招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司
CHINA MERCHANTS BANK CO., LTD.

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

(Stock code: 03968)

2016 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Merchants Bank Co., Ltd. (the "Company") hereby announces the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2016. This announcement, containing the full text of the 2016 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company's 2016 Interim Report will in due course be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.cmbchina.com).

Publication of Results Announcement

Both the Chinese and English versions of this results announcement are available on the websites of the Company (www.cmbchina.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English version and the Chinese version, the Chinese version shall prevail.

The Company also prepared the Interim Report in Chinese in accordance with the PRC Generally Accepted Accounting Principles, which is available on the websites of the Company (www.cmbchina.com) and Shanghai Stock Exchange (www.sse.com.cn).

By Order of the Board
China Merchants Bank Co., Ltd.
Li Jianhong
Chairman

18 August 2016

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

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 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 2nd meeting of the Tenth Session of the Board of Directors of the Company was held at the CMB CHINA MERCHANTS BANK University, Shenzhen on 18 August 2016. The meeting was presided by Li Jianhong, Chairman of the Board. 12 out of 14 eligible directors attended the meeting in person. Li Xiaopeng (Non-executive Director) and Leung Kam Chung, Antony (Independent Director) were unable to attend the meeting because of business engagements, and entrusted Hong Xiaoyuan (Non-executive Director) and Wong Kwai Lam (Independent Director) to exercise the voting right, respectively. 8 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the "Company Law of the People's Republic of China" and the "Articles of Association of China Merchants Bank Co., Ltd.".

3. The Company will not implement the profit appropriation nor will it transfer any capital reserve into share capital for the first half of 2016.

4. The Company's 2016 interim financial report is unaudited.

5. Unless otherwise stated, all monetary sums stated in this interim report are expressed in RMB.

6. Li Jianhong, Chairman of the Company, Tian Huiyu, President and Chief Executive Officer, Li Hao, First Executive Vice President and Chief Financial Officer, and Wang Tao, 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 interim report.

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.

Contents

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

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

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

Wing Lung Bank or WLB: Wing Lung Bank Limited

Wing Lung Group: Wing Lung Bank and its subsidiaries

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

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

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

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

CM Securities: China Merchants Securities Co., Ltd.

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

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

Model Code: Model Code for Securities Transactions by Directors of Listed Issuers

Significant Risk Warning

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

I 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 Centre, 222 Yan'an Road East, Shanghai, China
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 Centre, 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 interim 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 Core Competitiveness

The retail finance business of the Company has a leading position in the industry. It has built systemic advantages through its customers, products, channels and brand, etc., which is growing stronger and bigger. The corporate finance business shows its own features and professional capability. Our transaction banking business maintains obvious competitive advantages while our investment banking business is gaining competitive strength. Various businesses such as bills business, asset management business, custody business and global market business have all achieved healthy development. Guided by the goals of "professionalism, delayering and intensification", the Company has been constantly improving its organisational management system, optimising its operation process and improving its management and operation efficiency. The Company owns a powerful IT team and a leading IT platform, which have enabled us to keep abreast with Internet development, constantly innovate products, services, channels and business model, improve the efficiency and quality of customer services and reduce operating costs. The Company has built the service concept of "We are here, just for you" through long-time practice. The Company has rapidly developed and reasonably deployed its cross-border finance platform, and is therefore able to provide quality cross-border finance services to its customers.

II Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

Operating Results

	January to June 2016	January to June 2015	Changes over the corresponding period of the previous year
	(in millions of RMB)		+/(-)%
Net operating income[1]	**113,394**	104,381	8.63
Profit before tax	**45,495**	43,384	4.87
Net profit attributable to the Bank's shareholders	**35,231**	32,976	6.84

Per Share

	January to June 2016	January to June 2015	Changes over the corresponding period of the previous year
	(RMB)		+/(-)%
Basic earnings attributable to the Bank's shareholders	**1.40**	1.31	6.87
Diluted earnings attributable to the Bank's shareholders	**1.40**	1.31	6.87

Volume Indicators

	30 June 2016	31 December 2015	Changes over the corresponding period of the previous year
	(Expressed in millions of RMB unless otherwise stated)		+/(-)%
Total assets	**5,537,298**	5,474,978	1.14
of which: total loans and advances to customers	**3,026,532**	2,824,286	7.16
Total liabilities	**5,158,110**	5,113,220	0.88
of which: total deposits from customers	**3,692,648**	3,571,698	3.39
Total equity attributable to the Bank's shareholders	**378,177**	360,806	4.81
Net assets per share attributable to the Bank's shareholders (RMB)	**15.00**	14.31	4.82

Note: (1) Net operating income is the sum of net interest income, net fee and commission income, other net income as well as the gains on investment in associates and joint ventures.

