

Both the periods and method of amortisation are reviewed annually.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments

(i) Initial recognition and classification

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instruments. Financial assets are derecognised on the date when the contractual rights to substantially all the risks and rewards of ownership or the cash flows expire are transferred.

At initial recognition, all financial assets and liabilities are measured at fair value. In the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data. Transaction costs of financial assets and liabilities at fair value through profit or loss are expensed immediately.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– Financial assets and financial liabilities at fair value through profit or loss, include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss.

All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

Financial instruments are designated as financial assets and financial liabilities at fair value through profit or loss upon initial recognition when:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

– the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivative from the financial instrument is not prohibited;

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition and classification *(continued)*

– *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Group has the positive intent and ability to hold to maturity;

– *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market;

– *Available-for-sale financial assets*

Available-for-sale financial assets are financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments;

– *Other financial liabilities*

Financial liabilities other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity investments and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

For financial assets and liabilities measured at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial asset or liability is derecognised, impaired or amortised.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments *(continued)*

(ii) Hedge accounting

The Group designates certain derivatives as hedging instruments of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss within "trading profits" of "other net income".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity to the consolidated statement of profit or loss in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of profit or loss.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 percent to 125 percent for the hedge to be deemed highly effective.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial instruments designated at fair value and do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss. These gains and losses are recognised in "trading profits" of "other net income".

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments *(continued)*

(iii) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with banks and other financial institutions

Banks represent other banks approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Resale and repurchase agreements

Amounts for purchase of financial assets under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of financial assets under repurchase agreements are accounted for under "amounts sold under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate

Investments

Equity investments are accounted for as financial assets at fair value through profit or loss or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity investments, debt securities classified as receivables, or available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances to customers

Loans and advances directly granted by the Group to customers, participation in syndicated loans and finance leases receivables are accounted for as loans and advances to customers.

(iv) Derivative financial instruments

The Group's derivative financial instruments mainly include forward, foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Group enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of profit or loss other than cash flow hedge, for cash flow hedge, the gains and losses arising from the effective hedging part recognised in other comprehensive income.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments *(continued)*

(v) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

– the host contract is not itself carried at fair value through profit or loss;

– the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and

– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(vi) Securitisations

The Group securitises various credit assets, which generally results in the sale of these assets to special purpose entities, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests). Retained interests are stated at fair value on the consolidated statement of financial position of the Group. Gains or losses on securitisation depend on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair value at the date of the transfer. Gains or losses on securitisation are recorded in "other net income".

When applying the policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

(vii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Group for repurchasing self-issued equity instruments are deducted from shareholders' equity.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments *(continued)*

(viii) Perpetual bonds

At initial recognition, the Group classifies the perpetual bonds 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 bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed, the redemption price is charged to equity.

(ix) Derecognition of financial assets and liabilities

(a) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(i) Financial instruments *(continued)*

(ix) Derecognition of financial assets and liabilities *(continued)*

(b) Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability.

(c) Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(d) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(j) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciations and impairment losses. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property or other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(j) Property, equipment, investment property and depreciation *(continued)*

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.

(k) Repossessed assets

In the recovery of impaired loans and receivables, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets are reported in "other assets".

Repossessed assets are measured at fair value at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of profit or loss.

(l) Finance and operating lease

(i) Classification

Lease is classified into finance and operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n)(i).

(iii) Operating leases

– *Operating lease*

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

– *Assets leased out under operating leases*

Property, equipment and investment property leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n)(ii). Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit or loss in the accounting period in which they are incurred.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(m) Insurance contracts

Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance. The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties of the issuer;

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

- upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the country or region of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;

- significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the Group operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

- other objective evidence indicating there is an impairment of a financial asset.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of profit or loss.

Impairment losses on loans and receivables, held-to-maturity investments

The Group uses two methods of assessing impairment losses on loans and receivables, held-to-maturity investments: those assessed individually and those assessed on a collective basis.

- *Individually assessed*

  Loans and receivables, held-to-maturity investments which are considered individually significant are assessed individually for impairment.

  Impairment allowances are made on individually impaired significant loans and receivables, held-to-maturity investments when there is objective evidence of impairment that will impact the estimated future cash flows of the loans and receivables, held-to-maturity investments. Individually impaired loans and advances are graded as substandard or below.

  Impairment allowance of an individually impaired significant loans and receivables, held-to-maturity investments is measured as the difference between the loans and receivables, held-to-maturity investments' carrying amount and the present value of estimated future cash flows discounted at the loans and receivables, held-to-maturity investments' applicable effective interest rate. The carrying amount of the loans and receivables, held-to-maturity investments is reduced through the allowance for impairment losses.

  The calculation of the present value of the estimated future cash flows of a collateralised loans and receivables, held-to-maturity investments reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on loans and receivables, held-to-maturity investments *(continued)*

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

– no objective evidence of impairment exists for an individually assessed loans and receivables, held-to-maturity investments; and

– for homogeneous groups of loans and receivables, held-to-maturity investments that are not individually significant with similar credit risk characteristics.

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loans and receivables, held-to-maturity investments on an individual basis, whether significant or not, the loans and receivables, held-to-maturity investments are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans and receivables, held-to-maturity investments that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans and receivables, held-to-maturity investments in the pool of loans and receivables, held-to-maturity investments, those loans and receivables, held-to-maturity investments are removed from the pool. Loans and receivables, held-to-maturity investments that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loans and receivables, held-to-maturity investments portfolio based primarily on the historical loss experience;

– the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loans and receivables, held-to-maturity investments; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and receivables, held-to-maturity investments

Portfolios of homogeneous loans and receivables, held-to-maturity investments are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loans and receivables, held-to-maturity investments that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of profit or loss.

When the Group determines that loans and receivables, held-to-maturity investments has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loans and receivables, held-to-maturity investments is written off against its allowance for impairment losses. Amount recovered from loans and receivables, held-to-maturity investments that has been written off will be reversed through the impairment losses account in the consolidated statement of profit or loss.

Loans and advances with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and advances are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the consolidated statement of profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of profit or loss. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of profit or loss.

Impairment losses recognised in the consolidated statement of profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of profit or loss. Any subsequent increase in the fair value of these assets is recognised directly in equity.

(ii) Other assets

The carrying amount of property, equipment and investment property is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its fair value less disposal expense and present value of future expected cash flow. In assessing value in use, the estimated future cash flows are discounted to their present values.

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value net disposal expense and the present value of future cash flow. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(n) Impairment *(continued)*

(ii) Other assets *(continued)*

– *Recognition of impairment losses*

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversal of impairment losses*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

(o) Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statement of profit or loss in the period in which they arise.

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within "other liabilities".

The deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(n)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of profit or loss on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses from all financial assets and liabilities that are classified as financial assets at fair value through profit or loss are considered to be incidental and are therefore presented together with other net income arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised or accrued (for those services that are provided over a specified period of time) in the consolidated statement of profit or loss when the corresponding service is provided.

(iii) Dividend income

– Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

– Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(r) Taxation *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Foreign currencies translations

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use,which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

Exchange differences on transactions entered into in order to hedge certain foreign currency risks;

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

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

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(u) Employee benefits

(i) Salaries and staff welfare

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

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds form the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, considerations in future contributions to the plan. To calculate the present value of economic benefits consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H share Appreciation Rights Scheme for the Senior Management ("the Scheme"). Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share. The Group recognises the services for the period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting at the end of each reporting period within the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the equity incentives is using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted.

(v) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, 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.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated statement of financial position as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

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

(z) Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(i) Impairment losses on loans and advances to customers, debt securities classified as receivables and held-to-maturity investments

The Group reviews losses on loans and advances to customers, debt securities classified as receivables and held-to-maturity investments on a regular basis to assess whether they are impaired and to assess the specific amount of impairment losses in the event of impairment. Impairment of objective evidence includes observable data showing a significant decline in estimated future cash flows from loans and advances to customers, debt securities classified as receivables and held-to-maturity investments, showing that borrowers repayment of the negative changes in the observable information, or national or regional economic conditions change caused by portfolio losses on loans and advances to customers, debt securities classified as receivables and held-to-maturity investments and loans and advances to customers, debt securities classified as receivables and held-to-maturity investments defaults and other matters. Loans and advances to customers, debt securities classified as receivables and held-to-maturity investments impairment losses assessed individually are the net decrease in the present value of estimated future cash flows. When loans and advances to customers, debt securities classified as receivables and held-to-maturity investments are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances to customers, debt securities classified as receivables and held-to-maturity investments. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce the difference between expected and actual losses.

(ii) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical price of the specific financial assets as well as other factors, such as sector performance and financial information regarding the investee.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(z) Significant accounting estimates and judgements *(continued)*

(iii) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. If the fair value is measured using third party information such as brokerage quotes or pricing services, the valuation team will evaluate the evidence obtained from third parties to support the conclusion.

(iv) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity investments are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale financial assets.

(v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(vi) Control over structured entity

Where the Group acts as asset manager of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests that it holds in the structured entities. The Group performs re-assessment periodically.

(vii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the groups to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from groups and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

3. Interest income

	2016	2015 (Restated)
Loans and advances to customers		
– Corporate loans	64,829	78,033
– Retail loans	82,573	78,076
– Discounted bills	3,834	4,866
Balances with central bank	8,170	8,598
Balances and placements with banks and other financial institutions	5,618	6,521
Amounts held under resale agreements	4,736	11,709
Investments	45,721	48,173
Interest income on financial assets that are not at fair value through profit or loss	215,481	235,976

Note: For the year ended 31 December 2016, included in the above is interest income of RMB1,001 million accrued on impaired loans (2015: RMB1,137 million) and nil for impaired debt securities investments (2015: Nil).

4. Interest expense

	2016	2015 (Restated)
Deposits from customers	46,000	60,448
Borrowing from central bank	4,793	1,696
Deposits and placements from banks and other financial institutions	17,195	26,946
Amounts sold under repurchase agreements	2,973	2,150
Debt securities issued	9,925	7,150
Interest expense on financial liabilities that are not at fair value through profit or loss	80,886	98,390

5. Fee and commission income

	2016	2015 (Restated)
Bank cards fees	11,083	9,562
Remittance and settlement fees	6,526	3,832
Agency services fees	13,121	13,549
Commissions from credit commitment and lending business	4,038	4,215
Commissions on trust and fiduciary activities	23,358	17,545
Others	7,877	8,397
Total	66,003	57,100

6. Other net income

	2016	2015 (Restated)
(Loss)/profit from fair value change	(2,511)	1,316
– financial instruments held for trading	(882)	686
– financial instruments designated at fair value through profit or loss	(103)	22
– derivatives instruments	(873)	412
– precious metals	(653)	196
Investment income/(loss)	11,632	6,544
– financial instruments at fair value through profit or loss	1,815	1,948
– available-for-sale financial assets	2,061	611
– gain on disposal of bills	5,525	4,519
– physical precious metals	2,098	(564)
– others	133	30
Exchange gain	2,857	2,398
Other income	1,668	1,032
– rental income	1,142	534
– insurance income	526	498
Others	843	281
Total	14,489	11,571

7. Operating expenses

	2016	2015
Staff costs		
– Salaries and bonuses (note (i))	22,061	21,548
– Social insurance and corporate supplemental insurance	5,038	4,779
– Others	5,712	5,067
Subtotal	32,811	31,394
Business tax and surcharges	6,362	11,929
Property, equipment and investment properties depreciation	4,287	4,086
Rental expenses	4,113	3,842
Other general and administrative expenses (note (ii))	17,327	16,419
Total	64,900	67,670

Notes:

(i) Performance bonus is included in the salaries and bonuses, the details of which are disclosed in Note 38(c).

(ii) Auditors' remuneration amounted to RMB16 million for the year ended 31 December 2016 (2015: RMB22 million), included in other general and administrative expenses.

8. Directors' and supervisors' emoluments

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

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,200	–	546	4,746
Li Hao	–	3,780	–	491	4,271
Subtotal	–	7,980	–	1,037	9,017

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Li Jianhong	–	–	–	–	–
Li Xiaopeng	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Su Min	–	–	–	–	–
Zhang Jian(iii)	–	–	–	–	–
Wang Daxiong(iii)	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

Independent non-executive directors and supervisors					
Liang Jinsong	500	–	–	–	500
Wong Kwai Lam	500	–	–	–	500
Pan Chengwei	500	–	–	–	500
Pan Yingli	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Liu Yuan	–	3,360	–	437	3,797
Fu Junyuan	–	–	–	–	–
Wen Jianguo(iii)	–	–	–	–	–
Wu Heng(iii)	–	–	–	–	–
Jin Qingjun	400	–	–	–	400
Ding Huiping(iii)	200	–	–	–	200
Han Zirong(iii)	200	–	–	–	200
Xu Lizhong(iii)	–	1,716	–	223	1,939
Huang Dan	–	1,973	–	257	2,230
Wong See Hong(iii)	–	–	–	–	–
Subtotal	3,300	7,049	–	917	11,266

The independent non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Ma Zehua(iv)	–	–	–	–	–
Li Yinquan(iv)	–	–	–	–	–
Zhu Genlin(iv)	–	–	–	–	–
Liu Zhengxi(iv)	–	–	–	–	–
Pan Ji (iv)	75	–	–	–	75
Dong Xiande (iv)	–	–	–	–	–
Xiong Kai(iv)	–	1,602	–	208	1,810
Guo Xuemeng(iv)	–	–	–	–	–
Subtotal	75	1,602	–	208	1,885

The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

Total	3,375	16,631	–	2,162	22,168

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 2016, the Group has offered 9 phases of H share appreciation rights scheme to its senior management ("the Scheme"). In 2016, none of the granted share appreciation rights was exercised. Details of the Scheme are set out in Note 38(a)(iii).

(iii) During the reporting period, the Bank completed the election of board of directors and supervisors. According to the resolutions passed at the Bank's the 2015 Annual General Meeting of shareholders, Mr. Xu Lirong, Mr. Zhang Jian, Mr. Wang Daxiong and Mr. Zhang Feng were newly elected as non-executive directors of the tenth session of the board of directors of the Bank, and Mr. Wong See Hong was newly elected as independent non-executive director of the tenth session of the board of directors of the Bank. The appointment qualifications of Mr. Zhang Jian and Mr. Wang Daxiong were approved by the China Banking Regulatory Commission in November 2016. The appointment qualification of Mr. Wong See Hong was approved by the China Banking Regulatory Commission in February 2017. The appointment qualifications of Mr. Xu Lirong, Mr. Zhang Feng are still subject to approval by the China Banking Regulatory Commission. Mr. Xu Lirong was elected as vice chairman at the first meeting of the tenth session of the board of directors of the Bank, but his qualification for serving as vice chairman is still subject to approval by the China Banking Regulatory Commission.

During the reporting period, according to the resolutions passed at the 2015 Annual General Meeting of the Bank, Mr. Wen Jianguo and Mr. Wu Heng were newly elected as shareholder supervisors of the Tenth Session of the board of Supervisors of the Bank, Mr. Ding Huiping and Mr. Han Zirong were newly elected as external supervisors of the Tenth Session of the board of Supervisors of the Bank.

During the reporting period, according to the resolutions passed at Worker's Congress of the Bank held at 20 May 2016, Mr. Xu Lizhong was newly elected as employee supervisors of the Tenth Session of the board of Supervisors of the Bank.

(iv) During the reporting period, Ma Zehua resigned as the Bank's vice chairman and non-executive director due to the change of job assignment.

During the reporting period, Li Yinquan resigned as the Bank's non-executive director due to the change of job assignment.

In 2015, Guo Xuemeng resigned as the Bank's independent non-executive director due to the change of job assignment, her resignation was effective.

In 2015, Pan Ji, Dong Xiande resigned as the Bank's external supervisor due to the changes of job assignments, their resignations were effective.

During the reporting period, Zhu Genlin, Liu Zhengxi, Xiong Kai resigned as the Bank's supervisors due to the changes of job assignments.

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2015					
	Service	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors						
Tian Huiyu		–	4,200	1,771	546	6,517
Li Hao		–	3,360	1,417	437	5,214
Subtotal		–	7,560	3,188	983	11,731
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		–	–	–	–	–
Ma Zehua		–	–	–	–	–
Li Xiaopeng		–	–	–	–	–
Li Yinquan		–	–	–	–	–
Sun Yueying		–	–	–	–	–
Su Min		–	–	–	–	–
Fu Gangfeng		–	–	–	–	–
Hong Xiaoyuan		–	–	–	–	–
Subtotal		–	–	–	–	–
The non-executive directors' emoluments shown above were for their services as directors of the Bank.						
Independent non-executive directors and supervisors						
Wong Kwai Lam		300	–	–	–	300
Liang Jinsong		275	–	–	–	275
Pan Chengwei		300	–	–	–	300
Pan Yingli		300	–	–	–	300
Guo Xuemeng (iv)		300	–	–	–	300
Zhao Jun		275	–	–	–	275
Liu Yuan		–	3,360	1,417	437	5,214
Zhu Genlin		–	–	–	–	–
Fu Junyuan (iii & iv)		–	–	–	–	–
Liu Zhengxi		–	–	–	–	–
Pan Ji (iv)		375	–	–	–	375
Dong Xiande (iv)		400	–	–	–	400
Jin Qingjun		300	–	–	–	300
Xiong Kai		–	1,989	–	258	2,247
Huang Dan		–	1,685	–	219	1,904
Subtotal		2,825	7,034	1,417	914	12,190

The independent non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2015				
	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					
Zhang Guanghua (iv)	–	1,680	708	218	2,606
Xu Shanda (iv)	–	–	–	–	–
Xiao Yuhuai (iv)	–	–	–	–	–
Yu Yong (iv)	–	358	–	47	405
An Luming (iv)	–	–	–	–	–
Subtotal	–	2,038	708	265	3,011
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank, except for Zhang Guanghua's emoluments, which were for his service in connection with the management of the affairs of the Bank.					
Total	2,825	16,632	5,313	2,162	26,932

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

Notes:

(i) On 29 September 2016, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2015. Disclosures in 2015 (Note 8, 9 & 56(h)) had been adjusted correspondingly.

(ii) As at 31 December 2015, the Group has offered 7 phases of H share appreciation rights scheme to its senior management ("the Scheme"). In 2015, none of the granted share appreciation rights was exercised. Details of the Scheme are set out in Note 38(a)(iii).

(iii) On 25 September 2015, the Bank's 1st 2015 extraordinary general meeting of shareholders considered and approved the Resolution on election of Fu Junyuan as a shareholders supervisor.