2.2 Financial Ratios

	January to June 2016 (%)	January to December 2015 (%) (restated)[5]	January to June 2015 (%) (restated)	Changes over the corresponding period of the previous year +/(-)
Profitability indicators[1]				
Return on average assets (after tax) attributable to the Bank's shareholders	**1.28**	1.13	1.33	Decreased by 0.05 percentage point
Return on average equity (after tax) attributable to the Bank's shareholders	**19.07**	17.09	20.40	Decreased by 1.33 percentage points
Net interest spread	**2.45**	2.60	2.60	Decreased by 0.15 percentage point
Net interest margin	**2.58**	2.76	2.78	Decreased by 0.20 percentage point
As percentage of net operating income				
– Net interest income	**59.51**	68.01	63.76	Decreased by 4.25 percentage points
– Net non-interest income	**40.49**	31.99	36.24	Increased by 4.25 percentage points
Cost-to-income ratio (excluding business tax and surcharges, same as below)	**23.34**	27.55	24.35	Decreased by 1.01 percentage points

	30 June 2016 (%)	31 December 2015 (%)	30 June 2015 (%)	Changes over the end of the previous year +/(-)
Asset quality indicators				
Non-performing loan ratio	**1.83**	1.68	1.50	Increased by 0.15 percentage point
Allowance coverage ratio of non-performing loans[2]	**189.11**	178.95	204.17	Increased by 10.16 percentage points
Allowance ratio of loans[3]	**3.45**	3.00	3.06	Increased by 0.45 percentage point
Capital adequacy indicators under the weighted approach[4]				
Tier 1 capital adequacy ratio	**10.44**	9.93	9.67	Increased by 0.51 percentage point
Capital adequacy ratio	**12.46**	11.91	11.77	Increased by 0.55 percentage point
Equity to total assets	**6.85**	6.61	6.38	Increased by 0.24 percentage point

Notes: (1) The indicators were calculated on an annualised basis.

(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) As at 30 June 2016, calculated in accordance with the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by CBRC on 7 June 2012, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio were 13.90% and 12.09%, respectively, up by 1.44 percentage points and 1.65 percentage points, respectively, as compared with those calculated by using the weighted approach.

(5) From 2016, the Group reclassified the income from precious metal leasing from net non-interest income to net interest income, as such, financial indicators relating to net interest income and net non-interest income have been restated.

III Report of the Board of Directors

3.1 Analysis of Overall Operation

In the first half of 2016, under complicated domestic and overseas situations, the Group kept its strategic determination, accelerated the pace of strategic transformation and enjoyed a sound momentum of overall development, which were reflected mainly in the following aspects:

Profits improved steadily. In the first half of 2016, the Group accomplished a net profit attributable to shareholders of the Bank of RMB35.231 billion, representing an increase of 6.84% as compared with the corresponding period of the previous year. The Group realised a net interest income of RMB67.477 billion and net non-interest income of RMB45.917 billion, representing a year-on-year increase of 1.39% and 21.37%, respectively. The annualised return on average asset (ROAA) attributable to shareholders of the Bank and the return on average equity (ROAE) attributable to shareholders of the Bank were 1.28% and 19.07%, respectively, decreasing by 0.05 percentage point and 1.33 percentage points from the corresponding period of 2015, respectively.

The scale of assets and liabilities expanded modestly. As at the end of June 2016, the Group's total assets amounted to RMB5,537.298 billion, representing an increase of 1.14%, as compared with the end of the previous year. The total loans and advances to customers amounted to RMB3,026.532 billion, representing an increase of 7.16% as compared with the end of the previous year. The total deposits from customers amounted to RMB3,692.648 billion, representing an increase of 3.39% as compared with the end of the previous year.

The non-performing loans increased while the allowance coverage ratio remained stable. As at the end of June 2016, the Group had a balance of non-performing loans of RMB55.256 billion, representing an increase of 16.55% as compared with the end of the previous year. The non-performing loan ratio was 1.83%, up by 0.15 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 189.11%, representing an increase of 10.16 percentage points as compared with the end of the previous year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

	January to June 2016	January to June 2015 (restated)
	(in millions of RMB)	
Net interest income	**67,477**	66,550
Net fee and commission income	**37,779**	30,747
Other net income	**7,986**	6,950
Operating expenses	**(31,596)**	(31,680)
Provision for insurance claims	**(133)**	(146)
Share of profits of associates	**–**	2
Share of profits of joint ventures	**152**	132
Impairment losses on assets	**(36,170)**	(29,171)
Profit before tax	**45,495**	43,384
Income tax	**(10,163)**	(10,215)
Net profit	**35,332**	33,169
Net profit attributable to shareholders of the Bank	**35,231**	32,976

From January to June 2016, the Group realised a profit before tax of RMB45.495 billion, representing an increase of 4.87% as compared with the corresponding period of the previous year. The effective income tax rate was 22.34%, representing a decrease of 1.21 percentage points as compared with the corresponding period of the previous year.

3.2.2 Net operating income

From January to June 2016, the net operating income of the Group was RMB113.394 billion, representing an increase of 8.63% as compared with the corresponding period of the previous year. The net interest income accounted for 59.51% of the total net operating income, representing a decrease of 4.25 percentage points as compared with the corresponding period of the previous year; the net non-interest income accounted for 40.49% of the total net operating income, representing an increase of 4.25 percentage points as compared with the corresponding period of the previous year.