(iv) During the reporting period, An Luming resigned as the Bank's shareholders supervisor due to the change of job assignment.

During the reporting period, Fu Junyuan resigned as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Zhang Guanghua resigned as the Bank's vice chairman and executive director due to the change of job assignment.

During the reporting period, Yu Yong resigned as the Bank's supervisor due to the change of job assignment.

During the reporting period, Guo Xuemeng resigned as the Bank's independent non-executive director due to the change of job assignment. To satisfy the requirement that independent non-executive directors should constitute one third (inclusive) of the board of directors, a new independent non-executive director will be elected in the shareholders' meeting to fill the vacancy caused by the resignation of Guo Xuemeng, the election becomes effective after the Banking supervision institution of China approves the qualification of the new independent non-executive director. In the meantime, Guo Xuemeng continues her duty as independent non-executive director in compliance with the relative rules, regulations and corporate constitutions.

During the reporting period, Pan Ji resigned as the Bank's external supervisor due to the change of job assignment. To satisfy the requirement that external supervisors should constitute over one third (inclusive) of the board of supervisors, his resignation will be effective after the election of a new external supervisor by the shareholders' meeting to fill the vacancy. In the meantime, Pan Ji continues his duty as external director.

During the reporting period, Don Xiande resigned as the Bank's external supervisor due to the change of job assignment. To satisfy the requirement that external supervisors should constitute over one third (inclusive) of the board of supervisors, his resignation will be effective after the election of a new external supervisor by the shareholders' meeting to fill the vacancy. In the meantime, Dong Xiande continues his duty as external director.

In 2014, Xu Shanda resigned as the Bank's independent non-executive director due to the change of job assignment, his resignation was effective in 2015.

In 2014, Xiao Yuhuai resigned as the Bank's independent non-executive director due to the change of job assignment, his resignation was effective in 2015.

8. Directors' and supervisors' emoluments *(continued)*

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

	2016	2015
RMB		
0 – 500,000	20	20
500,001 – 1,000,000	–	–
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
3,000,000 – 3,500,000	–	–
3,500,001 – 4,000,000	1	–
4,000,001 – 4,500,000	1	–
4,500,001 – 5,000,000	1	–
5,000,001 – 5,500,000	–	2
6,500,000 – 7,000,000	–	1
Total	25	25

During the year ended 31 December 2016, 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 2016, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

9. Individuals with highest emoluments

Of the five individuals with the highest emoluments for the year ended 31 December 2016, 3 (2015: 3) are directors or supervisors of the Bank whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2016 RMB'000	2015 RMB'000 (Note 8)
Salaries and other emoluments	19,146	16,800
Discretionary bonuses (Note 8)	–	7,085
Contributions to defined contribution retirement schemes	1,866	2,184
Total	21,012	26,069

9. Individuals with highest emoluments *(continued)*

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

	2016	2015 (Note 8)
RMB		
3,000,001 – 3,500,000	–	–
3,500,001 – 4,000,000	1	–
4,000,001 – 4,500,000	3	–
4,500,001 – 5,000,000	1	2
5,000,001 – 5,500,000	–	2
5,500,001 – 6,000,000	–	–
6,500,001 – 7,000,000	–	1

10. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2016	2015
Aggregate amount of relevant loans made by the Group outstanding at year end	64	64
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	83	79

11. Impairment losses

	2016	2015
Loans and advances to customers (Note 19(c))	64,560	57,507
Amounts due from banks and other financial institutions (Note 16(b), Note 17(c), Note 18(d))	507	257
Investments		
– Available-for-sale financial assets (Note 21(b))	(56)	35
– Held-to-maturity investments (Note 21(c))	(10)	20
– Debt securities classified as receivables (Note 21(d))	(541)	947
Others	1,699	500
Total	66,159	59,266

12. Income tax

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

	2016	2015
Current income tax expense		
– Mainland China	29,114	23,415
– Hong Kong	740	720
– Overseas	170	133
Subtotal	30,024	24,268
Deferred taxation	(13,441)	(7,207)
Total	16,583	17,061

(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:

	2016	2015
Profit before taxation	78,963	75,079
Tax at the PRC statutory income tax rate of 25% (2015: 25%)	19,741	18,770
Tax effects of the following items:		
– Effects of non-deductible expenses	822	833
– Effects of non-taxable income	(3,712)	(2,365)
– Effects of different applicable rates of tax prevailing in other jurisdictions	(268)	(177)
Income tax expense	16,583	17,061

Note:

(i) The applicable income tax rate for the Group's operations in Mainland China is 25% during 2016 (2015: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% during 2016 (2015: 16.5%).

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

13. Other comprehensive income

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

	2016			2015		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Available-for-sale financial assets:						
– Net movement in fair value reserve	(6,109)	1,489	(4,620)	5,637	(1,413)	4,224
Cash flow hedge:						
– Net movement in hedging reserve	(347)	87	(260)	539	(135)	404
Exchange differences	1,859	–	1,859	966	–	966
Equity-accounted investees-share of other comprehensive income	(141)	–	(141)	64	–	64
Remeasurement of defined benefit scheme redesigned through reserve	37	(6)	31	(64)	11	(53)
Other comprehensive income	(4,701)	1,570	(3,131)	7,142	(1,537)	5,605

(b) Movement relating to components of other comprehensive income

	2016	2015
Available-for-sale financial assets:		
Changes in fair value recognised during the year	(2,978)	4,645
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	(1,642)	(421)
Net movement in the fair value reserve during the year recognised in other comprehensive income	(4,620)	4,224
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	(48)	395
Reclassification adjustment for amounts transferred to profit or loss		
– Realised losses	(212)	9
Net movement in the hedging reserve during the period recognised in other comprehensive income	(260)	404

14. Earnings per share

The calculation of basic earnings per share for the year 2016 and 2015 is based on the net profit attributable to equity shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there are no potentially dilutive shares outstanding during the year 2016 and 2015.

	2016	2015
Net profit attributable to equity shareholders of the Bank	62,081	57,696
Weighted average number of shares in issue (in million)	25,220	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	2.46	2.29

15. Balances with central bank

	2016	2015
Statutory deposit reserve (note (i))	504,959	464,686
Surplus deposit reserve (note (ii))	74,365	103,803
Fiscal deposits	1,832	1,472
Total	581,156	569,961

Notes:

(i) Statutory deposit reserve funds are deposited with the PBOC and other central banks outside the Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds of the Bank are calculated at 15% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2016 (2015: 15% and 5% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, fiscal deposits (other than budgets), retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by the financial institutions outside mainland China.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside the Mainland China are mainly for clearing purposes.

16. Balances with banks and other financial institutions

(a) Analysed by nature of counterparties

	2016	2015
Balances in Mainland		
– Banks	55,135	30,387
– Other financial institutions	1,830	935
Subtotal	56,965	31,322
Balances outside Mainland		
– Banks	46,221	32,570
– Other financial institutions	23	13
Subtotal	46,244	32,583
Total	103,209	63,905
Less: Impairment allowances		
– Banks	(193)	(123)
– Other financial institutions	(3)	(3)
Subtotal	(196)	(126)
Total	103,013	63,779

(b) Movements of allowances for impairment losses

	2016	2015
As at 1 January	126	74
Charge for the year (note 11)	70	52
As at 31 December	196	126

17. Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	2016	2015
Placements in Mainland		
– Banks	26,269	66,458
– Other financial institutions	134,268	47,067
Subtotal	160,537	113,525
Placements outside Mainland		
– Banks	39,730	72,219
Total	200,267	185,744
Less: Impairment allowances		
– Banks	(9)	(51)
– Other financial institutions	(7)	–
Subtotal	(16)	(51)
Total	200,251	185,693

(b) Analysed by residual maturity

	2016	2015
Maturing		
– Within one month (inclusive)	86,934	133,415
– Between one month and one year (inclusive)	107,540	48,449
– Over one year	5,777	3,829
Total	200,251	185,693

(c) Movements of allowances for impairment losses

	2016	2015
As at 1 January	51	46
(Release)/charge for the year (note 11)	(35)	5
As at 31 December	16	51

18. Amounts held under resale agreements

(a) Analysed by nature of counterparties

	2016	2015
Amounts held under resale agreements in Mainland China		
– Banks	4,666	128,803
– Other financial institutions	274,705	215,321
Subtotal	279,371	344,124
Less: Impairment allowances		
– Banks	(672)	(200)
Total	278,699	343,924

(b) Analysed by residual maturity

	2016	2015
Maturing		
– Within one month (inclusive)	276,965	296,789
– Between one month and one year (inclusive)	1,734	43,575
– Over one year	–	3,560
Total	278,699	343,924

(c) Analysed by assets types

	2016	2015
Bonds	277,335	210,481
Bills	262	106,729
Trust beneficiary rights	52	10,693
Asset management schemes	1,050	11,381
Right of debt securities	–	4,640
Total	278,699	343,924

18. Amounts held under resale agreements *(continued)*

(d) Movements of allowances for impairment losses

	2016	2015
At 1 January	200	–
Charge for the year (note 11)	472	200
At 31 December	672	200

19. Loans and advances to customers

(a) Loans and advances to customers

	2016	2015
Corporate loans and advances	1,566,570	1,507,770
Discounted bills	154,517	89,815
Retail loans and advances	1,540,594	1,226,701
Gross loans and advances to customers	3,261,681	2,824,286
Less: Impairment allowances		
– Individually assessed	(29,230)	(14,624)
– Collectively assessed	(80,802)	(70,218)
Subtotal	(110,032)	(84,842)
Net loans and advances to customers	3,151,649	2,739,444

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

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operation in Mainland China

	2016	2015
Manufacturing	275,710	318,679
Wholesale and retail	214,859	236,513
Transportation, storage and postal services	175,548	145,473
Property development	174,642	175,912
Production and supply of electric power, heating power, gas and water	104,393	109,942
Leasing and commercial services	97,464	80,788
Construction	83,871	96,387
Telecommunications, software and IT services	55,806	28,076
Mining	46,397	52,178
Water, environment and public utilities management	35,096	33,431
Others	98,754	76,477
Corporate loans and advances subtotal	1,362,540	1,353,856
Discounted bills	154,517	89,815
Residential mortgage	720,323	491,290
Credit cards	408,951	312,985
Micro-finance loans	281,653	308,973
Others	109,924	96,828
Retail loans and advances subtotal	1,520,851	1,210,076
Gross loans and advances to customers	3,037,908	2,653,747

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

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

(i) Analysed by industry sector and category: *(continued)*

Operation outside Mainland China

	2016	2015
Property development	**52,922**	37,168
Financial concerns	**44,489**	46,585
Manufacturing	**21,732**	13,468
Information technology	**21,686**	2,025
Transport and transport equipment	**18,281**	13,876
Wholesale and retail	**13,892**	14,860
Recreational activities	**2,363**	3,627
Others	**28,665**	22,305
Corporate loans and advances subtotal	**204,030**	153,914
Residential mortgage	**8,005**	8,165
Credit cards	**247**	259
Micro-finance loans	**1,849**	1,804
Others	**9,642**	6,397
Retail loans and advances subtotal	**19,743**	16,625
Gross loans and advances to customers	**223,773**	170,539

Notes: As at 31 December 2016, over 90% of the Group's loans and advances to customers were conducted in People's Republic of China (unchanged pan the positions as at 31 December 2015).

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

(c) Movements of allowances for impairment losses

	2016			
		Impairment allowances for impaired loans and advances		
	Impairment allowances for loans and advances which are collectively assessed	Which are collectively assessed	Which are individually assessed	Total
At 1 January	62,412	7,806	14,624	84,842
Charge for the year (Note 11)	9,202	12,019	45,967	67,188
Release for the year (Note 11)	(1,168)	(1)	(1,459)	(2,628)
Write-offs	–	(11,176)	(24,766)	(35,942)
Transfer out	–	–	(5,700)	(5,700)
Unwinding of discount	–	–	(1,001)	(1,001)
Recoveries of loans and advances previously written off	–	1,460	1,433	2,893
Exchange difference	248	–	132	380
At 31 December	70,694	10,108	29,230	110,032

	2015			
		Impairment allowances for impaired loans and advances		
	Impairment allowances for loans and advances which are collectively assessed	Which are collectively assessed	Which are individually assessed	Total
At 1 January	50,855	4,733	9,577	65,165
Charge for the year (Note 11)	12,194	11,603	35,689	59,486
Release for the year (Note 11)	(813)	(1)	(1,165)	(1,979)
Write-offs	–	(9,154)	(29,229)	(38,383)
Unwinding of discount	–	–	(1,137)	(1,137)
Recoveries of loans and advances previously written off	–	625	839	1,464
Exchange difference	176	–	50	226
At 31 December	62,412	7,806	14,624	84,842

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

(d) Loans and advances to customers and allowances for impairment losses

	2016					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– Financial institutions	161,976	–	1	161,977	–	–
– Non-financial institution customers	3,038,595	15,392	45,717	3,099,704	1.97	8,379
Subtotal	3,200,571	15,392	45,718	3,261,681	1.87	8,379
Less:						
Impairment allowances for loans and advances to						
– Financial institutions	(276)	–	(1)	(277)		
– Non-financial institution customers	(70,418)	(10,108)	(29,229)	(109,755)		
Subtotal	(70,694)	(10,108)	(29,230)	(110,032)		
Net loans and advances to						
– Financial institutions	161,700	–	–	161,700		
– Non-financial institution customers	2,968,177	5,284	16,488	2,989,949		
Total	3,129,877	5,284	16,488	3,151,649		

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

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	2015					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– Financial institutions	85,741	–	11	85,752	0.01	7
– Non-financial institution customers	2,691,149	13,070	34,315	2,738,534	1.73	8,479
Subtotal	2,776,890	13,070	34,326	2,824,286	1.68	8,486
Less:						
Impairment allowances for loans and advances to						
– Financial institutions	(310)	–	(4)	(314)		
– Non-financial institution customers	(62,102)	(7,806)	(14,620)	(84,528)		
Subtotal	(62,412)	(7,806)	(14,624)	(84,842)		
Net loans and advances to						
– Financial institutions	85,431	–	7	85,438		
– Non-financial institution customers	2,629,047	5,264	19,695	2,654,006		
Total	2,714,478	5,264	19,702	2,739,444		

Notes:

(i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.

(ii) Impaired loans and advances include loans and advances for which objective evidence of impairment has been identified and impairment losses are assessed in following ways:

– collectively: that is portfolios of homogeneous loans and advances; or

– individually.

(iii) The fair values of collaterals were estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

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

(e) Finance leases receivables

The table below provides an analysis of finance lease receivables for leases of certain property and equipment in which the Group is the lessor:

	2016			2015		
	Total minimum lease receivables	Unearned finance income	Present value of minimum lease receivables	Total minimum lease receivables	Unearned finance income	Present value of minimum lease receivables
Within 1 year (inclusive)	36,268	(4,649)	31,619	38,512	(4,126)	34,386
Over 1 year but within 5 years (inclusive)	69,845	(8,545)	61,300	65,430	(6,177)	59,253
Over 5 years	22,373	(1,470)	20,903	13,044	(1,048)	11,996
Subtotal	128,486	(14,664)	113,822	116,986	(11,351)	105,635
Less: Impairment allowances						
– Individually assessed			(449)			(169)
– Collectively assessed			(2,220)			(1,692)
Net investment in finance lease receivables			111,153			103,774

20. Interest receivable

	2016	2015
Debt securities	14,275	13,075
Loans and advances to customers	8,657	8,765
Others	3,319	3,094
Total	26,251	24,934

21. Investments

	Note	2016	2015
Financial assets at fair value through profit or loss	21(a)	55,972	59,081
Derivative financial assets	55(f)	8,688	10,176
Available-for-sale financial assets	21(b)	389,138	299,559
Held-to-maturity investments	21(c)	477,064	353,137
Debt securities classified as receivables	21(d)	528,748	716,064
Total		1,459,610	1,438,017

(a) Financial assets at fair value through profit or loss

	Note	2016	2015
Financial assets held for trading	(i)	43,333	50,809
Financial assets designated at fair value through profit or loss	(ii)	12,639	8,272
Total		55,972	59,081

(i) Financial assets held for trading

	2016	2015
Listed		
In Mainland China		
– PRC government bonds	28,901	17,543
– Bonds issued by policy banks	3,074	9,622
– Bonds issued by commercial banks and other financial institutions	2,164	4,513
– Other debt securities	2,679	13,472
– Equity investments	2	4
– Investments in funds	–	1
Outside Mainland China		
– Bonds issued by commercial banks and other financial institutions	2,479	1,347
– Other debt securities	1,917	2,535
– Equity investments	643	740
Subtotal	41,859	49,777
Unlisted		
Outside Mainland China		
– Bonds issued by commercial banks and other financial institutions	–	–
– Equity investments	69	–
– Investments in funds	109	5
Subtotal	178	5
Long position in precious metal contracts	1,296	1,027
Total	43,333	50,809

21. Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

(ii) Financial assets designated at fair value through profit or loss

	2016	2015
Listed		
In Mainland China		
– PRC government bonds	301	304
– Bonds issued by policy banks	2,948	3,874
– Bonds issued by commercial banks and other financial institutions	35	–
– Other debt securities	71	66
Outside Mainland China		
– Bonds issued by commercial banks and other financial institutions	575	420
– Other debt securities	4,076	2,536
Subtotal	8,006	7,200
Unlisted		
Outside Mainland China		
– Bands issued by commercial banks and other financial institutions	4,501	235
– Other debt securities	132	837
Subtotal	4,633	1,072
Total	12,639	8,272

(iii) Analysed by issuing authority

	2016	2015
Issued by:		
– Sovereigns	29,202	17,847
– Banks and other financial institutions	17,895	21,788
– Corporates	8,875	19,446
Total	55,972	59,081

21. Investments *(continued)*

(b) Available-for-sale financial assets

	2016	2015
Listed		
In Mainland China		
– PRC government bonds	132,583	94,381
– Bonds issued by policy banks	53,391	66,726
– Bonds issued by commercial banks and other financial institutions	67,171	37,742
– Other debt securities	18,771	49,238
– Equity investments	230	311
– Investments in funds	1,028	20
Outside Mainland China		
– PRC government bonds	49	48
– Bonds issued by policy banks	15	–
– Bonds issued by commercial banks and other financial institutions	14,119	5,912
– Other debt securities	12,900	8,246
– Equity investments	1,198	1,273
– Investments in funds	55	62
Subtotal	301,510	263,959
Less: impairment allowances	(569)	(239)
Total	300,941	263,720
Unlisted		
In Mainland China		
– Bonds issued by PBOC	–	94
– Bonds issued by commercial banks and other financial institutions	–	12,602
– Other debt securities	20	1,214
– Equity investments	1,690	1,091
– Investments in funds	41,378	723
Outside Mainland China		
– Bonds issued by policy banks	15,724	2,096
– Bonds issued by commercial banks and other financial institutions	19,886	9,979
– Other debt securities	8,540	8,030
– Equity investments	260	231
– Investments in funds	775	207
Subtotal	88,273	36,267
Less: impairment allowances	(76)	(428)
Subtotal	88,197	35,839
Total	389,138	299,559

21. Investments *(continued)*

(b) Available-for-sale financial assets *(continued)*

	2016	2015
Issued by:		
– Sovereigns	132,632	94,429
– Banks and other financial institutions	216,920	139,069
– Corporates	39,586	66,061
Total	389,138	299,559

Movements of allowances for impairment losses

	2016	2015
At 1 January	667	611
Charge for the year (note 11)	73	35
Releases for the year (note 11)	(129)	–
Write-offs	(3)	(2)
Exchange difference	37	23
At 31 December	645	667

21. Investments *(continued)*

(c) Held-to-maturity investments

	2016	2015
Listed		
In Mainland China		
– PRC government bonds	265,325	170,540
– Bonds issued by policy banks	189,165	165,890
– Bonds issued by commercial banks and other financial institutions	17,749	12,656
– Other debt securities	1,202	865
Outside Mainland China		
– PRC government bonds	989	488
– Bonds issued by commercial banks and other financial institutions	2,238	1,542
– Other debt securities	224	729
Subtotal	476,892	352,710
Less: impairment allowances	(90)	(95)
Total	476,802	352,615
Unlisted		
In Mainland China		
– Other debt securities	–	376
Outside Mainland China		
– Bonds issued by commercial banks and other financial institutions	193	16
– Other debt securities	69	130
Subtotal	262	522
Less: impairment allowances	–	–
Subtotal	262	522
Total	477,064	353,137

	2016	2015
Issued by:		
– Sovereigns	266,314	171,028
– Banks and other financial institutions	209,255	180,009
– Corporates	1,495	2,100
Total	477,064	353,137
Fair value of listed debt securities	484,029	372,158

21. Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

Movements of allowances for impairment losses

	2016	2015
At 1 January	95	71
(Release) charge for the year (note 11)	(10)	20
Exchange difference	5	4
At 31 December	90	95

(d) Debt securities classified as receivables

	2016	2015
In Mainland China		
Investment in bonds		
– PRC government bonds	784	747
– Bonds issued by commercial banks and other financial institutions	8,477	11,089
– Other debt securities	17,690	20,389
Non-standard assets		
– Bills	240,897	380,090
– Loans and advances to customers	205,907	238,384
– Deposit from banks	5,896	53,498
– Wealth management products	55,216	300
– Right of debt securities of banks	16	12,519
Outside Mainland China		
– Bonds issued by commercial banks and other financial institutions	41	65
Subtotal	534,924	717,081
Less: impairment allowances	(6,176)	(1,017)
Total	528,748	716,064

21. Investments *(continued)*

(d) Debt securities classified as receivables *(continued)*

	2016	2015
Issued by:		
– Sovereigns	784	747
– Banks and other financial institutions	510,274	694,928
– Corporates	17,690	20,389
Total	528,748	716,064

Movements of allowances for impairment losses

	2016	2015
At 1 January	1,017	68
Charge for the year (note 11)	2,329	948
Release for the year (note 11)	(2,870)	(1)
Transfer in from loans and advances from customer	5,700	–
Exchange difference	–	2
At 31 December	6,176	1,017

22. Particulars of principal subsidiaries of the bank

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited (note (i))	Hong Kong	HKD4,129	100%	Financial advisory services	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (note (ii))	Shanghai	RMB6,000	100%	Finance lease	Limited company	Lian Bolin
Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. (note (iv))	Shenzhen	RMB210	55%	Asset management	Limited company	Li Hao

Notes:

(i) CMB International Capital Holdings Corporation Limited ("CMBICHC"), formerly known as Jiangnan Finance Company Limited and CMB International Capital Corporation Limited, is the Bank's wholly-owned subsidiary approved by the PBOC through its Yin Fu [1998] No. 405. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBICHC. The capital of CMBICHC increased to HKD1,000 million, and the Bank's shareholding percentage remains unchanged.

The Board of Directors have considered and passed "The Resolution regarding the Capital Increase and Restructuring of CMBICHC" which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to CMBICHC on 28 July 2015. The capital contribution completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In 2014, the Bank made an additional capital contribution of RMB2,000 million in CMBFLC. The capital of CMBFLC increased to RMB6,000 million and the Bank's shareholding percentage remains unchanged.

(iii) Wing Lung Bank Limited ("WLB") is a wholly owned subsidiary of the Bank acquired in 2008. The acquisition was completed 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 shareholdings 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.

23. Interest in joint ventures

	2016	2015
Share of net assets	3,630	2,727
Loans to joint ventures	–	5
Total	3,630	2,732
Share of profits for the year	292	134
Share of other comprehensive income for the year	(141)	64

23. Interest in joint ventures *(continued)*

Details of the Group's interest in major joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership of the Bank	Percentage of ownership of the Subsidiaries	Principal activity
CIGNA &CMB Life Insurance Company Limited (note(i))	Limited company	Shenzhen	RMB2,800,000	50.00%	50.00%	–	Life insurance business
Merchants Union Consumer Finance Company Limited. (note(ii))	Limited company	Shenzhen	RMB2,000,000	50.00%	–	50.00%	Consumer finance
Bank Consortium Holding Limited (note (iii))	Limited company	Hong Kong	HKD150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (note (iii))	Limited company	Hong Kong	HKD10,025	2.73%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited (note (iii))	Limited company	Hong Kong	HKD420,000	16.67%	–	16.67%	Life insurance business
BC Reinsurance Limited (note (iii))	Limited company	Hong Kong	HKD200,000	21.00%	–	21.00%	Reinsurance business
i-Tech Solutions Limited	Limited company	Hong Kong	HKD6,000	50.00%	–	50.00%	Electronic document processing
Shenzhen Zhaoyin Synergetic Fund Management Co.,Ltd. (note (iv)).	Limited company	Shenzhen	RMB10,000	51.00%	–	51.00%	Fund management
Shenzhen Synergetic Hesheng Merge& Acquisition Fund	Partnership enterprise	Shenzhen	RMB484,160	5.16%	–	5.16%	Investment
CMB Qianhai Financial Assets Exchange Co., Ltd.	Limited company	Shenzhen	RMB100,000	49.00%	–	49.00%	Financial assets exchange platform and advisory services
Xinjiang High-Tech Zhaoyin Fund Co., Ltd.	Limited company	Urumqi	RMB5,000	40.00%	–	40.00%	Entrusted management equity investment
Shenzhen Shen'an Real Estate Development Co., Ltd.	Limited company	Shenzhen	RMB10,000	50.00%	–	50.00%	Real estate
China Merchants Bank (Tianjin) Equity Investment Fund Management Co., Ltd.	Limited company	Tianjin	RMB50,000	49.00%	–	49.00%	Entrusted management equity investment
The Great Wall bank asset management (Shenzhen) Co., Ltd.	Limited company	Shenzhen	RMB100,000	49.00%	–	49.00%	Entrusted management equity investment
Shenzhen Lianzhao Information Technology Co., Ltd. (note (v)).	Limited company	Shenzhen	RMB40,000	50.00%	–	50.00%	Computer network service

Notes:

(i) The Group holds 50.00% equity interests of CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds 50.00% equity interests of 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 shareholdings. The Bank's investment in CIGNA & CMB Life shall be accounted as an investment in a joint venture.

(ii) The Bank's subsidiary, WLB, and China United Network Communications Limited ("CUNC"), which is a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBRC has approved the operation of MUCFC on 3 March 2015. WLB and CUNC hold 50.00% equity interests of MUCFC respectively and share the risks, profits and losses based on the above proportion of their shareholdings.

(iii) These entities are jointly controlled by the Bank's subsidiary, WLB with other shareholders, and are strategic partners for WLB to widen the service type to be provided to the customers.

(iv) According to the agreement, the Group jointly controls the entity with other shareholders and none of the shareholders could control the entity by its own.

(v) Shenzhen Lianzhao Information Technology Co., Ltd. has become subsidiary of CMBI at 2016 due to capital reduction.

23. Interest in joint ventures *(continued)*

Summarised financial information of the joint ventures which are individually material to the Group is as below:

(i) CIGNA & CMB Life Insurance Company Limited

	Assets	Liabilities	Equity	Revenue	Profit or loss	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2016										
CIGNA & CMB Life	27,134	23,048	4,086	12,941	239	(254)	(15)	603	16	(25)
Group's effective interest	13,567	11,524	2,043	6,471	119	(142)	(23)	301	8	(12)
2015										
CIGNA & CMB Life	18,164	15,408	2,756	8,062	297	54	351	370	23	85
Group's effective interest	9,082	7,704	1,378	4,031	149	27	176	185	11	42

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Profit or loss	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2016									
MUCFC	18,703	16,241	2,462	1,533	324	324	429	4	83
Group's effective interest	9,352	8,121	1,231	767	162	162	215	2	41
2015									
MUCFC	2,105	190	1,915	131	(84)	(84)	80	2	–
Group's effective interest	1,053	95	958	66	(42)	(42)	40	1	–

Summarised financial information of the joint ventures that are not individually material to the Group:

	Profit or loss	Other comprehensive income	Total comprehensive income
2016			
Others	158	7	165
Group's effective interest	11	1	12
2015			
Others	199	209	408
Group's effective interest	28	37	65

24. Interest in associates

	2016	2015
Share of net assets	**80**	52
Goodwill	**2**	2
Total	**82**	54
Share of profits for the year	**29**	2

The following list contains the information as of 31 December 2016 of associates, which are unlisted corporate entities:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Principal activity
Professional Liability Underwriting Services Limited	Limited company	Hong Kong	HKD3,000	27.00%	Insurance underwriting
Beijing Zhongguancun Gazelle Investment Fund Management Limited	Limited company	Beijing	RMB30,000	25.00%	Fund Management
Shanghai Rosefinch Jiawu Investment Center	Limited partnership	Shanghai	HKD86,500	46.00%	Investment

Summarised financial information of the associates that are not individually material to the Group:

	Profit or loss	Other comprehensive income	Total comprehensive income
2016			
Others	**63**	–	**63**
Group's effective interest	**29**	–	**29**
2015			
Others	5	–	5
Group's effective interest	2	–	2

25. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2016	21,624	4,134	8,254	5,608	5,752	6,279	51,651
Additions	13	798	1,186	490	12,151	450	15,088
Reclassification and transfers	843	(1,135)	(2)	166	–	7	(121)
Disposals/write-offs	(43)	–	(321)	(8)	–	(332)	(704)
Exchange difference	217	–	50	13	1,151	6	1,437
At 31 December 2016	22,654	3,797	9,167	6,269	19,054	6,410	67,351
Accumulated depreciation:							
At 1 January 2016	5,978	–	5,894	2,956	497	4,491	19,816
Depreciation	1,077	–	1,211	719	365	778	4,150
Reclassification and transfers	(14)	–	(2)	5	–	2	(9)
Disposals/write-offs	(23)	–	(312)	(3)	–	(287)	(625)
Exchange difference	86	–	19	7	47	3	162
At 31 December 2016	7,104	–	6,810	3,684	909	4,987	23,494
Net book value:							
At 31 December 2016	15,550	3,797	2,357	2,585	18,145	1,423	43,857
At 1 January 2016	15,646	4,134	2,360	2,652	5,255	1,788	31,835

25. Property and equipment *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2015	17,166	6,806	7,238	4,914	1,872	5,985	43,981
Additions	68	1,772	1,270	761	3,765	733	8,369
Reclassification and transfers	4,291	(4,444)	1	30	–	8	(114)
Disposals/write-offs	(38)	–	(259)	(108)	–	(452)	(857)
Exchange difference	137	–	4	11	115	5	272
At 31 December 2015	21,624	4,134	8,254	5,608	5,752	6,279	51,651
Accumulated depreciation:							
At 1 January 2015	4,947	–	4,947	2,316	227	4,099	16,536
Depreciation	1,102	–	1,081	720	220	836	3,959
Reclassification and transfers	(40)	–	1	(1)	–	1	(39)
Disposals/write-offs	(15)	–	(130)	(83)	–	(448)	(676)
Exchange difference	(16)	–	(5)	4	50	3	36
At 31 December 2015	5,978	–	5,894	2,956	497	4,491	19,816
Net book value:							
At 31 December 2015	15,646	4,134	2,360	2,652	5,255	1,788	31,835
At 1 January 2015	12,219	6,806	2,291	2,598	1,645	1,886	27,445

(a) As at 31 December 2016, the Group considered that there is no impairment loss on property and equipment (2015: nil).

(b) As at 31 December 2016, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB1,108 million (2015: RMB270 million) was still in progress.

(c) As at 31 December 2016, the Group has no significant unused property and equipment (2015: nil).

26. Investment properties

	2016	2015
Cost:		
At 1 January	2,694	2,477
Transfers in	83	140
Disposals/write-offs	(3)	–
Exchange difference	110	77
At 31 December	2,884	2,694
Accumulated depreciation:		
At 1 January	986	793
Depreciation	137	127
Transfers in	14	41
Disposals/write-offs	(2)	–
Exchange difference	48	25
At 31 December	1,183	986
Net book value:		
At 31 December	1,701	1,708
At 1 January	1,708	1,684

Investment properties of the Group mainly represent the leasing properties of WLB and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. The fair value of the Group's investment property is assessed by the independent appraiser A.G.Wilkinson& Associates, and the assessment price is assessed by the method of capitalization of net rental income. There has been no change to the valuation technique during the year. As at 31 December 2016, fair value of these properties was RMB5,167 million (2015: RMB4,784 million). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2016	2015
Within 1 year (inclusive)	310	192
1 year to 5 years (inclusive)	264	206
Over 5 years	12	14
Total	586	412

26. Investment properties *(continued)*

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 2016
Held in Mainland China				
– land	–	–	–	–
– building	–	–	2,307	2,307
Held overseas				
– land	–	–	–	–
– building	–	–	2,860	2,860
Total	–	–	5,167	5,167

27. Intangible assets

	Land use right	Software and Others	Core deposit	Total
Cost/valuation:				
At 1 January 2016	1,517	3,135	1,102	5,754
Additions	74	747	–	821
Transfers	(10)	–	–	(10)
Exchange difference	12	4	76	92
At 31 December 2016	1,593	3,886	1,178	6,657
Amortisation:				
At 1 January 2016	243	1,633	283	2,159
Additions	47	473	40	560
Transfers	(1)	–	–	(1)
Exchange difference	2	2	21	25
At 31 December 2016	291	2,108	344	2,743
Net book value:				
At 31 December 2016	1,302	1,778	834	3,914
At 1 January 2016	1,274	1,502	819	3,595

27. Intangible assets *(continued)*

	Land use right	Software and Others	Core deposit	Total
Cost/valuation:				
At 1 January 2015	1,532	2,424	1,059	5,015
Additions	6	709	–	715
Transfers	(24)	–	–	(24)
Exchange difference	3	2	43	48
At 31 December 2015	1,517	3,135	1,102	5,754
Amortisation:				
At 1 January 2015	207	1,271	245	1,723
Additions	35	360	32	427
Transfers	1	–	–	1
Exchange difference	–	2	6	8
At 31 December 2015	243	1,633	283	2,159
Net book value:				
At 31 December 2015	1,274	1,502	819	3,595
At 1 January 2015	1,325	1,153	814	3,292

28. Goodwill

	As at 1 January 2016	Addition in the year	Release in the year	As at 31 December 2016	Impairment loss	Net value at 31 December 2016
WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
CMBICHC (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in WLB. On the acquisition date, the fair value of WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill. Please find the details about WLB in Note 22.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million of which the Bank accounted for RMB414 million. A sum of RMB355 million being the excess of acquisition cost 769 million over the fair value of the identifiable net assets was recognised as goodwill. Please find the details about CMFM in Note 22.

(iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in Zhaoyin Internet Technology(shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB2.60 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.

28. Goodwill *(continued)*

Impairment test for CGU containing goodwill

Goodwill is allocated to the Group's CGU, WLB which was acquired on 30 September 2008 and CMFM which was acquired on 28 November 2013 and Zhaoyin Internet which was acquired on 1 April 2015 by CMBICHC.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM. A pre-tax discount rate of 11% and 14% (2015: 12% and 15%) was used. The Group believes any reasonably possible further change in the key assumptions on which recoverable amount are based would not cause the carrying amounts to exceed their recoverable amounts.

29. Deferred tax assets, deferred tax liabilities

	2016	2015
Deferred tax assets	**31,010**	16,020
Deferred tax liabilities	**(897)**	(867)
Net amount	**30,113**	15,153

29. Deferred tax assets, deferred tax liabilities *(continued)*

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	2016		2015	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers and other assets	112,316	28,096	63,217	15,783
Investment revaluation reserve	(1,718)	(430)	(7,614)	(1,905)
Salary and welfare payable	10,501	2,625	9,669	2,418
Others	2,891	719	(1,087)	(276)
Total	123,990	31,010	64,185	16,020
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets	229	38	249	42
Investment revaluation reserve	(238)	(55)	(252)	(61)
Others	(5,332)	(880)	(5,304)	(848)
Total	(5,341)	(897)	(5,307)	(867)

(b) Movements of deferred tax

	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2016	15,825	(1,966)	2,418	(1,124)	15,153
Recognised in profit or loss	12,305	–	207	929	13,441
Recognised in other comprehensive Income	–	1,483	–	87	1,570
Exchange difference	4	(2)	–	(53)	(51)
At 31 December 2016	28,134	(485)	2,625	(161)	30,113

	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2015	9,184	(553)	1,322	(433)	9,520
Recognised in profit or loss	6,638	–	1,096	(527)	7,207
Recognised in other comprehensive Income	–	(1,413)	–	(124)	(1,537)
Exchange difference	3	–	–	(40)	(37)
At 31 December 2015	15,825	(1,966)	2,418	(1,124)	15,153

Note: The Group can control the timing of distribution and it expects no distribution will be made in foreseeable future.