The following table sets out the composition of the net operating income of the Group in the corresponding period of the past 3 years.

	January to June 2016 (%)	January to June 2015 (%) (restated)	January to June 2014 (%)
Net interest income	**59.51**	63.76	66.47
Net fee and commission income	**33.32**	29.45	25.31
Other net income	**7.04**	6.66	8.11
Share of profits of associates and joint ventures	**0.13**	0.13	0.11
Total	**100.00**	100.00	100.00

3.2.3 Net interest income

From January to June 2016, the Group's net interest income amounted to RMB67.477 billion, representing an increase of 1.39% as compared with the corresponding period of the previous year.

The following table sets out the average balances of assets and liabilities, interest income/interest expense, and annualised average yield/cost of the Group during the period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	January to June 2016			January to December 2015			January to June 2015		
	Average balance	**Interest income**	**Annualised average yield (%)**	Average balance (restated)	Interest income (restated)	Average yield (%)	Average balance (restated)	Interest income (restated)	Annualised average yield (%)
	(in millions of RMB, except for percentages)								
Interest-earning assets									
Loans and advances to customers	**2,945,701**	**76,276**	**5.21**	2,706,114	160,973	5.95	2,634,379	81,404	6.23
Investments	**1,331,646**	**23,577**	**3.56**	1,174,151	48,175	4.10	1,069,862	23,249	4.38
Balances with the central bank	**564,214**	**4,059**	**1.45**	604,403	8,598	1.42	599,397	4,333	1.46
Placements with banks and other financial institutions	**416,937**	**4,945**	**2.39**	498,585	18,230	3.66	523,934	10,073	3.88
Total	**5,258,498**	**108,857**	**4.16**	4,983,253	235,976	4.74	4,827,572	119,059	4.97

	January to June 2016			January to December 2015			January to June 2015		
	Average balance	Interest expense	Annualised average cost (%)	Average balance (restated)	Interest expense (restated)	Average cost (%)	Average balance (restated)	Interest expense (restated)	Annualised average cost (%)
				(in millions of RMB, except for percentages)					
Interest-bearing liabilities									
Deposits from customers	**3,525,154**	**23,561**	**1.34**	3,350,298	60,448	1.80	3,262,174	32,176	1.99
Placements from banks and other financial institutions	**935,780**	**11,387**	**2.45**	1,054,501	29,736	2.82	1,023,094	16,636	3.28
Issued debts	**310,518**	**5,041**	**3.26**	171,336	7,150	4.17	149,158	3,259	4.41
Borrowings from the central bank	**89,715**	**1,391**	**3.12**	30,612	1,056	3.45	24,890	438	3.55
Total	**4,861,167**	**41,380**	**1.71**	4,606,747	98,390	2.14	4,459,316	52,509	2.37
Net interest income	**/**	**67,477**	**/**	/	137,586	/	/	66,550	/
Net interest spread	**/**	**/**	**2.45**	/	/	2.60	/	/	2.60
Net interest margin	**/**	**/**	**2.58**	/	/	2.76	/	/	2.78

From January to June 2016, given that the impact of the interest rate cuts announced in 2015 was fully reflected in the re-pricing of the Group's assets and liabilities, net interest spread of the Group was 2.45%, down by 15 basis points as compared with the first half of 2015. The average yield of interest-earning assets was 4.16%, down by 81 basis points as compared with the first half of 2015 while the average cost of interest-bearing liabilities was 1.71%, down by 66 basis points as compared with the first half of 2015.

From January to June 2016, net interest margin of the Group was 2.58%, down by 20 basis points as compared with the first half of 2015.

The following table sets forth, for the period indicated, the breakdown of changes in interest income and interest expenses due to changes in volume and interest rate. Changes in volume are measured by changes in average balances (daily average balance), while changes in interest rate are measured by changes in average interest rate; changes in interest income and expense caused by changes in both volume and interest rate are accounted for as the changes incurred by volume.

	January to June 2016 compared with January to June 2015		
	Increase/(decrease) due to		Net increase
	Volume	Interest rate	(decrease)
	(in millions of RMB)		
Assets			
Loans and advances to customers	**8,234**	**(13,362)**	**(5,128)**
Investments	**4,690**	**(4,362)**	**328**
Balances with the central bank	**(244)**	**(30)**	**(274)**
Placements with banks and other financial institutions	**(1,246)**	**(3,882)**	**(5,128)**
Changes in interest income	**11,434**	**(21,636)**	**(10,202)**
Liabilities			
Deposits from customers	**1,929**	**(10,544)**	**(8,615)**
Placements from banks and other financial institutions	**(1,026)**	**(4,223)**	**(5,249)**
Issued debts	**2,635**	**(853)**	**1,782**
Borrowings from the central bank	**1,006**	**(53)**	**953**
Changes in interest expense	**4,544**	**(15,673)**	**(11,129)**
Changes in net interest income	**6,890**	**(5,963)**	**927**

The following table sets out the average balances of assets and liabilities, interest income/interest expense and annualised average yield/cost of the Group during the period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of daily balances.