30. Other assets

	2016	2015
Amounts pending for settlement	**14,260**	4,919
Prepaid lease payments	**1,000**	1,091
Repossessed assets (note (a))	**864**	691
Guarantee deposits	**437**	463
Recoverable from reinsurers	**219**	229
Prepayment for lease improvement and other miscellaneous items	**453**	158
Premium receivables	**102**	129
Post-employment benefits		
– Defined benefit plan (Note 38(b))	**53**	27
Others	**10,792**	5,141
Total	**28,180**	12,848

(a) Repossessed assets

	2016	2015
Residential properties	**1,098**	1,044
Others	**474**	628
Total	**1,572**	1,672
Less: impairment allowances	**(708)**	(981)
Net repossessed assets	**864**	691

Note:

(i) In 2016, the Group has disposed repossessed assets with total cost of RMB481 million (2016: RMB73 million).

(ii) The Group plans to dispose the repossessed assets by auction, bid and transfer.

31. Deposits from banks and other financial institutions

	2016	2015
In Mainland China		
– Banks	**80,612**	176,934
– Other financial institutions	**470,062**	527,101
Subtotal	**550,674**	704,035
Outside Mainland China		
– Banks	**4,933**	7,526
Total	**555,607**	711,561

32. Placements from banks and other financial institutions

	2016	2015
In Mainland China		
– Banks	173,218	165,471
– Other financial institutions	40,809	1,100
Subtotal	214,027	166,571
Outside Mainland China		
– Banks	34,849	12,200
Total	248,876	178,771

33. Amounts sold under repurchase agreements

(a) Analysed by nature of counterparties

	2016	2015 (Restated)
In Mainland China		
– Banks	151,323	149,400
– Other financial institutions	10,817	9,060
Subtotal	162,140	158,460
– Outside Mainland		
– Banks	802	3,153
Total	162,942	161,613

(b) Analysed by assets type

	2016	2015 (Restated)
Debt securities		
– PRC government bonds	10,581	12,833
– Bonds issued by policy banks	53,123	67,336
– Bonds issued by commercial banks and other financial institutions	12,930	1,994
– Other debt securities	295	1,159
Subtotal	76,929	83,322
Discounted bills	86,013	78,291
Total	162,942	161,613

34. Deposits from customers

	2016	2015
Corporate customers		
– Demand deposits	1,441,225	1,167,467
– Time deposits	1,076,266	1,194,064
Subtotal	2,517,491	2,361,531
Retail customers		
– Demand deposits	951,615	835,062
– Time deposits	332,943	375,105
Subtotal	1,284,558	1,210,167
Total	3,802,049	3,571,698

Customer deposits include deposits for guarantees as follows:

	2016	2015
Guarantee for acceptance bills	93,670	191,988
Guarantee for loans	47,426	49,188
Guarantee for issuing letters of credit	26,235	56,499
Deposit for letters of guarantee	47,405	60,172
Others	26,531	57,867
Total	241,267	415,714

35. Interest payable

	2016	2015
Issued debt securities	1,413	1,398
Customer deposit and others	34,833	37,675
Total	36,246	39,073

36. Financial liabilities at fair value through profit or loss

	Note	2016	2015
Financial liabilities held for trading	(i)	7,530	3,348
Financial liabilities designated at fair value through profit or loss	(ii)	16,046	16,879
Total		23,576	20,227

(i) Financial liabilities held for trading

	2016	2015
Listed		
– Equity securities at fair value	–	18
Precious metal relevant financial liabilities	7,530	3,330
Total	7,530	3,348

(ii) Financial liabilities designated at fair value through profit or loss

	2016	2015
In Mainland China		
– Precious metal contracts with other banks	3,498	4,439
– Others	15	–
Outside Mainland China		
– Certificates of deposit issued	3,595	3,985
– Debt securities issued	8,938	8,455
Total	16,046	16,879

As at the end of reporting period, the difference between the fair value of the Group's financial liabilities designated at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year ended 31 December 2016 and 2015 and as at 31 December 2016 and 2015.

37. Debt securities issued

	Note	2016	2015
Subordinated notes issued	(a)	31,356	32,519
Long-term debt securities issued	(b)	40,959	27,995
Negotiable interbank certificates of deposit		188,248	176,245
Certificates of deposit issued		14,519	14,748
Total		275,082	251,507

37. Debt securities issued *(continued)*

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment for the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (notes(i))	180 months	4 Sep 2008	5.90 (for the first ten years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	RMB7,000	6,995	–	2	–	6,997
Fixed rate bond (notes(ii))	180 months	28 Dec, 2012	5.20	RMB11,700	11,688	–	1	–	11,689
Fixed rate bond (notes(iii))	120 months	18 Apr, 2014	6.40	RMB11,300	11,287	–	1	–	11,288
Total					29,970	–	4	–	29,974

Notes:

(i) The China Banking Regulatory Commission (the "CBRC") and the People's Bank Of China (the "PBOC") approved the Bank's issuance of RMB30,000 million subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No. 304 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No. 25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26,000 million fixed rate notes and RMB4,000 million floating rate notes on 4 September 2008 to institutional investors on National Interbank Bond Market.

The Bank exercised its redemption right on 4 September 2013 and redeemed a total of RMB23,000 million subordinated bonds, including two types of bonds valued at RMB19,000 million and RMB4,000 million respectively.

(ii) The CBRC and the PBOC approved the Bank's issuance of RMB11,700 million subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No. 703 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No. 91 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,700 million fixed rate notes on 28 December 2012 to institutional investors on National Interbank Bond Market.

(iii) The CBRC and PBOC approved the Bank's issuance of RMB11,300 million tier-2 capital bonds on 29 October 2013 (Yin Jian Fu [2013] No. 557 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank") and on 15 April 2014 (Yin Shi Chang Xu Zhun Yu Zi [2014] No. 22 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,300 million tier-2 capital bonds on 18 April 2014 on National Interbank Bond Market.

37. Debt securities issued *(continued)*

(a) Subordinated notes issued *(continued)*

As at the end of the reporting period, subordinated note issued by WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate	Nominal value	Beginning balance	Issue during the year	Discount or premium amortisation	Repayment for the year	Ending balance
			(%)	(in million)	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
Fixed rate bonds	144 months	28 Dec, 2009	5.70	HKD1,500	1,258	–	86	(1,344)	–
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	1,291	–	91	–	1,382
Total					2,549	–	177	(1,344)	1,382

* T represents the 5 years US Treasury rate.

Note:

(iv) WLB obtained HKMA's prior written consent to redeem HKD1,500 million of fixed rate bonds in advance on 28 December 2016.

(b) Long-term debt securities

As at the end of the reporting period, long-term debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate	Nominal value	Beginning balance	Issue during the year	Discount or premium amortisation	Repayment for the year	Ending balance
			(%)	(in million)	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
12 CMB 01 (note (i))	60 months	14 Mar, 2012	4.15	RMB6,500	6,497	–	2	–	6,499
12 CMB 02 (note (i))	60 months	14 Mar, 2012	R*+0.95	RMB13,500	13,495	–	4	–	13,499
14 CMB 03 (note (ii))	36 months	10 Apr, 2014	4.10	RMB1,000	998	–	2	–	1,000
Total					20,990	–	8	–	20,998

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%, the Rate on 31 December 2016 and 31 December 2015 was 1.50%.

Note:

(i) The CBRC and PBOC approved the Bank's issuance of RMB20,000 million long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No. 557 entitled "The Approval of the Issuance of Long-term Debt Securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No. 2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6,500 million fixed rate debt and RMB13,500 million floating rate debt on 14 March 2012 on the National Interbank Bond Market.

(ii) The PBOC and National Development and Reform Commission approved the Bank's issuance of RMB1,000 million financial bonds on 13 February 2014 (Yin Han [2014] No. 35 entitled "The Approval of the issuance of Renminbi debt securities in Hong Kong by China Merchants Bank") and on 11 March 2014 (Fa Gai Wei Zi [2014] No. 412 entitled "The Approval of issuance of Renminbi debt securities in Hong Kong by China Merchants Bank"). The Bank issued RMB1,000 million financial bonds on 10 April 2014 in Hong Kong.

37. Debt securities issued *(continued)*

(b) Long-term debt securities *(continued)*

As at the end of the reporting period, long-term debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment for the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (iii))	36 months	26 Jun 2013	4.99	RMB1,000	1,000	–	–	(1,000)	–
Fixed rate bond (note (iii))	60 months	26 Jun 2013	5.08	RMB1,000	1,000	–	–	–	1,000
Fixed rate bond (note (iii))	36 months	24 Jul 2013	4.87	RMB1,000	1,000	–	–	(1,000)	–
Fixed rate bond (note (iii))	60 months	24 Jul 2013	4.98	RMB1,000	1,000	–	–	–	1,000
Fixed rate bond (note (iv))	60 months	11 Aug 2014	3.25	USD500	3,245	–	226	–	3,471
Fixed rate bond (note (v))	36 months	7 Dec 2015	3.75	RMB200	200	–	–	–	200
Fixed rate bond (note (vi))	36 months	11 Mar 2016	3.27	RMB3,800	3,800	–	–	–	3,800
Leased asset backed securities (note (vii))	74.5 months	5 May 2016	2.98/3.09/ R+1.35**	RMB4,110	–	4,110	–	(1,883)	2,227
Fixed rate bond (note (viii))	36 months	29 Nov 2016	2.63	USD300	–	2,078	–	–	2,078
Fixed rate bond (note (viii))	60 months	29 Nov 2016	3.25	USD900	–	6,244	–	–	6,244
Total					11,245	12,432	226	(3,883)	20,020

** 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 plus a spread of 1.35%. The benchmark interest rate published by PBOC is 4.75% during both the year ended 31 December 2016&2015.

Note:

(iii) As approved by CBRC under its official reply on the issuance of financial bonds by CMBFLC under ref. Yin Jian Fu [2012] No. 758 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No. 33, CMBFLC issued the first tranche in 2013 of RMB2,000 million financial bonds on 26 June 2013 and the second tranche in 2013 of RMB2,000 million financial bonds on 24 July 2013. The Bank holds financial bonds issued by CMBFLC amounted to RMB10 million as of 31 December 2016. CMBFLC redeemed long-term bonds amounting to RMB1,000 million on 27 June 2016, and amounting to RMB1,000 million on 25 July 2016.

(iv) On 11 Aug 2014, CMB International Leasing Management Limited ("CMBIL"), CMBICHC's subsidiary issued USD500 million with annual interest rate of 3.25% guaranteed notes due 2019 on the HKEx.

(v) As approved by CBRC Shanghai office under its reply on the Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No. 551 and PBOC under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No. 276, CMBFLC issued the first tranche of 2015 of RMB200 million financial bonds on 7 Dec 2015.

(vi) As approved by CBRC Shanghai office under its reply on the Issuance of financial bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No. 551 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No. 276, CMBFLC issued the first tranche of 2016 of RMB3,800 million financial bonds. This 3- year fixed rate bond pays principal on maturity date.

(vii) According to decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No. 65 and notification on record reply on the issuance of leased asset backed securities by CMBFLC approved by The China Banking Regulatory Commission Innovation Supervision Department, CMBFLC issued the first tranche of 2016 of RMB4,855 million finance leases receivable backed securities on 5 May 2016 in the National Interbank Bond Market. The sponsor CMBIL held the amount of RMB745 million. CMBFLC redeemed RMB1,364 million finance leases receivable backed securities upon maturity at 29 July 2016, and redeemed RMB519 million finance leases receivable backed securities upon maturity at 28 October 2016.

(viii) On 29 Nov 2016, CMBIL subsidiary issued USD300 million guaranteed notes due 2019 with annual interest rate of 2.63% and USD900 million guaranteed notes due 2021 with annual interest rate of 3.25% on the HKEx. The Bank holds Financial Bonds issued by CMBIL amounted to USD7 million as of 31 December 2016.

38. Staff welfare scheme

(a) Salaries and welfare payable

	2016			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	6,254	28,708	(28,643)	6,319
Post-employment benefits				
– defined contribution plans (ii)	232	3,093	(2,641)	684
Other long-term employee benefits (iii)	38	7	–	45
Total	6,524	31,808	(31,284)	7,048

	2015			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	5,865	24,004	(23,615)	6,254
Post-employment benefits				
– defined contribution plans (ii)	175	3,080	(3,023)	232
Other long-term employee benefits (iii)	28	10	–	38
Total	6,068	27,094	(26,638)	6,524

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(i) Short-term employee benefits

	2016			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	4,576	21,051	(21,073)	4,554
Welfare expense	39	2,812	(2,789)	62
Social insurance				
– Medical insurance	80	1,863	(1,940)	3
– Injury insurance	3	25	(26)	2
– Maternity insurance	4	57	(56)	5
Housing reserve	148	1,814	(1,815)	147
Labour union and employee education expenses	1,404	1,086	(944)	1,546
Total	6,254	28,708	(28,643)	6,319

	2015			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	4,215	17,248	(16,887)	4,576
Welfare expense	37	2,400	(2,398)	39
Social insurance				
– Medical insurance	14	1,611	(1,545)	80
– Injury insurance	1	35	(33)	3
– Maternity insurance	3	53	(52)	4
Housing reserve	242	1,546	(1,640)	148
Labour union and employee education expenses	1,353	1,111	(1,060)	1,404
Total	5,865	24,004	(23,615)	6,254

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plan

	2016			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Basic retirement security	79	1,659	(1,676)	62
Supplementary pension	141	1,351	(882)	610
Unemployment insurance	12	83	(83)	12
Total	232	3,093	(2,641)	684

	2015			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Basic retirement security	47	1,385	(1,353)	79
Supplementary pension	122	1,601	(1,582)	141
Unemployment insurance	6	94	(88)	12
Total	175	3,080	(3,023)	232

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 2016, the Group's contributions to the schemes are determined by local governments and vary at a range of 12% to 20% (2015: 12% to 35%) 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 2016, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2015: 8.33%).

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits

	2016			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Cash settled share-based transactions	38	7	–	45

	2015			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Cash settled share-based transactions	28	10	–	38

As at 31 December 2016, the Group has offered 9 phases of H share Appreciation Rights Scheme to its senior management ("the Scheme"). The options of the Scheme vest after 2 years or 3 years from the grant date and are then exercisable within a period of 8 years or 7 years. Each of the share appreciation right is lined to one H-share.

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised options at the end of 2016 (in millions)	Exercise conditions	Contract period of options
Options granted on 30 October 2007	0.763	2 years after the grant date	10 years
Options granted on 7 November 2008	0.795	2 years after the grant date	10 years
Options granted on 16 November 2009	0.946	2 years after the grant date	10 years
Options granted on 18 February 2011	1.028	3 years after the grant date	10 years
Options granted on 4 May 2012	1.059	3 years after the grant date	10 years
Options granted on 22 May 2013	1.059	3 years after the grant date	10 years
Options granted on 7 July 2014	1.830	3 years after the grant date	10 years
Options granted on 22 July 2015 (Note)	2.160	3 years after the grant date	10 years
Options granted on 24 August 2016	1.800	3 years after the grant date	10 years

Note: The eighth phase of Appreciation Rights Scheme was approved in 2016.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(2) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price (HKD)	Number of options (in million)	Weighted average exercise price (HKD)	Number of options (in million)
Outstanding as at the beginning of the year	14.58	8.80	15.43	9.70
Granted during the year	19.68	3.96	–	–
Forfeited during the year	13.82	(1.32)	14.61	(0.90)
Outstanding at the end of the year	15.81	11.44	14.58	8.80
Exercisable at the end of the year	14.23	4.07	15.23	3.91

The options outstanding at 31 December 2016 had a weighted average exercise price of HKD15.81 (2015: HKD14.58) and a weighted average remaining contractual life of 6.21 years (2015: 5.67 years).

Pursuant to the requirements set out in the Scheme, if there are any dividends distributed, capital reserve converted into shares, share split or dilution, adjustments to the exercise price will be applied.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual lives of the options are used as an input of the model.

	2016								
	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI	Phase VII	Phase VIII	Phase IX
Fair value at measurement date (in RMB)	0.34	10.93	3.03	3.61	4.48	4.20	4.11	2.45	2.71
Share price (in HKD)	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Exercise price (in HKD)	23.19	4.65	15.88	14.75	12.55	13.12	13.18	20.33	18.90
Expected volatility	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%
Option life (year)	0.83	1.83	2.83	4.17	5.33	6.42	7.50	8.58	9.67
Expected dividends rate	4%	4%	4%	4%	4%	4%	4%	4%	4%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%

	2015						
	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI	Phase VII
Fair value at measurement date (in RMB)	1.82	10.26	4.25	4.61	5.09	4.81	4.63
Share price (in HKD)	18.30	18.30	18.30	18.30	18.30	18.30	18.30
Exercise price (in HKD)	24.00	5.46	16.69	15.56	13.36	13.93	13.99
Expected volatility	43%	43%	43%	43%	43%	43%	43%
Option life (year)	1.83	2.85	3.85	5.14	6.35	7.39	8.52
Expected dividends rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Risk-free interest rate	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options) 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 options 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 option granted.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(4) The number of share appreciation rights granted to members of senior management:

	2016										
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	Phase IV No. of shares granted (in thousand)	Phase V No. of shares granted (in thousand)	Phase VI No. of shares granted (in thousand)	Phase VII No. of shares granted (in thousand)	Phase VIII No. of shares granted (in thousand)	Phase IX No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	318	318	326	307	307	307	–	–	–	–	1,883
Li Hao	159	159	163	200	200	200	240	240	270	–	1,831
Tang Zhi Hong	159	159	163	184	184	184	210	210	210	–	1,663
Ding Wei	127	159	163	184	184	184	210	210	210	–	1,631
Wang Qing Bin	–	–	131	153	184	184	210	210	–	–	1,072
Tian Hui Yu	–	–	–	–	–	–	300	300	300	–	900
Liu Jian Jun	–	–	–	–	–	–	210	210	210	–	630
Wang Liang	–	–	–	–	–	–	150	210	210	–	570
Lian Bo Lin	–	–	–	–	–	–	150	180	180	–	510
Xu Shi Qing	–	–	–	–	–	–	150	180	–	–	330
Xiong Liang Jun	–	–	–	–	–	–	–	210	210	–	420
Total	763	795	946	1,028	1,059	1,059	1,830	2,160	1,800	–	11,440

	2015								
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	Phase IV No. of shares granted (in thousand)	Phase V No. of shares granted (in thousand)	Phase VI No. of shares granted (in thousand)	Phase VII No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	318	318	326	307	307	307	–	–	1,883
Zhang Guang Hua	159	159	163	200	200	200	240	–	1,321
Li Hao	159	159	163	200	200	200	240	–	1,321
Tang Zhi Hong	159	159	163	184	184	184	210	–	1,243
Ding Wei	127	159	163	184	184	184	210	–	1,211
Wang Qing Bin	–	–	131	153	184	184	210	–	862
Tian Hui Yu	–	–	–	–	–	–	300	–	300
Liu Jian Jun	–	–	–	–	–	–	210	–	210
Wang Liang	–	–	–	–	–	–	150	–	150
Lian Bo Lin	–	–	–	–	–	–	150	–	150
Xu Shi Qing	–	–	–	–	–	–	150	–	150
Total	922	954	1,109	1,228	1,259	1,259	2,070	–	8,801

Note: In 2016, no member of senior management had exercised any share appreciation rights (2015: Nil).

38. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary WLB operates a defined benefit plan ("the Plan") for the staff, which includes a defined benefit scheme and a defined benefit pension section. The contributions of the Plan are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Plan. The Plan provides benefits based on members' final salary. The costs are solely funded by WLB.

The latest actuarial valuation of the Plan was performed in accordance with IAS 19 issued by the IASB as at 31 December 2016 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 117% (2015: 108%).

The amounts recognised in the statement of financial position as at 31 December 2016 are analysed as follows:

	2016	2015
Fair value of the Plan assets	**373**	367
Present value of the funded defined benefit obligation	**(320)**	(340)
Net asset recognised in the statement of financial position	**53**	27

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 2016.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2016 and 2015.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2016	2015
Current service cost	**(13)**	(12)
Net interest income	**–**	1
Net expense for the year included in retirement benefit costs	**(13)**	(11)

The actual gains on the Plan assets for the year ended 31 December 2016 was RMB10 million (2015: actual losses was RMB4 million).

38. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The movements in the defined benefit obligation during the year are as follows:

	2016	2015
Present value of obligation at 1 January	340	316
Current service cost	13	12
Interest cost	5	5
Actual benefits paid	(29)	(29)
Actuarial profit or losses due to liability experience	(1)	12
Actuarial profit or losses due to financial assumption changes	(21)	7
Actuarial gain or losses due to demographic assumption changes	(8)	–
Exchange difference	21	17
Actual obligation at 31 December	320	340

The movements in the fair value of the Plan assets during the year are as follows:

	2016	2015
Fair value of the Plan assets at 1 January	367	386
Interest income	5	6
Expected return on the Plan assets other than interest profit or losses	5	(9)
Actual benefits paid	(29)	(29)
Exchange difference	25	13
Fair value of the Plan assets at 31 December	373	367

The major categories of the the Plan assets are as follows:

	2016		2015	
	Amount	%	Amount	%
Equities	228	61.3	236	64.3
Bonds	67	17.8	63	17.2
Cash	78	20.9	68	18.5
Total	373	100	367	100

No deposit with the Bank was included in the amount of the Plan assets (2015: Nil).

38. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The principal actuarial assumptions adopted in the valuation are as follows:

	2016	2015
Discount rate		
– Defined benefit scheme	1.8	1.4
– Defined benefit pension scheme	1.1	0.6
Long-term average rate of salary increase for the Plan	4.5	5.0
Pension increase rate for the defined benefit pension plan	2.0	3.0

As at 31 December 2015 and 2016, there is no significant change of the amount in the liabilities of the retirement benefit plan due to the above mentioned actuarial assumptions.

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the net profit for the year as approved by the Board of Directors and accounted as operating expenses.

39. Tax payable

	2016	2015
Corporate income tax	15,548	9,840
Tax and surcharges payable	3,448	2,633
Others	527	347
Total	19,523	12,820

40. Other liabilities

	2016	2015
Clearing and settlement accounts	**21,124**	25,665
Salary risk allowances (note)	**9,000**	8,000
Insurance liabilities	**1,888**	1,866
Payment and collection account	**1,208**	1,295
Cheques and remittances returned	**17**	15
Others	**32,606**	27,504
Total	**65,843**	64,345

Note: Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances.

41. Share capital

By type of share:

	Capital No. of shares (in million) 2016 & 2015
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 2016 and at 31 December 2016	**25,220**	**25,220**

42. 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.

	2016 & 2015
At 1 January and 31 December	**67,523**

43. Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movements of investment revaluation reserve:

	2016	2015
Beginning Balance	**6,188**	1,902
Share of investment revaluation reserve of joint ventures	**(141)**	64
Realised (gain)/loss on disposal or impairment of available-for-sale financial assets, net of deferred tax	**(1,642)**	(421)
Changes in fair value of available-for-sale financial assets, net of deferred tax	**(2,982)**	4,643
Defined benefit plan, net of deferred tax	**31**	–
Ending Balance	**1,454**	6,188

44. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in Note 2(i)(ii).

45. 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.

	2016	2015
At 1 January	34,009	28,690
Statutory surplus reserve	5,699	5,319
At 31 December	39,708	34,009

46. Regulatory general reserve

Pursuant to relevant MOF notices, the Bank and the Group's financial services subsidiaries in Mainland China are required to set aside a general reserve according to a certain percentage of the ending balance of gross risk-bearing assets through profit after tax to cover potential losses against their assets. Effective from 1 July 2012, the minimum general reserve balance should increase to 1.5% of the ending balance of gross risk-bearing assets with a transition period of five years. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the above requirements as of 31 December 2016.

	2016	2015
At 1 January	64,679	53,979
Statutory surplus reserve	3,159	10,700
At 31 December	67,838	64,679

47. Profit appropriations

(a) Dividends approved/declared by shareholders

	2016	2015
Dividends in 2015, approved and to be declared RMB0.69 per shares	17,402	–
Dividends in 2014, approved and to be declared RMB0.67 per shares	–	16,897

(b) Proposed profit appropriations

	2016	2015
Statutory surplus reserve	5,699	5,319
Regulatory general reserve	3,159	10,700
Dividends		
– cash dividend: RMB0.74 per shares (2015: RMB0.69 per shares)	18,663	17,402
Total	27,521	33,421

2016 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 24 March 2017 and will be submitted to the 2016 annual general meeting for approval.

48. Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of operations outside Mainland China.

49. The bank's statement of financial position

	2016	2015 (Restated)
Assets		
Cash	15,632	13,783
Precious metals	2,937	16,099
Balances with central bank	562,305	543,228
Balances with banks and other financial institutions	82,361	55,927
Placements with banks and other financial institutions	204,197	202,534
Amounts held under resale agreements	277,997	342,928
Loans and advances to customers	2,907,561	2,506,618
Interest receivable	24,695	23,648
Financial assets at fair value through profit or loss	50,305	54,960
Derivative financial assets	8,029	9,607
Available-for-sale financial assets	346,090	276,846
Held-to-maturity investments	475,924	351,704
Debt securities classified as receivables	528,553	715,864
Investments in subsidiaries	43,296	40,664
Interest in joint ventures	2,043	1,391
Property and equipment	23,186	24,091
Investment properties	534	535
Intangible assets	2,897	2,596
Deferred tax assets	30,399	15,626
Other assets	23,638	9,388
Total assets	5,612,579	5,208,037

49. The bank's statement of financial position *(continued)*

	2016	2015 (Restated)
Liabilities		
Borrowing from central bank	**330,108**	86,639
Deposits from banks and other financial institutions	**536,868**	702,862
Placements from banks and other financial institutions	**155,378**	112,659
Amounts sold under repurchase agreements	**162,275**	161,246
Deposits from customers	**3,642,640**	3,421,403
Interest payable	**34,873**	37,559
Financial liabilities at fair value through profit or loss	**23,561**	19,786
Derivative financial liabilities	**10,344**	7,084
Debt securities issued	**250,523**	235,854
Salaries and welfare payable	**5,694**	5,363
Tax payable	**18,851**	12,100
Other liabilities	**54,658**	53,441
Total liabilities	**5,225,773**	4,855,996
Equity		
Share capital	**25,220**	25,220
Capital reserve	**76,681**	76,681
Investment revaluation reserve	**1,206**	5,769
Hedging reserve	**(19)**	241
Surplus reserve	**39,708**	34,009
Regulatory general reserve	**67,030**	63,928
Retained profits	**158,317**	128,791
Proposed profit appropriations	**18,663**	17,402
Total equity	**386,806**	352,041
Total equity and liabilities	**5,612,579**	5,208,037

49. The bank's statement of financial position *(continued)*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components are as follows.

	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
Balance at 1 January 2016	25,220	76,681	5,769	241	34,009	63,928	128,791	17,402	–	352,041
Changes in equity for 2016:	–	–	(4,563)	(260)	5,699	3,102	29,526	1,261	–	34,765
Net profit for the year	–	–	–	–	–	–	56,990	–	–	56,990
Other comprehensive income for the year	–	–	(4,563)	(260)	–	–	–	–	–	(4,823)
Total comprehensive income for the year	–	–	(4,563)	(260)	–	–	56,990	–	–	52,167
Profit appropriations										
Appropriations to statutory surplus reserve	–	–	–	–	5,699	–	(5,699)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	3,102	(3,102)	–	–	–
Dividends paid for the year 2015	–	–	–	–	–	–	–	(17,402)	–	(17,402)
Proposed dividends for the year 2016	–	–	–	–	–	–	(18,663)	18,663	–	–
Balance at 31 December 2016	25,220	76,681	1,206	(19)	39,708	67,030	158,317	18,663	–	386,806

	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
Balance at 1 January 2015	25,220	76,681	1,673	(163)	28,690	53,208	109,043	16,897	2	311,251
Changes in equity for 2015:	–	–	4,096	404	5,319	10,720	19,748	505	(2)	40,790
Net profit for the year	–	–	–	–	–	–	53,189	–	–	53,189
Other comprehensive income for the year	–	–	4,096	404	–	–	–	–	(2)	4,498
Total comprehensive income for the year	–	–	4,096	404	–	–	53,189	–	(2)	57,687
Profit appropriations										
Appropriations to statutory surplus reserve	–	–	–	–	5,319	–	(5,319)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	10,720	(10,720)	–	–	–
Dividends paid for the year 2014	–	–	–	–	–	–	–	(16,897)	–	(16,897)
Proposed dividends for the year 2015	–	–	–	–	–	–	(17,402)	17,402	–	–
Balance at 31 December 2015	25,220	76,681	5,769	241	34,009	63,928	128,791	17,402	–	352,041

50. Notes to consolidated cash flow statements

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	2016	2015
Cash and balances with central bank	90,738	118,184
Balance with banks and other financial institutions	73,463	56,014
Placements with banks and other financial institutions	98,497	147,714
Amounts held under resale agreements	265,868	296,458
Debt securities investments	3,546	17,473
Total	532,112	635,843

(b) Significant non-cash transactions

There are no significant non-cash transactions during the year.

51. Operating Segments

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

Since 2016, in order to adapt to the client and product line coordination mechanism, the Group was converted into wholesale finance business and retail finance business and other business segment for business decisions, report and performance evaluation. The profits and losses of the treasury were allocated to two business lines proportionally. After adjustment for the main business segments of the Group, the reporting for the segments was as follows:

– Wholesale finance business

The financial services for the corporate clients, sovereigns and financial institutions include: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business comprised of lending and buy-back, asset custody business, financial market business, and other services.

– Retail finance business

The provision of financial services to retail customers includes lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

51. Operating Segments *(continued)*

– Other Business

Other business covers property leasing, some businesses operated by subsidiaries other than WLB, associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for segments division.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and apportion according to the relevant factors.

The accounting policies of the operating segments are the same as the Group's accounting policies.

Segment revenue reported above represents revenue generated from external customers, inter-segment transactions are offset. Internal transactions are negotiated at fair value.

No customer contributed 10% or more to the group's revenue for 2016 and 2015.

(a) Segment results, assets and liabilities

	Wholesale financial business		Retail financial business		Other business		Total	
	2016	2015 (Restated)	**2016**	2015 (Restated)	**2016**	2015 (Restated)	**2016**	2015 (Restated)
External net interest income	**39,706**	52,079	**75,356**	70,325	**19,533**	15,182	**134,595**	137,586
Internal net interest income/(expense)	**26,837**	19,638	**(7,863)**	(5,149)	**(18,974)**	(14,489)	**–**	–
Net interest income/(expense)	**66,543**	71,717	**67,493**	65,176	**559**	693	**134,595**	137,586
Net fee and commission income	**25,911**	22,949	**31,797**	26,638	**3,157**	3,422	**60,865**	53,009
Other net income	**9,636**	9,752	**900**	665	**3,953**	1,154	**14,489**	11,571
Operating income	**102,090**	104,418	**100,190**	92,479	**7,669**	5,269	**209,949**	202,166
Operating expenses								
– Depreciation	**(1,497)**	(1,490)	**(2,394)**	(2,374)	**(396)**	(222)	**(4,287)**	(4,086)
– Others	**(23,102)**	(24,874)	**(35,663)**	(37,129)	**(1,848)**	(1,581)	**(60,613)**	(63,584)
Charge for insurance claims	**–**	–	**–**	–	**(248)**	(287)	**(248)**	(287)
Subtotal	**(24,599)**	(26,364)	**(38,057)**	(39,503)	**(2,492)**	(2,090)	**(65,148)**	(67,957)

51. Operating Segments *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	Wholesale financial business		Retail financial business		Other business		Total	
	2016	2015 (Restated)	**2016**	2015 (Restated)	**2016**	2015 (Restated)	**2016**	2015 (Restated)
Reportable segment profit/(loss) before impairment losses	**77,491**	78,054	**62,133**	52,976	**5,177**	3,179	**144,801**	134,209
Impairment losses	**(37,451)**	(39,999)	**(17,034)**	(16,322)	**(11,674)**	(2,945)	**(66,159)**	(59,266)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**321**	136	**321**	136
Reportable segment profit/(loss) before tax	**40,040**	38,055	**45,099**	36,654	**(6,176)**	370	**78,963**	75,079
Capital expenditure (note)	**1,354**	1,943	**2,166**	2,911	**12,395**	4,230	**15,915**	9,084

	Wholesale financial business		Retail financial business		Other business		Total	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015	**31/12/2016**	31/12/2015	**31/12/2016**	31/12/2015
Reportable segment assets	**2,812,631**	2,645,274	**1,571,688**	1,265,735	**1,506,820**	1,527,731	**5,891,139**	5,438,740
Reportable segment liabilities	**3,204,988**	3,234,821	**1,301,502**	1,147,024	**968,103**	678,269	**5,474,593**	5,060,114
Interest in associates and joint ventures	**–**	–	**–**	–	**3,712**	2,786	**3,712**	2,786

Note: Capital expenditure represents total amount incurred for acquiring long-term segment assets.

(b) Reconciliations of reportable segments revenue, profit or loss, assets, liabilities and other material items

	2016	2015
Operating Income		
Total operating income for reportable segments	**209,949**	202,166
Profit		
Total profit before income tax for reportable segments	**78,963**	75,079

51. Operating Segments *(continued)*

(b) Reconciliations of reportable segments revenue, profit or loss, assets, liabilities and other material items *(continued)*

	31/12/2016	31/12/2015
Assets		
Total assets for reportable segments	5,891,139	5,438,740
Goodwill	9,954	9,954
Intangible assets	833	819
Deferred tax assets	31,010	16,020
Other unallocated assets	9,375	9,445
Consolidated total assets	5,942,311	5,474,978
Liabilities		
Total liabilities for reportable segments	5,474,593	5,060,114
Tax payable	19,523	12,820
Other unallocated liabilities	44,833	40,286
Consolidated total liabilities	5,538,949	5,113,220

51. 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 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 and representative offices in London, New York and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including WLB, CMBICHC, CMBFLC and CMFM.

51. Operating Segments *(continued)*

(c) Geographical segments *(continued)*

	Total assets		Total liabilities		Non-current assets		Profit before tax		operating income	
Geographical information	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	2016	2015	2016	2015
Headquarter	2,634,760	2,105,486	2,313,672	1,808,257	25,029	24,225	43,532	31,968	77,480	58,343
Yangtze River Delta region	768,653	762,902	760,973	761,795	2,911	2,914	10,312	3,572	30,428	31,057
Bohai Rim region	465,320	511,402	461,735	503,469	2,331	2,529	5,965	11,163	22,860	25,823
Pearl River Delta and West Coast region	634,092	607,634	626,656	597,665	1,726	1,819	11,856	13,218	27,501	30,122
Northeast region	157,710	201,537	156,670	199,294	1,278	1,420	1,436	2,990	6,447	7,910
Central region	353,771	385,401	354,073	382,889	2,566	2,736	634	3,683	13,935	16,788
Western region	368,485	421,469	373,028	422,455	2,665	2,832	(3,559)	431	16,049	19,487
Overseas	177,271	142,219	173,987	140,900	107	91	1,500	1,791	2,703	2,230
Subsidiaries	382,249	336,928	318,155	296,496	24,525	11,312	7,287	6,263	12,546	10,406
Total	5,942,311	5,474,978	5,538,949	5,113,220	63,138	49,878	78,963	75,079	209,949	202,166

Note: Non-current assets include interest in joint ventures, interest in associates, property and equipment, investment properties, intangible assets, and goodwill.

52. Assets pledged as security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	2016	2015 (Restated)
Amounts sold under repurchase agreements and borrowing from central bank	493,050	248,252
Assets pledged		
– Available-for-sale financial assets	92,362	13,367
– Held-to-maturity investments	289,715	130,673
– Trading assets	4,640	2,752
– Other assets	107,701	102,330
Total	494,418	249,122

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

53. 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.

	2016	2015
Contractual amount		
Irrevocable guarantees	**240,600**	235,692
Of which: Finance guarantees	**158,423**	137,665
Non finance guarantees	**82,177**	98,027
Irrevocable letters of credit	**103,982**	188,469
Of which: Open sight letters of credit	**18,978**	49,907
Open usance letters of credit	**11,261**	9,430
Other payment commitments (note)	**73,743**	129,132
Bills of acceptances	**256,655**	363,035
Irrevocable loan commitments		
– with an original maturity within 1 year (inclusive)	**9,935**	5,979
– with an original maturity over 1 year	**55,911**	33,029
Credit card commitments	**481,401**	338,012
Others	**18,740**	5,884
Total	**1,167,224**	1,170,100

Note: Other payment commitments refers to the Group as the acceptor of letters of credit payment commitments.

53. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

Irrevocable loan commitments only include credit limits granted to offshore customers by overseas branches, subsidiaries and onshore and offshore syndicated loans.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,685,058 million at 31 December 2016 (2015: RMB1,496,021 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.

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.

	2016	2015
Credit risk weighted amounts of contingent liabilities and commitments	361,045	349,816

The Group calculated the credit risk weighted amount of its contingent liabilities and commitment in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBRC. The amount within the scope approved by the CBRC in April 2014 is calculated using the internal rating-based approach, and the risk-weighted approach is used to calculate those not eligible to the internal rating-based approach.