	January to March 2016			April to June 2016		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, except for percentages)					
Interest-earning assets						
Loans and advances to customers	**2,923,579**	**39,297**	**5.41**	**2,967,823**	**36,979**	**5.01**
Investments	**1,359,744**	**12,116**	**3.58**	**1,303,547**	**11,461**	**3.54**
Balances with the central bank	**579,718**	**2,059**	**1.43**	**548,710**	**2,000**	**1.47**
Placements with banks and other financial institutions	**399,883**	**2,409**	**2.42**	**433,990**	**2,536**	**2.35**
Total	**5,262,924**	**55,881**	**4.27**	**5,254,070**	**52,976**	**4.06**

	January to March 2016			April to June 2016		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
	(in millions of RMB, except for percentages)					
Interest-bearing liabilities						
Deposits from customers	**3,487,161**	**12,097**	**1.40**	**3,563,147**	**11,464**	**1.29**
Placements from banks and other financial institutions	**987,694**	**6,064**	**2.47**	**883,866**	**5,323**	**2.42**
Issued debts	**317,303**	**2,708**	**3.43**	**303,733**	**2,333**	**3.09**
Borrowings from the central bank	**90,243**	**706**	**3.15**	**89,187**	**685**	**3.09**
Total	**4,882,401**	**21,575**	**1.78**	**4,839,933**	**19,805**	**1.65**
Net interest income	/	**34,306**	/	/	**33,171**	/
Net interest spread	/	/	**2.49**	/	/	**2.41**
Net interest margin	/	/	**2.62**	/	/	**2.54**

In the second quarter of 2016, due to the impact of change from business tax to value-added tax with price and tax separated, a decrease in market demand for corporate loans, a decline in the pricing of new loans and other factors on interest income, net interest spread of the Group was 2.41%, down by 8 basis points as compared with the first quarter of 2016. The average yield of the interest-earning assets was 4.06%, down by 21 basis points as compared with the first quarter of 2016 while the average cost of interest-bearing liabilities was 1.65%, down by 13 basis points as compared with the first quarter of 2016.

In the second quarter of 2016, net interest margin of the Group was 2.54%, down by 8 basis points as compared with the first quarter of 2016.

3.2.4 Interest income

From January to June 2016, the Group recorded an interest income of RMB108.857 billion, a decrease of 8.57% as compared with the corresponding period of the previous year, mainly due to the re-pricing of interest-earning assets upon the interest rate cuts in 2015, the impact of change from business tax to value-added tax with price and tax separated after May 2016 and other factors, leading to a decrease in the average yield of interest-earning assets. Interest income from loans and advances to customers continued to constitute the biggest part of interest income of the Group.

Interest income from loans and advances to customers

From January to June 2016, the interest income from loans and advances to customers of the Group was RMB76.276 billion, representing a decrease of 6.30% as compared with the corresponding period of the previous year.

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

	January to June 2016			January to June 2015		
	Average balance	**Interest income**	**Annualised average yield (%)**	Average balance	Interest income (restated)	Annualised average yield (%)
	(in millions of RMB, except for percentages)					
Corporate loans	**1,503,021**	**33,801**	**4.52**	1,506,982	41,469	5.55
Retail loans	**1,283,310**	**40,057**	**6.28**	1,028,466	37,579	7.37
Discounted bills	**159,370**	**2,418**	**3.05**	98,931	2,356	4.80
Loans and advances to customers	**2,945,701**	**76,276**	**5.21**	2,634,379	81,404	6.23

From January to June 2016, regarding the terms of loans and advances to customers of the Company, the average balance of short-term loans was RMB1,365.747 billion, with the interest income amounting to RMB34.529 billion, and the average yield reaching 5.08%; the average balance of medium to long-term loans was RMB1,350.092 billion, with the interest income amounting to RMB37.748 billion, and the average yield reaching 5.62%.

3.2.5 Interest expense

From January to June 2016, the interest expense of the Group was RMB41.380 billion, a decrease of 21.19% as compared with the corresponding period of the previous year, which was primarily attributable to the re-pricing of interest-bearing liabilities and an increase in the proportion of low-cost demand deposits upon the interest rate cuts in 2015, leading to a decrease in the average cost of interest-bearing liabilities.

Interest expense on deposits from customers

From January to June 2016, the Group's interest expense on deposits from customers was RMB23.561 billion, down by 26.77% as compared with the corresponding period of the previous year, which was primarily attributable to the decrease in average cost of deposits from customers as compared with the corresponding period of the previous year.

The following table sets forth, for the periods indicated, the average balance, the interest expense and the annualised average cost for deposits from corporate and retail customers of the Group.

	January to June 2016			January to June 2015		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
	(in millions of RMB, except for percentages)					
Deposits from corporate customers						
Demand	**1,233,410**	**4,034**	**0.66**	947,508	3,143	0.67
Time	**1,100,738**	**13,835**	**2.53**	1,232,761	21,297	3.48
Subtotal	**2,334,148**	**17,869**	**1.54**	2,180,269	24,440	2.26
Deposits from retail customers						
Demand	**843,158**	**1,535**	**0.37**	660,591	1,429	0.44
Time	**347,848**	**4,157**	**2.40**	421,314	6,307	3.02
Subtotal	**1,191,006**	**5,692**	**0.96**	1,081,905	7,736	1.44
Total deposits from customers	**3,525,154**	**23,561**	**1.34**	3,262,174	32,176	1.99

3.2.6 Net non-interest income

From January to June 2016, the Group recorded a net non-interest income of RMB45.917 billion, representing an increase of 21.37% as compared with the corresponding period of the previous year. Specifically, the net non-interest income from retail finance amounted to RMB19.961 billion, an increase of 23.97% over the corresponding period of the previous year, accounting for 43.47% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB22.738 billion, an increase of 23.51% over the corresponding period of the previous year, accounting for 49.52% of the Group's net non-interest income. The net non-interest income from other businesses amounted to RMB3.218 billion, a decrease of 3.04% over the corresponding period of the previous year, accounting for 7.01% 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.

	January to June 2016	January to June 2015 (restated)
	(in millions of RMB)	
Fee and commission income	**39,991**	32,699
Less: Fee and commission expense	**(2,212)**	(1,952)
Net fee and commission income	**37,779**	30,747
Other net non-interest income	**8,138**	7,084
Total net non-interest income	**45,917**	37,831

3.2.7 Net fee and commission income

From January to June of 2016, net fee and commission income of the Group amounted to RMB37.779 billion, representing an increase of 22.87% as compared with that for the corresponding period of the previous year, which was primarily attributable to the increase in the commissions from custody and other trustee businesses and settlement and clearing fees.

The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

	January to June 2016	January to June 2015 (restated)
	(in millions of RMB)	
Fee and commission income	**39,991**	32,699
Bank card fees	**4,798**	4,492
Settlement and clearing fees	**3,366**	1,980
Agency services fees	**9,676**	8,791
Commissions from credit commitment and loan business	**2,363**	2,565
Commissions from custody and other trustee businesses	**15,991**	10,552
Others	**3,797**	4,319
Fee and commission expense	**(2,212)**	(1,952)
Net fee and commission income	**37,779**	30,747

Bank card fees increased by RMB306 million or 6.81% as compared with those for the corresponding period of the previous year, which was primarily attributable to the increase in POS income.

Settlement and clearing fees increased by RMB1.386 billion or 70.00% as compared with those for the corresponding period of the previous year, which was primarily attributable to the increase in the income of e-payment.

Agency services fees increased by RMB885 million or 10.07% as compared with those for the corresponding period of the previous year, which was primarily attributable to the increase in the fees from agency distribution of insurance policies.

Commissions from credit commitment and loan business decreased by RMB202 million or 7.88% as compared with those for the corresponding period of the previous year, which was primarily attributable to the decrease in the income of domestic letter of credit.

Commissions from custody and other trustee businesses increased by RMB5.439 billion or 51.54% as compared with those for the corresponding period of the previous year, which was primarily attributable to the rapid growth in the income from wealth management business. The income from entrusted wealth management amounted to RMB9.908 billion, representing an increase of RMB5.038 billion as compared with that for the corresponding period of the previous year.

Other fee and commission income decreased by RMB522 million or 12.09% as compared with that for the corresponding period of the previous year, which was primarily attributable to the decrease in the income from financial advisory business.

3.2.8 Other net income

From January to June of 2016, other net income of the Group amounted to RMB7.986 billion, representing an increase of 14.91% as compared with that for the corresponding period of the previous year.

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

	January to June of 2016	January to June of 2015 (restated)
	(in millions of RMB)	
Net gains/(losses) from fair value changes		
Financial instruments designated at fair value through profit or loss	**(1,000)**	(60)
Financial instruments held for trading and derivatives	**(1,917)**	432
Precious metal	**662**	(175)
Net gains/(losses) on investments		
Financial instruments designated at fair value through profit or loss	**1,113**	1,027
Available-for-sale financial assets	**790**	451
Bills spread income	**4,311**	4,331
Physical precious metal	**1,886**	(63)
Others	**31**	122
Net gains on foreign exchange	**939**	324
Other operating income		
Income from operating leases	**423**	194
Insurance operating income	**407**	234
Others	**341**	133
Other net income in total	**7,986**	6,950

3.2.9 Operating expenses

From January to June of 2016, operating expenses of the Group stood at RMB31.596 billion, representing a decrease of 0.27% as compared with that for the corresponding period of the previous year, which was lower than the growth of net operating income for the same period. The cost-to-income ratio was 23.34%, representing a decrease of 1.01 percentage points as compared with that for the corresponding period of the previous year.