(b) Capital commitments

Authorised capital commitments were as follows:

	2016	2015
For purchase of property and equipment:		
– Contracted for	6,898	4,380
– Authorised but not contracted for	128	251
Total	7,026	4,631

53. 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:

	2016	2015
Within 1 year (inclusive)	**3,334**	2,613
1 year to 5 years (inclusive)	**8,829**	8,117
Over 5 years	**2,396**	2,293
Total	**14,559**	13,023

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 2016, the Group was a defendant in certain outstanding litigations with gross claims of RMB1,444 million (2015: RMB1,100 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 of 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:

	2016	2015
Redemption obligations	**25,465**	26,729

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

54. 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 by 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:

	2016	2015
Entrusted loans	**388,340**	320,110
Entrusted funds	**(388,340)**	(320,110)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, notes issued by policy banks, short-dated corporate notes and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under wealth management services were as follows:

	2016	2015
Funds received from customers under wealth management services	**2,375,766**	1,820,694

55. Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the Board of Directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate finance business, the Group formulated credit policy guideline, and enhanced credit acceptance 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 finance business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or credit risk offset. Collateral structures and legal covenants are reviewed regularly to ensure that they can still cover the given risks and be consistent with market practices.

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss). The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated the quota limit management policy to monitor and analyse the loan portfolio.

Analyses of loans and advances by industry and loan portfolio are stated in Note 19.

The Group's credit risk management policy for derivative financial assets is the same as that for other transactions. In order to mitigate the credit risk arising from financial derivatives, the Group has signed hedging agreements with certain counterparties.

55. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Maximum exposure

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the total amount of the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the carrying amount of the off balance sheet items disclosed in Note 53(a). At 31 December 2016, the maximum exposure to credit risk of those items is RMB8,680,175 million (2015: RMB8,043,986 million).

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	2016	2015
Impaired loans and advances to customers		
For which impairment allowances are individually assessed		
Gross amount	45,718	34,326
Less: impairment allowances	(29,230)	(14,624)
Carrying amount	16,488	19,702
For which impairment allowances are collectively assessed		
Gross amount	15,392	13,070
Less: impairment allowances	(10,108)	(7,806)
Carrying amount	5,284	5,264
Overdue but not impaired		
– within 3 months (inclusive)	16,873	31,689
– 3 months to 6 months (inclusive)	6	2,217
– 6 months to 1 year (inclusive)	11	254
– Over 1 year	170	282
Gross amount	17,060	34,442
Less: impairment allowances – collectively assessed	(2,912)	(3,600)
Carrying amount	14,148	30,842
Neither overdue nor impaired		
Gross amount	3,183,511	2,742,448
Less: impairment allowances – collectively assessed	(67,782)	(58,812)
Carrying amount	3,115,729	2,683,636
Total carrying amount	3,151,649	2,739,444

The carrying amount of loans and advances that were overdue or impaired had the terms been renegotiated was RMB16,671 million as at 31 December 2016 (2015: RMB4,531 million).

55. Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) Credit quality of debt investments

At the end of the reporting period, the analysis of the credit quality of debt investments by designated external credit assessment institution, Standard & Poors, is as follows:

	2016	2015
Individually assessed and impaired gross amount of debt investments	1,726	668
Impairment allowances	(1,164)	(601)
Subtotal	562	67
Neither overdue nor impaired		
AAA	170,279	7,095
AA- to AA+	489,297	540,986
A- to A+	19,409	14,671
Lower than A-	14,274	15,763
Subtotal	693,259	578,515
Unrated	160,597	159,815
Total	854,418	738,397

Note: Bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB693,249 million (2015: RMB532,353 million) are included.

(iv) Collateral

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2016	2015
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	19,835	115,400

(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.

55. 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, 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.

For 2016, with increasing volatility of RMB exchange rate, the Group strengthened the tracking of foreign exchange market trend, enhanced risk monitoring, thus making the foreign exchange risk exposure effectively controlled in order to control foreign exchange risk. Due to the prudent trading strategies and strict risk management, foreign exchange business under the trading book maintained stable, and all risk indicators performed well.

(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 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.

For 2016, the Group has further optimized the foreign exchange risk measuring method of the banking book, which offers objective reference for the management decision making. The Group has continuously strengthened monitoring foreign exchange risk under the banking book and authorization of limits management, to ensure the risk exposure is in a reasonable range.

55. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	2016						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and balances with central bank	548,051	26,607	19,977	2,894	597,529	3,829	22,290
Amounts due from banks and other financial institutions	429,784	126,556	6,105	19,518	581,963	18,211	6,813
Loans and advances to customers	2,759,505	223,726	138,280	30,138	3,151,649	32,194	154,297
Investments (including derivatives)	1,355,043	71,511	24,081	8,975	1,459,610	10,290	26,869
Other assets	60,323	100,136	5,827	(14,726)	151,560	14,409	6,503
Total	5,152,706	548,536	194,270	46,799	5,942,311	78,933	216,772
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,187,122	91,341	13,707	5,363	1,297,533	13,143	15,294
Deposits from customers	3,246,238	379,030	133,217	43,564	3,802,049	54,541	148,647
Financial liabilities at fair value through profit or loss (including derivatives)	18,263	13,520	2,945	–	34,728	1,945	3,287
Debt securities issued	248,203	19,806	7,073	–	275,082	2,851	7,892
Other liabilities	109,510	9,779	5,633	4,635	129,557	1,407	6,283
Total	4,809,336	513,476	162,575	53,562	5,538,949	73,887	181,403
Net position	343,370	35,060	31,695	(6,763)	403,362	5,046	35,369
Net off-balance sheet position:							
Credit commitments (note)	988,161	147,576	15,340	16,147	1,167,224	21,236	17,117
Derivatives:							
– forward purchased	350,305	552,468	58,648	40,549	1,001,970	79,497	65,441
– forward sold	(454,714)	(422,095)	(56,935)	(50,761)	(984,505)	(60,737)	(63,529)
– net currency option position	11,118	(13,155)	(13)	(722)	(2,772)	(1,893)	(15)
Total	(93,291)	117,218	1,700	(10,934)	14,693	16,867	1,897

55. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

	2015						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and balances with central bank	509,746	44,537	28,346	1,713	584,342	6,852	33,798
Amounts due from banks and other financial institutions	465,757	109,509	7,011	11,119	593,396	16,848	8,359
Loans and advances to customers	2,473,948	158,776	87,923	18,797	2,739,444	24,428	104,832
Investments (including derivatives)	1,351,229	51,335	14,382	21,071	1,438,017	7,898	17,148
Other assets	70,625	41,489	7,210	455	119,779	6,383	8,597
Total	4,871,305	405,646	144,872	53,155	5,474,978	62,409	172,734
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,051,084	78,385	4,640	4,475	1,138,584	12,060	5,532
Deposits from customers	3,135,623	254,346	114,031	67,698	3,571,698	39,131	135,962
Financial liabilities at fair value through profit or loss (including derivatives)	1,741	6,361	3,586	16,114	27,802	979	4,276
Debt securities issued	235,039	10,425	6,043	–	251,507	1,604	7,205
Other liabilities	135,353	33,853	(14,414)	(31,163)	123,629	5,208	(17,186)
Total	4,558,840	383,370	113,886	57,124	5,113,220	58,982	135,789
Net position	312,465	22,276	30,986	(3,969)	361,758	3,427	36,945
Net off-balance sheet position:							
Credit commitments (note)	1,022,630	98,466	24,916	24,088	1,170,100	15,149	29,708
Derivatives:							
– forward purchased	347,450	495,820	61,572	93,045	997,887	76,282	73,414
– forward sold	(417,201)	(482,020)	(52,239)	(56,359)	(1,007,819)	(74,159)	(62,286)
– net currency option position	–	(15,074)	8	(194)	(15,260)	(2,319)	10
Total	(69,751)	(1,274)	9,341	36,492	(25,192)	(196)	11,138

Note: Credit commitments generally expire before they are drawn, therefore the above net position does not represent the future cash outflows.

55. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(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 2016 and 31 December 2015.

	2016		2015	
	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	(243)	243	94	(94)
Increase/(decrease) in annualised equity	(243)	243	94	(94)

Actual changes in the Group's net profit and equity resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

(ii) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss to the income and market value of financial instruments and positions held by the Group.

(1) Trading book

The Group has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk. The Group's market risk governance framework for trading book specifies the roles, responsibilities and reporting line of the Board of Directors, senior management, designated committees and relevant departments to ensure the effectiveness of the trading book market risk management. The market risk management department under the Bank's entire risk management office is responsible for execution of the management of interest rate risk under the trading book.

The Group has established market risk limits management framework, covering the interest rate risk, foreign exchange rate risk and commodity price risk under the trading book. Within this framework, the highest level indicators (or limits), which are also the trading book market risk preference quantitative indicators (or limits) of the Group, adopt VaR and portfolio stress testing methodologies and directly link to the Group's net capital. In addition, according to the product type, trading strategy and characteristics of risk of sub-portfolio, the highest level indicators are allocated to lower level indicators, and to each front office departments. These indicators are monitored and reported on a daily basis.

For management purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including all interest rate risk factors related to trading book), interest rate scenario stress test loss index, interest rate sensitivity index, and cumulative loss index (covering all risk factors related to trading book). Management measures include setting the limit and authorization of transaction, daily monitoring and constant reporting. Market value at risk indicator (VaR) includes normal market risk value and stress market value, both of which are calculated using historical simulation method.

For 2016, due to the easing of monetary policy, the Group deployed corresponding trading strategies, increased business monitoring frequency and optimization of the risk measurement and monitoring tools. All risk indicators under the trading book performed well.

55. 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 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. Through assets and liabilities analysis regular meetings and reporting framework, the Group analyses the cause of interest rate risk under the banking book, proposes management advices and implements management measures.

For 2016, the Group paid close attention to changes in the external interest rate environment; predicted interest rate movement in rolling basis; strengthened Net Interest Income ("NII") fluctuation monitoring analysis; deepened NII schedule and budget exposure analysis. On the foundation of both macro prediction and refinement of internal management mentioned above, the Group took the initiative to put forward a prospective program to optimize assets and liabilities, to ensure that the overall interest rate risk levels remain within management objectives, and to safeguard the stable operation of NII.

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.

	2016					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	597,529	581,156	–	–	–	16,373
Amounts due from banks and other financial institutions	581,963	514,789	57,104	6,768	–	3,302
Loans and advances to customers (note)	3,151,649	1,977,375	723,743	298,778	151,753	–
Investments (including derivatives)	1,459,610	337,869	342,294	395,745	367,643	16,059
Other assets	151,560	–	–	–	–	151,560
Total assets	5,942,311	3,411,189	1,123,141	701,291	519,396	187,294
Liabilities						
Amounts due to banks and other financial institutions	1,297,533	1,004,320	288,508	3,301	1,331	73
Deposits from customers	3,802,049	3,004,092	569,475	220,745	115	7,622
Financial liabilities at fair value through profit or loss (including derivatives)	34,728	135	4,643	7,340	415	22,195
Debt securities issued	275,082	113,940	107,979	21,807	31,356	–
Other liabilities	129,557	472	676	315	1	128,093
Total liabilities	5,538,949	4,122,959	971,281	253,508	33,218	157,983
Asset-liability gap	403,362	(711,770)	151,860	447,783	486,178	29,311

55. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

	2015					
	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	584,342	544,820	–	–	–	39,522
Amounts due from banks and other financial institutions	593,396	535,143	45,374	10,168	702	2,009
Loans and advances to customers (note)	2,739,444	1,647,629	905,992	176,721	9,102	–
Investments (including derivatives)	1,438,017	493,957	252,123	380,022	296,912	15,003
Other assets	119,779	–	–	–	–	119,779
Total assets	5,474,978	3,221,549	1,203,489	566,911	306,716	176,313
Liabilities						
Amounts due to central bank, banks and other financial institutions	1,138,584	871,075	254,003	9,202	–	4,304
Deposits from customers	3,571,698	2,596,345	603,585	357,570	6,088	8,110
Financial liabilities at fair value through profit or loss (including derivatives)	27,802	6,620	6,228	6,551	388	8,015
Debt securities issued	251,507	97,439	108,411	21,425	24,232	–
Other liabilities	123,629	102	22	68	26	123,411
Total liabilities	5,113,220	3,571,581	972,249	394,816	30,734	143,840
Asset-liability gap	361,758	(350,032)	231,240	172,095	275,982	32,473

Note:

For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2016 and 31 December 2015, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 31 December 2016 and 31 December 2015.

	2016		2015	
	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	(1,614)	1,614	(1,042)	1,042
(Decrease)/increase in equity	(2,782)	2,582	(2,571)	2,560

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.

55. 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, senior management, designated committees and relevant departments to ensure the effectiveness of the 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 polices 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 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, the Group draws up liquidity contingency plans and conducts liquidity contingency drills to prepare for liquidity crises.

For 2016, the overall market liquidity was tight, the liquidity situation of the Group is in line with the market. The Group's liquidity risk is low.

55. Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by residual maturity is as follows:

	2016							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	90,738	–	–	–	–	–	506,791	597,529
Amounts due from banks and other financial institutions	61,283	377,831	77,081	57,015	6,768	–	1,985	581,963
Loans and advances to customers (note (ii))	11,949	116,211	488,183	999,446	723,022	789,992	22,846	3,151,649
Investments (note (iii))								
– Financial assets at fair value through profit or loss (including derivatives)	–	398	5,565	8,466	37,660	1,835	10,736	64,660
– Available-for-sale financial assets	–	9,268	19,435	91,468	155,020	109,207	4,740	389,138
– Held-to-maturity investments	–	631	9,331	16,850	199,251	251,000	1	477,064
– Debt securities classified as receivables	–	187,479	38,631	215,722	63,030	22,131	1,755	528,748
Other assets	24,074	11,646	2,456	2,316	2,324	795	107,949	151,560
Total assets	188,044	703,464	640,682	1,391,283	1,187,075	1,174,960	656,803	5,942,311
Amounts due to banks and other financial Institutions	417,688	363,649	201,536	295,647	12,721	6,292	–	1,297,533
Deposits from customers (note (iv))	2,341,878	260,082	393,166	581,402	225,406	115	–	3,802,049
Financial liabilities at fair value through profit or loss (including derivatives)	6,914	1,836	1,681	5,376	7,340	415	11,166	34,728
Debt securities issued	–	34,609	79,331	107,979	21,807	31,356	–	275,082
Other liabilities	69,107	25,743	6,825	14,599	8,913	1,030	3,340	129,557
Total liabilities	2,835,587	685,919	682,539	1,005,003	276,187	39,208	14,506	5,538,949
(Short)/long position	(2,647,543)	17,545	(41,857)	386,280	910,888	1,135,752	642,297	403,362

55. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2015							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	118,184	–	–	–	–	–	466,158	584,342
Amounts due from banks and other financial institutions	12,173	463,243	61,785	45,004	10,480	–	711	593,396
Loans and advances to customers (note (ii))	19,954	124,077	421,499	972,196	609,807	553,893	38,018	2,739,444
Investments (note (iii))								
– Financial assets at fair value through profit or loss (including derivatives)	–	7,975	5,992	12,926	27,836	3,791	10,737	69,257
– Available-for-sale financial assets	–	12,234	11,847	49,199	163,821	59,912	2,546	299,559
– Held-to-maturity investments	–	1,327	2,364	15,016	106,212	228,206	12	353,137
– Debt securities classified as receivables	–	383,659	49,024	145,463	121,629	16,286	3	716,064
Other assets	11,988	4,641	5,435	10,980	2,052	1,065	83,618	119,779
Total assets	162,299	997,156	557,946	1,250,784	1,041,837	863,153	601,803	5,474,978
Amounts due to banks and other financial Institutions	378,326	339,324	146,406	247,988	22,805	3,735	–	1,138,584
Deposits from customers (note (iv))	2,009,673	306,603	294,047	603,543	357,544	288	–	3,571,698
Financial liabilities at fair value through profit or loss (including derivatives)	3,330	1,637	1,135	3,857	9,781	388	7,674	27,802
Debt securities issued	–	31,016	65,659	95,056	27,257	32,519	–	251,507
Other liabilities	63,634	22,662	7,666	13,531	11,503	2,518	2,115	123,629
Total liabilities	2,454,963	701,242	514,913	963,975	428,890	39,448	9,789	5,113,220
(Short)/long position	(2,292,664)	295,914	43,033	286,809	612,947	823,705	592,014	361,758

Notes:

(i) For balances with central bank, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, the amount with an indefinite maturity represents loans of which the whole or part of the principals or interest was overdue for more than one month, and is stated net of appropriate allowances for impairment losses.

(iii) The residual maturities of financial assets at fair value through profit or loss included in investments do not represent the Group's intention to hold them to maturity.

(iv) The deposits from customers that are repayable on demand included matured time deposits which are pending for customers' instructions.

55. 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.