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

	January to June of 2016	January to June of 2015
	(in millions of RMB)	
Staff costs	**16,359**	15,912
Turnover tax and surcharges	**5,133**	6,266
Depreciation expenses	**2,083**	1,943
Rental expenses	**2,002**	1,861
Other general and administrative expenses	**6,019**	5,698
Total operating expenses	**31,596**	31,680

3.2.10 Impairment losses on assets

From January to June of 2016, impairment losses on assets of the Group were RMB36.170 billion, representing an increase of 23.99% as compared with those for the corresponding period of the previous year.

The following table sets forth, for the periods indicated, the principal components of impairment losses on the assets of the Group.

	January to June 2016	January to June 2015
	(in millions of RMB)	
Assets impairment charged/(released) on		
Loans and advances to customers	**35,207**	29,026
Balances and placements with banks and other financial institutions	**(9)**	(10)
Investments		
– Available-for-sale financial assets	**35**	15
– Held-to-maturity investments	**(10)**	(1)
– Debt securities classified as receivables	**727**	63
Other assets	**220**	78
Total impairment losses on assets	**36,170**	29,171

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In the first half of 2016, impairment losses on loans were RMB35.207 billion, representing an increase of 21.29% as compared with those for the corresponding period of the previous year, which was mainly due to the increased provision for deteriorated assets and the additional credit risk provision associated with high-risk areas such as overcapacity industries amidst economic downturn. For details of the provision for loan impairment losses, please refer to the section headed "Analysis of Loan Quality" in this chapter.

3.3 Analysis of Balance Sheet

3.3.1 Assets

As at 30 June 2016, total assets of the Group amounted to RMB5,537.298 billion, representing an increase of 1.14% as compared with those at the end of 2015.

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

	30 June 2016		31 December 2015	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, except for percentages)			
Total loans and advances to customers	**3,026,532**	**54.66**	2,824,286	51.59
Provision for impairment losses on loans	**(104,496)**	**(1.89)**	(84,842)	(1.55)
Net loans and advances to customers	**2,922,036**	**52.77**	2,739,444	50.04
Investments	**1,404,713**	**25.37**	1,438,017	26.27
Cash, precious metal and balances with the central bank	**580,607**	**10.49**	600,441	10.97
Placements with banks and other financial institutions	**123,551**	**2.23**	63,779	1.16
Inter-bank lending and financial assets held under resale agreements	**366,274**	**6.61**	529,617	9.67
Interest receivable	**26,328**	**0.48**	24,934	0.46
Investment in associates and joint ventures	**2,894**	**0.05**	2,786	0.05
Fixed assets	**31,783**	**0.58**	31,835	0.58
Intangible assets	**3,551**	**0.06**	3,595	0.07
Goodwill	**9,954**	**0.18**	9,954	0.18
Investment properties	**1,686**	**0.03**	1,708	0.03
Deferred tax assets	**24,504**	**0.44**	16,020	0.29
Other assets	**39,417**	**0.71**	12,848	0.23
Total assets	**5,537,298**	**100.00**	5,474,978	100.00

3.3.1.1 *Loans and advances to customers*

As at 30 June 2016, total loans and advances to customers of the Group amounted to RMB3,026.532 billion, representing an increase of 7.16% over the end of the previous year; total loans and advances to customers accounted for 54.66% of the total assets, representing an increase of 3.07 percentage points as compared with that at the end of the previous year.

The distribution of loans classified by product type

The following table sets forth, as at the dates indicated, the loans and advances to customers of the Group by product type.

	30 June 2016		31 December 2015	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Corporate loans	**1,490,792**	**49.26**	1,507,770	53.39
Discounted bills	**183,081**	**6.05**	89,815	3.18
Retail loans	**1,352,659**	**44.69**	1,226,701	43.43
Total loans and advances to customers	**3,026,532**	**100.00**	2,824,286	100.00

Corporate loans

As at 30 June 2016, the Group's total corporate loans amounted to RMB1,490.792 billion, representing a decrease of 1.13% as compared with that at the end of the previous year. Total corporate loans accounted for 49.26% of total loans and advances to customers, representing a decrease of 4.13 percentage points as compared with that at the end of the previous year. In the first half of 2016, affected by the downturn in macro economy, the Group continued to grant corporate loans to provide financial support to strategic customers and quality credit projects on the premise of effective control over credit risks, adapted to the economic structural adjustment and further optimised the corporate loan structure.

Discounted bills

As at 30 June 2016, discounted bills amounted to RMB183.081 billion, representing an increase of 103.84% as compared with the end of the previous year. Based on the timeline of granting loans, the Group made flexible adjustments to the scale of bills financing and took various measures including optimisation of structure, centralisation of operation, acceleration of circulation and profit through volume to increase the overall return on bill assets.

Retail loans

As at 30 June 2016, total retail loans amounted to RMB1,352.659 billion, representing an increase of 10.27% as compared with that at the end of the previous year. Total retail loans accounted for 44.69% of total loans and advances to customers, up by 1.26 percentage points as compared with that at the end of the previous year. During the reporting period, the Group continued the steady increase of retail loans managed to meet market demand while maintaining risk control, further increased the granting of residential mortgage, recorded steady increase in credit card loans, and let retail credit play a positive role in boosting the implementation of the transformation strategy of "One Body with Two Wings" effectively.