	2016								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	597,529	597,529	90,738	–	–	–	–	–	506,791
Amounts due from banks and other financial institutions	581,963	586,396	61,285	378,904	77,928	58,662	7,378	–	2,239
Loans and advances to customers	3,151,649	3,805,837	11,949	123,701	503,608	1,067,199	926,595	1,149,939	22,846
Investments									
– Financial assets at fair value through profit or loss	55,972	59,213	–	401	5,654	9,780	39,332	1,996	2,050
– Available-for-sale financial assets	389,138	422,249	–	9,579	19,694	101,158	172,590	115,467	3,761
– Held-to-maturity investments	477,064	596,611	–	724	9,382	33,966	254,256	298,282	1
– Debt securities classified as receivables	528,748	547,099	–	188,340	39,854	222,446	68,661	26,043	1,755
Other assets	58,201	58,893	24,081	11,880	2,695	2,345	939	494	16,459
Total	5,840,264	6,673,827	188,053	713,529	658,815	1,495,556	1,469,751	1,592,221	555,902
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	1,297,533	1,305,147	417,794	364,598	203,763	298,347	15,266	5,379	–
Deposits from customers	3,802,049	3,805,351	2,342,133	260,757	394,194	582,171	225,981	115	–
Financial liabilities at fair value through profit or loss	23,576	23,592	6,914	1,851	1,681	5,381	7,336	415	14
Debt securities issued	275,082	310,396	–	34,752	84,501	120,026	33,643	37,474	–
Other liabilities	102,089	103,184	43,488	25,513	7,010	14,674	8,963	1,027	2,509
Total	5,500,329	5,547,670	2,810,329	687,471	691,149	1,020,599	291,189	44,410	2,523
Gross loan commitments		547,247	547,247	–	–	–	–	–	–

55. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2015								
	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	584,342	584,342	118,184	–	–	–	–	–	466,158
Amounts due from banks and other financial institutions	593,396	597,368	11,544	465,863	62,507	45,870	10,856	–	728
Loans and advances to customers	2,739,444	3,311,031	21,943	131,985	439,169	1,034,042	788,968	855,004	39,920
Investments									
– Financial assets at fair value through profit or loss	59,081	65,591	–	8,262	6,289	13,543	31,642	5,094	761
– Available-for-sale financial assets	299,559	362,387	–	12,823	12,878	52,637	199,827	81,673	2,549
– Held-to-maturity investments	353,137	502,642	–	2,255	3,869	18,881	131,033	346,591	13
– Debt securities classified as receivables	716,064	727,709	–	383,829	49,586	146,600	126,064	21,586	44
Other assets	16,914	16,485	9,390	1,163	797	1,715	371	33	3,016
Total	5,361,937	6,167,555	161,061	1,006,180	575,095	1,313,288	1,288,761	1,309,981	513,189
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	1,138,584	1,152,224	379,034	341,555	148,542	254,747	24,491	3,855	–
Deposits from customers	3,571,698	3,690,568	2,018,276	312,800	305,339	637,988	415,583	582	–
Financial liabilities at fair value through profit or loss	20,227	20,227	3,330	1,657	1,188	3,865	9,781	388	18
Debt securities issued	251,507	271,745	–	31,286	66,230	97,416	43,477	33,336	–
Other liabilities	85,202	86,797	54,350	19,267	1,537	3,919	4,648	1,010	2,066
Total	5,067,218	5,221,561	2,454,990	706,565	522,836	997,935	497,980	39,171	2,084
Gross loan commitments		377,020	377,020	–	–	–	–	–	–

55. 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, the Group continued to enhance its operational risk management by further improving operational risk management framework and methodologies, strengthening operational risk appraisal and assessment mechanisms, stepping up the identification, evaluation and monitoring of operational risk in key areas, and subjecting operational risk to its economic capital management. Various key risk indicators were compliant with the Group's risk preference requirements.

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, other tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach regulated by CBRC. The Group and the Bank file required information to CBRC half-yearly and quarterly.

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branches. As at 31 December 2016, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: WLB, CMBICHC, CMBFLC and CMFM.

55. Risk management *(continued)*

(e) Capital management *(continued)*

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. On 18 April 2014, the CBRC approved the Bank to adopt the advanced capital management approach. Within the scope of approval of the CBRC, the Bank could calculate corporation and financial institutions risk exposure using the primary internal rating-based approach, retail risk exposure using the internal rating-based approach, market risk using the internal model approach, and operational risk using the standardised approach. At the same time, the CBRC implemented a transition period for commercial banks approved to use the advanced approach to calculate capital. During the transition period, the commercial banks should use both the advanced approach and other approaches to calculate capital adequacy ratios, and comply with minimum capital requirements. During the period, the Group has complied with the capital requirement set by the regulators.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resisting. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions. The Group adopts the scenario simulation and stress testing methods to forecast, plans and manages its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the Group's derivative financial instruments are traded over the counter market.

The Group enters into interest rate, currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments managed in conjunction with financial instruments designated at fair value through profit or loss.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest/exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest/exchange rate movements.

The Group is exposed to foreign exchange risk when assets or liabilities denominated in foreign currencies. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

In cash flow hedge, the Group uses interest rate swaps as hedging instruments to hedge the interest cash flows arising from the RMB loans and interbank assets portfolios.

The following tables provide an analysis of the notional amounts and the corresponding fair value of derivatives of the Group by residual maturity at the end of the reporting period. The notional amounts of the derivatives indicate the outstanding transaction volume at the end of the reporting period, not representing amounts at risk.

55. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2016						
	Notional amounts with remaining life of					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	378,226	912,033	81,283	1,806	1,373,348	460	(370)
Currency derivatives							
Forwards	71,563	53,900	8,374	–	133,837	2,304	(2,264)
Foreign exchange swaps	398,401	449,680	13,174	–	861,255	4,191	(5,460)
Options	137,775	113,106	4,049	–	254,930	1,508	(2,816)
Subtotal	607,739	616,686	25,597	–	1,250,022	8,003	(10,540)
Other derivatives							
Equity options purchased	1	–	–	–	1	–	–
Equity options written	1	1	–	–	2	–	(1)
Commodity trading	332	–	–	–	332	67	(67)
Subtotal	334	1	–	–	335	67	(68)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	810	11,450	8,500	–	20,760	72	(3)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	910	6,581	7,956	721	16,168	67	(77)
Currency derivatives							
Foreign exchange swaps	2,224	1,462	3,455	–	7,141	19	(94)
Subtotal	3,134	8,043	11,411	721	23,309	86	(171)
Total						8,688	(11,152)

The impact of invalid cash flow hedge on profit or loss this year is zero. (2015:Nil)

55. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2015						
	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	256,954	817,880	75,345	409	1,150,588	465	(492)
Currency derivatives							
Forwards	80,855	108,528	1,461	–	190,844	1,108	(272)
Foreign exchange swaps	337,786	485,388	21,111	–	844,285	7,581	(5,827)
Options	61,393	38,423	1,304	–	101,120	634	(876)
Subtotal	480,034	632,339	23,876	–	1,136,249	9,323	(6,975)
Other derivatives							
Credit default swaps	–	97	–	–	97	–	(1)
Equity options purchased	64	–	–	–	64	5	–
Equity options written	56	–	–	–	56	–	(1)
Others	120	97	–	–	217	5	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,700	9,800	18,010	–	29,510	336	(14)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	1,037	867	13,226	395	15,525	38	(32)
Currency derivatives							
Foreign exchange swaps	1,325	1,409	2,863	–	5,597	9	(60)
Subtotal	2,362	2,276	16,089	395	21,122	47	(92)
Total						10,176	(7,575)

(i) Credit risk weighted amount

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.

	2016	2015
Credit risk weighted assets of counterparties		
Interest rate derivatives	**281**	442
Currency derivatives	**5,799**	4,205
Other derivatives	**–**	3
Credit valuation adjustment risk weighted assets	**12,293**	10,518
Total	**18,373**	15,168

Note: The credit risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Trial) issued by CBRC, covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets. The amount within the scope approved by CBRC in April 2014 was calculated using the internal rating-based approach, and the risk-weighted approach is adopted to calculate those not eligible to the internal rating-based approach.

55. Risk management *(continued)*

(g) Fair value information

(i) Financial instruments at fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that has responsibility for overseeing all significant fair value measurements including three levels of fair values, and reports directly to the person in charge of accounting affairs.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the level in the fair value hierarchy in which such valuation should be classified.

Significant valuation issues are reported to the Audit Committee of the Board.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest input that is significant to the entire fair value measurement. The levels are defined as follows:

– Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

– Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;

– Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period 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.

55. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
– Debt securities	8,073	33,141	–	41,214
– Long position in precious metal contracts	–	1,296	–	1,296
– Equity investments	714	–	–	714
– Investments in funds	–	109	–	109
Subtotal	8,787	34,546	–	43,333
Financial assets designated at fair value through profit or loss				
– Debt securities	4,690	7,949	–	12,639
Derivative financial assets	11	8,677	–	8,688
Available-for-sale financial assets				
– Debt securities	78,321	264,312	–	342,633
– Equity investments	1,496	85	1,715	3,296
– Investments in funds	1,090	41,961	158	43,209
Subtotal	80,907	306,358	1,873	389,138
Total	94,395	357,530	1,873	453,798
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	7,530	–	7,530
– Short position in equity securities	–	–	–	–
Subtotal	–	7,530	–	7,530
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	3,498	–	3,498
– Certificates of deposit issued	–	3,595	–	3,595
– Debt securities issued	8,938	–	–	8,938
– Others	–	15	–	15
Subtotal	8,938	7,108	–	16,046
Derivative financial liabilities	621	10,531	–	11,152
Total	9,559	25,169	–	34,728

55. 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)*

	2015			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
– Debt securities	6,028	43,004	–	49,032
– Long position in precious metal contracts	–	1,027	–	1,027
– Equity investments	744	–	–	744
– Investments in funds	1	5	–	6
Subtotal	6,773	44,036	–	50,809
Financial assets designated at fair value through profit or loss				
– Debt securities	3,469	4,803	–	8,272
Derivative financial assets	–	10,172	4	10,176
Available-for-sale financial assets				
– Debt securities	33,538	262,205	–	295,743
– Equity investments	1,638	80	1,104	2,822
– Investments in funds	66	790	138	994
Subtotal	35,242	263,075	1,242	299,559
Total	45,484	322,086	1,246	368,816
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	3,330	–	3,330
– Short position in equity securities	18	–	–	18
Subtotal	18	3,330	–	3,348
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	2,087	–	2,087
– Certificates of deposit issued	–	1,683	2,302	3,985
– Debt securities issued	–	8,455	–	8,455
– Others	–	2,352	–	2,352
Subtotal	–	14,577	2,302	16,879
Derivative financial liabilities	–	7,575	–	7,575
Total	18	25,482	2,302	27,802

55. 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)*

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(1) Basis of determining the market price for recurring fair value measurements categorised within Level 1

Bloomberg's quoted prices are used for financial instruments with quoted prices in an active market.

(2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised within Level 2

Fair value of RMB denominated bonds whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg, etc.

Fair value of foreign exchange forwards contracts in derivative financial assets is measured by discounting the differences between the contract prices and market prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of foreign exchange options is measured using the Black-Scholes model, applying applicable foreign exchange spot rates, foreign exchange yield curves and exchange rate volatilities. The above market data used are quoted price in an active market, provided by Bloomberg, Reuters and other market information providers.

Fair value of interest rate swaps in derivative financial assets is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of reporting date. The discount rates used are the related RMB denominated swap yield curve as at the end of reporting period.

55. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as blow:

	Fair value as at 31 December 2016	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	**346**	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	**1,369**	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	**158**	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2015	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	346	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	758	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	138	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted derivative financial instruments	4	Binomial lattice Model	Volatility
Financial liabilities designated at fair value through profit or loss – Certificates of deposit issued	2,302	Discounted cash flow	Risk-adjusted discount rate, cash flow

55. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) ***Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as blow:*** *(continued)*

1) *Valuation of financial instruments with significant unobservable inputs*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Assets	Financial assets designated at fair value through profit or loss-debt securities	Derivative financial assets	Available-for-sale financial assets	Total
At 1 January 2016	–	4	1,242	1,246
Profit or loss				
– In profit or loss	–	–	(5)	(5)
– In other comprehensive income	–	–	199	199
Purchases	–	–	435	435
Disposals and settlement on maturity	–	(4)	(4)	(8)
Exchange gains (losses)	–	–	6	6
At 31 December 2016	–	–	1,873	1,873
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	–	(5)	(5)
At 1 January 2015	125	15	753	893
Profit or loss				
– In profit or loss	–	(3)	20	17
– In other comprehensive income	–	–	21	21
Purchases	–	–	570	570
Disposals and settlement on maturity	(125)	(8)	(122)	(255)
At 31 December 2015	–	4	1,242	1,246
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	(3)	20	17

55. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as blow: *(continued)*

1) Valuation of financial instruments with significant unobservable inputs (continued)

Liabilities	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued
At 1 January 2016	**2,302**
In profit or loss	**121**
Issues	**–**
Disposals and settlement on maturity	**(2,423)**
At 31 December 2016	**–**
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**–**
At 1 January 2015	2,610
In profit or loss	122
Issues	–
Disposals and settlement on maturity	(430)
At 31 December 2015	2,302
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	121

55. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as blow: (continued)

2) The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis

The fair value of financial instruments are, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

	2016 Effect on profit or loss or other comprehensive income Favourable	 (Unfavourable)
Available-for-sale financial assets		
– Equity investments	172	(172)
– Investments in funds	16	(16)

	2015 Effect on profit or loss or other comprehensive income Favourable	 (Unfavourable)
Available-for-sale financial assets		
– Equity investments	111	(111)
– Investments in funds	13	(13)
– Certificates of deposit issued	230	(230)

(3) Transfers between levels 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 levels are deemed

During the year ended 31 December 2016, there were no transfers between levels for financial instruments which are measured at fair value on an on-going basis. The group recognises the transfers between levels at the end of the reporting period during which the changes have occurred.

(4) Changes in valuation technique and the reasons for making the changes

During the year ended 31 December 2016, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on an on-going basis.

55. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) Financial assets and financial liabilities that are not measured at fair value

The Group's financial assets and financial liabilities 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 or have been already stated at fair value, and their carrying value approximate their fair value.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). Loans and advances are mostly priced at floating rates close to the PBOC rates and repriced at market rates annually at least, 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 are close to the fair value.

Held-to-maturity investments are stated at amortised costs less impairment, and the fair value of listed debt securities classified as held-to-maturity investments are disclosed in Note 21(c). The carrying value, fair value and fair value hierarchy of held-to-maturity investments not measured or disclosed at fair value are listed as below:

(1) Financial Assets

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.

	2016					2015	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Held-to-maturity investments	477,064	484,277	2,786	481,491	–	353,137	372,697

(2) Financial Liabilities

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, and debts securities issued by the Group. The carrying value of financial liabilities approximate their fair value at the end of the reporting period of the year presented, except the financial liabilities set out below:

	2016					2015	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Subordinated notes issued	31,356	32,399	–	32,399	–	32,519	34,680
Long-term debt securities issued	40,959	40,925	–	40,925	–	27,995	28,146
Total	72,315	73,324	–	73,324	–	60,514	62,826

56. Material related-party transactions

(a) Material connected person information

The Bank's main shareholders and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB13,750 million	7,559,427,375	29.97% (note (i),(iii)&(v))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited company	Li Jianhong
China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB5,900 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Joint stock limited company	Li Jianhong
Anbang Property & Casualty Insurance Co., Ltd.	Beijing	RMB37,000 million	2,704,596,216	10.72% (note(iv))	–	property damage insurance, liability insurance, credit insurance and guarantee insurance, short-term health insurance and accident insurance, etc.	Shareholder	Joint stock limited company	Wang Yuesheng
China Ocean Shipping (Group) Co., Ltd.	Beijing	RMB16,190 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	Ma Zehua
Shenzhen Yan Qing Investment Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB600 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Hong Xiaoyuan
Best Winner Investment Co., Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–

56. Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China 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
CMB International Capital Holdings Corporation Limited (CMBICHC)	Hong Kong	HKD4,129 million	–	–	100%	Financial advisory services	Subsidiary	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (CMBFLC)	Shanghai	RMB6,000 million	–	–	100%	Finance lease	Subsidiary	Limited company	Lian Bolin
Wing Lung Bank Limited (WLB)	Hong Kong	HKD1,161 million	–	–	100%	Banking	Subsidiary	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB210 million	–	–	55%	Asset Management	Subsidiary	Limited company	Li Hao

Note:

(i) CMG holds 29.97% of the Bank (2015: 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 2016 (2015: 13.04%).

(iii) On 28 December 2015, the State-owned Assets Supervision and Administration Commission (hereinafter referred to as "SASAC") issued an approval letter, approving that Sinotrans & CSC Holdings Co., Ltd. (hereinafter referred to as "Sinotrans & CSC"), in its entirety, be transferred into China Merchants Group at nil consideration (hereinafter referred to as "Transfer of Sinotrans & CSC") as approved by the State Council. As Sinotrans & CSC and its subsidiary Wuhan Changjiang Shipping Company (武漢長江輪船公司) hold in aggregate 0.09% of the total share capital of the Bank, China Merchants Group will, upon completion of the Transfer of Sinotrans & CSC, hold more than 30% of the share capital of the Bank by way of equity interest, right of control or relationship of parties acting in concert, triggering the obligation to make a general offer. China Merchants Steam Navigation and parties acting in concert with it made an application to the China Securities Regulatory Commission (hereinafter referred to as "CSRC") for a waiver from the obligation to make a general offer in respect of the Transfer of Sinotrans & CSC.

Thereafter, in order to implement the overall deployment of the Central Party Committee and the State Council for further deepening the reform of state-owned enterprises, Sinotrans & CSC and Wuhan Changjiang Shipping Company transferred the above-mentioned 0.09% shares in the Bank held by them (hereinafter referred to as "Transferred Shares") to Guoxin Investment Co., Ltd. (國新投資有限公司), a subsidiary of China Reform Holdings Corporation Ltd., at nil consideration (hereinafter referred to as "Transfer at Nil Consideration") in accordance with the relevant working arrangements of the SASAC. As a result of the Transfer at Nil Consideration, Sinotrans & CSC and Wuhan Changjiang Shipping Company cease to hold the Transferred Shares. Therefore, the implementation of the Transfer of Sinotrans & CSC would not increase the proportion of the Bank's shares controlled by China Merchants Group and would no longer trigger the obligation to make a general offer. In view of this, China Merchants Steam Navigation has submitted an application to the CSRC to terminate the examination review of its application for a waiver from the obligation to make a general offer, and has received the "Notice on CSRC's Administrative Permission to the Application for Terminating the Examination Review" ([2016] No. 482), in which the CSRC has decided to terminate the examination review of such application for administrative approval. After the Transfer at Nil Consideration, China Merchants Group still holds in aggregate 29.97% of the total share capital of the Bank by way of equity interest, right of control or companies controlled by the parties acting in concert. China Merchants Steam Navigation is still the largest shareholder of the Bank and there was no significant change in the shareholding structure of the Bank.

(iv) As at 31 December 2016, Anbang Property & Casualty Insurance Company Ltd. holds 10.72% of the share capital of the Bank through traditional product account (2015: 10.72%).

(v) The discrepancy between the shareholding ratio of CMG and the sum of the amounts of the related shareholders listed are due to rounding.

56. Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

The information of registered capital of the related parties as at 31 December 2016 and 2015 is as below:

Name of related party	2016	2015
CMG	RMB13,750,000,000	RMB13,750,000,000
CMSNCL	RMB5,900,000,000	RMB5,900,000,000
Anbang Property & Casualty Insurance Co., Ltd.	RMB37,000,000,000	RMB37,000,000,000
China Ocean Shipping (Group) Co., Ltd.	RMB16,191,351,300	RMB16,191,351,300
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
CMBICHC	HKD4,129,000,000	HKD1,000,000,000
CMBFLC	RMB6,000,000,000	RMB6,000,000,000
WLB	HKD1,160,950,575	HKD1,160,950,575
CMFM	RMB210,000,000	RMB210,000,000

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank							
	CMSNCL		CMBICHC		CMBFLC		WLB		CMFM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%
At 1 January 2016	3,289,470,337	13.04	1,000,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	115,500,000	55.00
Change	–	–	3,129,000,000	–	–	–	–	–	–	–
At 31 December 2016	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

56. Material related-party transactions *(continued)*

(b) Transaction terms and conditions

In each year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The opinion of the directors is that the Group's material related-party transactions were all entered into normal commercial terms. The banking transactions were priced at the market rates at each time of transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2016	2015
Short-term loans	4.35% p.a.	4.35% p.a.
Medium to long-term loans	4.75% to 4.90% p.a.	4.75% to 4.90% p.a.
Demand deposits	0.35% p.a.	0.35% p.a.
Time deposits	1.10% to 2.75% p.a.	1.10% to 2.75% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 29.97% (2015: 29.97%) shares of the Bank as at 31 December 2016 (among them 13.04% shares is held by CMSNCL (2015: 13.04%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2016	2015
On-balance sheet:		
– Loans and advances to customers	8,482	5,124
– Investments	3,662	12,346
– Deposits from customers	100,553	119,679
– Placements	–	4,000
Off-balance sheet:		
– Irrevocable guarantees	2,135	1,849
– Irrevocable letters of credit	213	93
– Bills of acceptances	222	58
– Factoring	5	–
Interest income	688	496
Interest expense	767	1,151
Net fee and commission income	611	580
Other net income	(115)	37

56. Material related-party transactions *(continued)*

(d) Companies controlled by directors and supervisors other than those under Note 56(c) above

	2016	2015
On-balance sheet:		
– Loans and advances to customers	3,659	6,110
– Investments	955	1,425
– Deposits from customers	21,448	30,929
Off-balance sheet:		
– Irrevocable guarantees	2,671	1,076
– Acceptance bills	152	–
Interest income	310	220
Interest expense	299	737
Net fee and commission income	130	204
Other net income	(12)	1

(e) Associates and joint ventures other than those under Note 56(c) above

	2016	2015
On-balance sheet:		
– Loans and advances to customers	3,047	5
– Deposits from customers	921	442
– Placements	3,700	–
Off-balance sheet:		
– Irrevocable guarantees	8,701	–
Interest income	37	–
Interest expense	4	36
Net fee and commission income	1,063	454

56. Material related-party transactions *(continued)*

(f) Other shareholders holding more than 5% shares

	2016	2015
On-balance sheet:		
– Loans and advances to customers	5,572	–
– Investments	200	1,700
– Deposits from customers	16,328	10,287
Off-balance sheet:		
– Irrevocable guarantees	5,627	6,000
Interest income	16	9
Interest expense	12	20
Net fee and commission income	1,282	915

(g) Subsidiaries

	2016	2015
On-balance sheet		
– Balances with banks and other financial institutions	5,758	5,588
– Placements with banks and other financial institutions	9,338	28,102
– Loans and advances to customers	348	325
– Investments	93	440
– Deposits from banks and other financial institutions	29,715	13,497
– Placements from banks and other financial institutions	–	93
– Deposits from customers	3,866	1,657
Off-balance sheet		
– Irrevocable guarantees	3,494	3,269
– Bills of acceptances	120	–
Interest income	230	31
Interest expense	284	426
Net fee and commission	1,578	1,494
Other net income	(5)	(4)

Any significant balances and transactions between the Bank and its subsidiaries have been offset in the consolidated financial statements.

56. Material related-party transactions *(continued)*

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2016 RMB'000	2015 RMB'000 (Note 8)
Salaries and other emoluments	44,387	46,236
Discretionary bonuses (Note 8(i))	–	14,875
Share-based payment	6,896	9,556
Contributions to defined contribution retirement schemes	5,148	5,475
Total	56,431	76,142

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 38(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in Note 2(u)(iii); and the amounts have been charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2016 and 31 December 2015.

57. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the non-wholly owned 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.

58. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. Except for those finance leases receivable mentioned below, as at 31 December 2016, as the Group has transferred the ownership of the securitised loans amounted to RMB19,976 million (31 December 2015: 23,020 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 treated as financial liabilities. As at 31 December 2016, the carrying amount of such transferred but not recognised finance leases receivable amounted to RMB2,646 million (31 December 2015: Nil) and correspondently the carrying amount of recognised financial liabilities is RMB2,227 million (31 December 2015: Nil).

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.

59. Interests in unconsolidated structured entities

(a) Interest in the structured entities sponsored by third party institutions

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include 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 fees 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 2016 and 31 December 2015 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 2016 and 31 December 2015 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	31 December 2016						
	Carrying amount						
	Amounts held under resale agreements	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total	Maximum exposure
Wealth management products	–	–	–	–	55,216	55,216	55,216
Asset management schemes	1,050	–	–	–	369,168	370,218	370,218
Trust beneficiary rights	52	–	–	–	83,548	83,600	83,600
Asset backed securities	–	224	3,847	2,187	118	6,376	6,376
Investment in funds	–	109	43,209	–	–	43,318	43,318
Total	1,102	333	47,056	2,187	508,050	558,728	558,728

	31 December 2015						
	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	–	–	–	–	300	300	300
Asset management schemes	11,381	–	–	–	606,424	617,805	617,805
Trust beneficiary rights	10,693	–	–	–	78,067	88,760	88,760
Asset backed securities	–	–	2,773	2,672	118	5,563	5,563
Investment in funds	–	6	994	–	–	1,000	1,000
Debtor beneficiary rights	4,640	–	–	–	–	4,640	4,640
Total	26,714	6	3,767	2,672	684,909	718,068	718,068

The maximum exposures held by the Group in the subordinated tranches of assets backed securities and investments in funds are the fair value of the assets at the reporting date. The maximum exposures in the wealth management products, asset management schemes, trust beneficiary rights, senior tranches of assets backed securities are the amortised cost of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the statement of financial positions.

59. Interests in unconsolidated structured entities *(continued)*

(b) Interest in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal- guaranteed wealth management products, funds and asset management schemes. The nature and purpose of these structured entities are to generate fees 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 2016, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,375,766 million (31 December 2015: RMB1,820,694 million).

As at 31 December 2016, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB345,450 million (31 December 2015: RMB250,207 million).

As at 31 December 2016, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB352,446 million (31 December 2015: RMB431,591 million).

As at 31 December 2016, 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 RMB274,393 million (31 December 2015: RMB208,150 million) and RMB50,283 million (31 December 2015: RMB5,723 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During year ended 31 December 2016, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB15,470 million (2015: RMB7,984 million).

During the year ended 31 December 2016, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB1,292 million (2015: RMB1,114 million).

During the year ended 31 December 2016, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB939 million (2015: RMB872 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2016 with a maturity date before 31 December 2016 was RMB3,081,595 million (2015: RMB2,622,189 million).

60. Non-adjusting events after the reporting period

Save as otherwise disclosed in Note 47(b), the Group has no significant post reporting date event subsequent to the end of the reporting period as at the date of approval to the consolidated financial statements.

61. Comparative figures

During the year end 31 December 2016, the Group has reclassified income from precious metals borrowing and lending activities, from other net income to net interest income and reclassified the liabilities and interest expense of transactions with central bank from amounts sold under repurchase agreements to borrowing from central bank; and has restated the corresponding comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

In accordance with the advanced capital management approach approved by CBRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2016	2015
Core tier-1 capital adequacy ratio	11.54%	10.83%
Tie-1 capital adequacy ratio	11.54%	10.83%
Capital adequacy ratio	13.33%	12.57%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	25,220	25,220
Qualifying portion of capital reserve	68,600	73,889
Surplus reserves	39,678	33,981
Regulatory general reserve	67,839	64,680
Retained profits	197,947	162,405
Qualifying portion of non-controlling interests	303	329
Others (note (i))	1,625	(304)
Total core tier-1 capital	401,212	360,200
Regulatory deductions from core tier-1 capital	12,450	12,766
Net core tier-1 capital	388,762	347,434
Other tier-1 capital (note (ii))	18	10
Net tier-1 capital	388,780	347,444
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	30,000	30,000
Surplus provision for loans impairment	29,299	24,006
Qualifying portion of non-controlling interests	1,037	1,959
Total tier-2 capital	60,336	55,965
Regulatory deductions from core tier-2 capital	–	–
Net tier-2 capital	60,336	55,965
Net capital	449,116	403,409
Total risk-weighted assets	3,368,990	3,208,152

Notes:

(i) : Others represent exchange reserve of foreign currency consolidated financial statements under CBRC's Administrative Measures on the Capital of Commercial Banks (Trial).

(ii) : The Group's other tier-1 capital is qualifying portion of non-controlling interests.

(A) Capital adequacy ratio *(continued)*

In 2016, in accordance with the advanced capital management approach approved by CBRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 11.11%, tier-1 capital adequacy ratio is 11.11%, capital adequacy ratio is 12.99%, net capital is RMB397,649 million and total risk-weighted assets is RMB3,061,019 million.

In 2016, 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 10.09%, tier-1 capital adequacy ratio is 10.09%, capital adequacy ratio is 12.00%, net capital is RMB462,493 million and total risk-weighted assets is RMB3,852,894 million.

In 2016, 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 9.63%, tier-1 capital adequacy ratio is 9.63%, capital adequacy ratio is 11.59%, net capital is RMB408,962 million and total risk-weighted assets is RMB3,529,142 million.

(B) Leverage ratio

In accordance with the CBRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio and relevant components as at 31 December 2015 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:

	2016	2015
Total consolidated assets as per published financial statements	**5,942,311**	5,474,978
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(3,615)**	(2,717)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**19,680**	10,813
Adjustment for securities financing transactions	**15,066**	13,508
Adjustment for off-balance sheet items	**797,101**	791,776
Other adjustments	**(12,450)**	(12,766)
Balance of adjusted on-balance sheet and off-balance sheet assets	**6,758,093**	6,275,592

(B) Leverage ratio *(continued)*

Leverage ratio, net tier-1 capital, on-balance sheet and off-balance sheet exposures and other information:

	2016	2015
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	5,651,310	5,251,604
Less: Asset amounts deducted in determining Basel III Tier 1 capital	(12,450)	(12,766)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	5,638,860	5,238,838
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	14,851	9,780
Add-on amounts for potential future exposure associated with all derivatives transactions	12,140	11,163
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	–	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	–	–
Less: Exempted central counterparty leg of client-cleared trade exposures	–	–
Effective notional amount of written credit derivatives	1,377	46
Less: Adjusted effective notional deductions for written credit derivatives	–	–
Total derivative exposures	28,368	20,989
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	278,699	210,481
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
Counterparty credit risk exposure for SFT assets	15,066	13,508
Agent transaction exposures	–	–
Total securities financing transaction exposures	293,765	223,989
Off-balance sheet exposure at gross notional amount	7,971,005	1,302,755
Less: Adjustments for conversion to credit equivalent amounts	(7,173,905)	(510,979)
Balance of adjusted off-balance sheet assets	797,100	791,776
Net tier 1 capital	388,780	347,444
Balance of adjusted on-balance sheet and off-balance sheet assets	6,758,093	6,275,592
Leverage ratio	5.75%	5.54%

(C) Liquidity coverage ratio

In accordance with CBRC's Administrative Measures on Liquidity Coverage Ratio of Commercial Banks effective on 31 December 2016, the Group's liquidity coverage ratio and relevant components as at 31 December 2016 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries. For the quarter ended 31 December 2016, the Group's liquidity coverage ratio was as follows:

	Quarter ended 31 December 2016		Quarter ended 31 December 2015	
	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)		637,522		655,927
Cash outflows				
Retail deposits and small business funding, of which:				
– Stable deposits	212,072	10,604	1,616	81
– Less stable deposits	1,293,974	129,397	1,370,543	137,054
Unsecured wholesale funding, of which:				
– Business relations deposits (excluding correspondent banks operations)	1,232,010	306,159	1,037,960	257,764
– Non-business relations deposits (including all the counterparties)	1,333,629	769,220	1,448,892	920,230
– Liabilities and obligations arising from unsecured funding	1,092	1,092	1,548	1,548
Secured funding		49,960		25,408
Additional requirements, of which:				
– Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	36,889	36,697	23,219	22,975
– Cash outflows arising from secured debt instruments funding	–	–	108	108
– Committed credit facilities and committed liquidity facilities	564,728	32,395	430,248	24,691
Other contractual lending obligations	38,540	38,540	42,267	42,267
Other contingent funding obligations	2,227,769	26,091	912,536	18,453
Total cash outflows		1,400,155		1,450,579
Cash inflows				
Secured lending transactions (including reverse repurchase agreements and securities borrowed)	179,520	179,520	274,089	274,089
Cash inflows from fully honoured payments	945,283	618,785	1,151,766	530,114
Other cash inflows	38,545	37,774	112,525	68,016
Total cash inflows		836,079		872,219

	Adjusted value	Adjusted value
TOTAL HQLA	637,522	655,927
TOTAL NET CASH OUTFLOWS	564,076	578,360
LCR (%) (i)	114.59%	113.61%

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

	2016			
	USD	HKD	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	622,831	241,063	76,138	940,032
Spot liabilities	(666,434)	(207,309)	(75,224)	(948,967)
Forward purchased	741,635	63,786	79,067	884,488
Forward written	(630,853)	(59,094)	(75,022)	(764,969)
Net option position	(48,662)	(4,180)	(1,706)	(54,548)
Net long position	18,517	34,266	3,253	56,036
Net structural position	(10,483)	(30,218)	(509)	(41,210)

	2015			
	USD	HKD	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	376,968	175,507	36,928	589,403
Spot liabilities	(165,555)	(132,478)	(74,897)	(372,930)
Forward purchased	495,820	61,572	93,045	650,437
Forward written	(482,020)	(52,239)	(56,359)	(590,618)
Net option position	(15,074)	8	(194)	(15,260)
Net long position	210,139	52,370	(1,477)	261,032
Net structural position	537	19,295	–	19,832

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.

	2016			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	80,537	2,904	97,458	180,899
Asia Pacific excluding Mainland China	38,097	20,897	155,247	214,241
– of which attributed to Hong Kong	19,920	20,857	144,295	185,072
Europe	16,384	1,929	5,320	23,633
North and South America	12,571	850	46,553	59,974
	147,589	26,580	304,578	478,747

	2015			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	39,779	3,163	110,789	153,731
Asia Pacific excluding Mainland China	90,109	33,014	129,176	252,299
– of which attributed to Hong Kong	46,499	32,795	119,656	198,950
Europe	12,825	–	2,510	15,335
North and South America	21,193	1,267	26,743	49,203
	163,906	37,444	269,218	470,568

(F) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	2016		2015	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Manufacturing	275,710	38	318,679	43
Wholesale and retail	214,859	47	236,513	59
Transportation, storage and postal services	175,548	38	145,473	38
Property development	174,642	66	175,912	76
Production and supply of electric power, heating power, gas and water	104,393	39	109,942	46
Leasing and commercial services	97,464	37	80,788	41
Construction	83,871	30	96,387	38
Telecommunications, software and IT services	55,806	48	28,076	38
Mining	46,397	37	52,178	43
Water, environment and public utilities management	35,096	35	33,431	32
Others	98,754	46	76,477	46
Corporate loans and advances subtotal	1,362,540	43	1,353,856	49
Discounted bills	154,517	100	89,815	100
Residential mortgage	720,323	100	491,290	100
Credit cards	408,951	–	312,985	–
Micro-finance loans	281,653	93	308,973	92
Others	109,924	79	96,828	89
Retail loans and advances subtotal	1,520,851	70	1,210,076	71
Gross loans and advances to customers	3,037,908	60	2,653,747	61

(F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	2016		2015	
	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	52,922	59	37,168	53
Financial concerns	44,489	35	46,585	54
Manufacturing	21,732	32	13,468	46
Information technology	21,686	66	2,025	28
Transport and transport equipment	18,281	70	13,876	66
Wholesale and retail	13,892	85	14,860	95
Recreational activities	2,363	68	3,627	41
Others	28,665	47	22,305	70
Corporate loans and advances subtotal	204,030	53	153,914	60
Residential mortgage	8,005	100	8,165	100
Credit cards	247	–	259	–
Micro-finance loans	1,849	–	1,804	97
Others	9,642	99	6,397	52
Retail loans and advances subtotal	19,743	89	16,625	80
Gross loans and advances to customers	223,773	56	170,539	62

(F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

The overdue amounts, impaired amounts, individual and collective assessment allowances, impairment losses charged to profit and loss and impaired loans and advances written off amounts during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	2016					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	19,727	18,969	12,733	12,189	24,446	17,089
Residential mortgage	4,313	3,022	–	7,219	1,513	142
Micro-finance loans	6,904	4,626	–	7,539	4,677	6,732
Credit card	10,561	5,715	–	11,884	7,570	2,336

	2015					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	24,338	15,237	4,551	15,541	20,689	15,862
Residential mortgage	4,423	2,258	–	5,769	2,599	129
Micro-finance loans	9,974	4,744	–	8,502	7,079	7,406
Credit card	10,490	4,292	–	6,886	5,166	1,563

(G) Overdue loans and advances to customers

(i) By geographical segments

	2016	2015
Headquarters	5,338	4,525
Yangtze River Delta region	8,731	9,430
Bohai Rim region	4,463	3,471
Pearl River Delta and West Coast region	6,126	5,841
Northeast region	2,730	2,963
Central region	6,492	9,041
Western region	12,677	8,196
Subsidiaries	1,316	1,505
Total	47,873	44,972

(ii) By overdue period

	2016	2015
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)	8,892	13,798
– between 6 and 12 months (inclusive)	15,388	18,449
– over 12 months	23,593	12,725
Total	47,873	44,972
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	0.27%	0.49%
– between 6 and 12 months (inclusive)	0.47%	0.65%
– over 12 months	0.72%	0.45%
Total	1.46%	1.59%

(G) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	2016	2015
Secured portion of overdue loans and advances	**13,961**	16,817
Unsecured portion of overdue loans and advances	**33,912**	28,155
Value of collaterals held against overdue loans and advances	**19,168**	18,790
Provision of overdue loans and advances for which impairment losses are individually assessed	**23,332**	13,217

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2016 was RMB1 million (2015: RMB11 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 collaterals of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collaterals 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

	2016		2015	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**16,671**	**0.51%**	4,531	0.16%
Less:				
– rescheduled loans and advances overdue more than 90 days	**8,605**	**0.26%**	2,506	0.09%
Rescheduled loans and advances overdue less than 90 days	**8,066**	**0.25%**	2,025	0.07%

The amount of the Group's rescheduled loans and advances to financial institutions as at 31 December 2016 was 1 million (2015: 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 2016 and 31 December 2015, 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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