3.3.1.2 *Investments*

Investments

Investments of the Group were composed of listed and unlisted financial instruments denominated in Renminbi and foreign currencies, including financial assets designated at fair value through profit or loss, derivative financial assets, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

The following table sets forth the components of investment portfolios of the Group according to accounting classification.

	30 June 2016		31 December 2015	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Financial assets held for trading	**42,765**	**3.04**	50,809	3.53
Financial assets designated at fair value through profit or loss	**10,087**	**0.72**	8,272	0.57
Derivative financial assets	**18,051**	**1.28**	10,176	0.71
Available-for-sale financial assets	**339,927**	**24.20**	299,559	20.83
Held-to-maturity investments	**435,829**	**31.03**	353,137	24.56
Debt securities classified as receivables	**558,054**	**39.73**	716,064	49.80
Total investments	**1,404,713**	**100.00**	1,438,017	100.00

Financial assets held for trading

As at 30 June 2016, the net value of financial assets held for trading of the Group was RMB42.765 billion, representing a decrease of 15.83% as compared with that at the end of the previous year. Such investments were made mainly to seize the opportunities of transactions in the bond market.

In the first half of 2016, the macro-economy saw modest rebound driven by real estate and infrastructural investments and underwent weak recovery stimulated by the positive fiscal policies, demonstrating a "L-shaped" growth trend as a whole. As regards inflation, although CPI rose slightly due to weather conditions, the rebound in overall inflation was curbed by continuous negative PPI growth. In the first half of the year, influenced by the periodic recovery in economic and financial data, coupled with the impact of the change from business tax to value-added tax and the adoption of macro prudential assessment (MPA) system, we saw more drastic fluctuations in the bond market. The yield of interest rate bonds showed a range-bound fluctuation which went upward first and then ducked downward, while the yield of credit bonds continued to climb up with an evident expansion in credit spread due to the frequent occurrence of default events. In the first half of 2016, the central bank announced deposit reserve ratio cut for only once, and instead exerted medium-term lending facilities and open market operation more frequently, thus achieving stable market liquidity. Based on its intensified market research, the Group adopted a differentiated transaction strategy in line with market trend. Given that interest rate bonds have a merit in both tradability and tendency, the Group maintained a high level of investments in interest rate bonds, and vigorously conducted range trading operation by leveraging on market fluctuations. However, under the backdrop of gradually heightened credit risk, the Group significantly reduced its investments in existing and new credit bonds in a timely manner, thus generating considerable income from such trading activities while avoiding risk exposure.

The following table sets forth the components of the portfolio of the financial assets held for trading of the Group.

	30 June 2016	31 December 2015
	(in millions of RMB)	
Bonds issued by the PRC government	**25,907**	17,543
Bonds issued by policy banks	**5,750**	9,622
Bonds issued by commercial banks and other financial institutions	**3,542**	5,860
Others(Note)	**7,566**	17,784
Total financial assets held for trading	**42,765**	50,809

Note: including other bonds, equity investments, fund investments and long positions in precious metal contracts.

Financial assets designated at fair value through profit or loss

The following table sets forth the components of the portfolio of financial assets designated at fair value through profit or loss of the Group.

	30 June 2016	31 December 2015
	(in millions of RMB)	
Bonds issued by the PRC government	**304**	304
Bonds issued by policy banks	**4,080**	3,874
Bonds issued by commercial banks and other financial institutions	**1,929**	655
Other bonds	**3,774**	3,439
Total financial assets designated at fair value through profit or loss	**10,087**	8,272

Available-for-sale financial assets

As at 30 June 2016, the net value of available-for-sale financial assets of the Group was RMB339.927 billion, representing an increase of 13.48% as compared with that at the end of the previous year. This category of investments was made mainly to improve operation performance.

In the first half of 2016, in order to balance economic growth and structural transformation, the central bank continued to implement the prudent monetary policies. Except for one deposit reserve ratio cut, the central bank adjusted market liquidity and guided the movement of interest rates mainly through various policy tools, such as middle-term lending facilities, collateral-replenished loans and open market operation, thus maintaining the inter-bank market liquidity at a relatively adequate level as a whole. In response to the market trends, the Group took opportunities to increase its investments primarily in interest rate bonds and credit bonds with high ratings, and moderately extended bond duration and balanced the profits of risk portfolios, thus optimising the structure of assets and liabilities.

The following table sets forth the components of the portfolio of the available-for-sale financial assets of the Group.

	30 June 2016	31 December 2015
	(in millions of RMB)	
Bonds issued by the PRC government	**123,022**	94,429
Bonds issued by the People's Bank of China (the "PBOC")	**95**	94
Bonds issued by policy banks	**78,550**	68,822
Bonds issued by commercial banks and other financial institutions	**63,552**	66,235
Other bonds	**49,806**	66,728
Equity investments	**2,834**	2,906
Fund investments	**22,782**	1,012
Total available-for-sale financial assets	**340,641**	300,226
Less: Impairment allowances	**(714)**	(667)
Net available-for-sale financial assets	**339,927**	299,559

Held-to-maturity investments

As at 30 June 2016, the net value of held-to-maturity investments of the Group was RMB435.829 billion, representing an increase of 23.42% as compared with that at the end of the previous year. Held-to-maturity investments are 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 account and liquidity risk management, while taking into account benefit and risk. Given that the whole market fluctuated downward in the first half of the year, the Group moderately increased its investment in medium to long term bonds bearing fixed interest rates, and seized market opportunities to generate interest income by the portfolio of floating rate bonds and interest rate swap, leading to a rapid growth in such category of investments. The held-to-maturity investments of the Group were made mainly in the bonds issued by the PRC government, policy banks and local governments.

The following table sets forth the components of the portfolio of the held-to-maturity investments of the Group.

	30 June 2016	31 December 2015
	(in millions of RMB)	
Bonds issued by the PRC government	**220,430**	171,028
Bonds issued by policy banks	**191,587**	165,890
Bonds issued by commercial banks and other financial institutions	**21,458**	14,214
Other bonds	**2,440**	2,100
Total held-to-maturity investments	**435,915**	353,232
Less: Impairment allowances	**(86)**	(95)
Net held-to-maturity investments	**435,829**	353,137

Debt securities classified as receivables

Debt securities classified as receivables are unlisted PRC certificated bonds and other investment in debt securities held by the Group, which are not publicly quoted in China or overseas. As at 30 June 2016, the Group's net debt securities classified as receivables amounted to RMB558.054 billion, representing a decrease of 22.07% as compared with the end of the previous year, which was mainly due to a decrease in investment in non-standard debts. Please refer to Section 3.9.1 of this report for details of the investment in non-standard debt securities of the Company.

The following table sets forth the composition of the Group's debt securities classified as receivables.

	30 June 2016	31 December 2015
	(in millions of RMB)	
Investment in standard debt securities		
Bonds issued by the PRC government	**735**	747
Bonds issued by commercial banks and other financial institutions	**10,651**	11,154
Other bonds	**19,702**	20,389
Investment in non-standard debt securities		
Credit		
– Trust beneficiary rights	**76,763**	78,067
– Broker asset management schemes	**81,707**	101,702
– Fund asset management schemes and others	**50,149**	58,615
Non-credit		
– Insurance asset management schemes	**11,632**	48,198
– Broker asset management schemes	**160,485**	143,351
– Fund asset management schemes and others	**147,975**	254,858
Total debt securities classified as receivables	**559,799**	717,081
Less: Provision for impairment losses	**(1,745)**	(1,017)
Net debt securities classified as receivables	**558,054**	716,064

Carrying value and market value

All financial assets designated at fair value through profit or loss and available-for-sale investments were measured at fair value. Due to the lack of an active trading market for investment receivables in the Group's investment portfolio, the Group did not measure them at fair value.

The following table sets forth, as at the dates indicated, the carrying value and market value of the held-to-maturity listed investments in the investment portfolio of the Group.

	30 June 2016		31 December 2015	
	Carrying value	**Market/ fair value**	Carrying value	Market/ fair value
	(in millions of RMB)			
Held-to-maturity listed investments	**435,746**	**453,427**	352,615	372,158

Analysis on investments in foreign currency bonds

As at 30 June 2016, the Group had a balance of investments in foreign currency bonds of USD11.639 billion, among which USD7.087 billion was held by the Company and USD4.552 billion was held by Wing Lung Group.

As at 30 June 2016, the foreign currency bonds invested by the Company were categorised by their issuers as follows: 56.62% of the foreign currency bonds were issued by the PRC government and Chinese companies; 7.53% by overseas governments and institutions; 22.49% by overseas financial institutions and 13.36% by overseas non-financial companies. The Company has made a provision for impairment losses of USD92 million for its investments in foreign currency bonds, and the floating valuation gains of the investment in foreign currency bonds was USD78 million.

Companies in which the Company holds controlling interests and other Investee companies

Shareholdings in non-listed financial companies

Name of companies	Initial Investment ('000)	Shareholding percentage at beginning of period (%)	Shareholding percentage at end of period (%)	Carrying value at end of period ('000)	Profits/(losses) for the reporting period (1) ('000)	Change in owners' equity for the reporting period ('000)	Origination of shares
Wing Lung Bank Limited	32,081,937	100.00	100.00	30,313,858	1,434,084	1,582,560	Equity investment
CMB International Capital Holdings Corporation Limited	3,487,585	100.00	100.00	3,487,585	103,302	3,361,274	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	6,000,000	100.00	100.00	6,000,000	898,166	841,751	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	708,193	55.00	55.00	882,274	173,799	118,438	Equity investment
CIGNA & CMB Life Insurance Co., Ltd.	646,443	50.00	50.00	1,416,258	85,726	24,841	Equity investment
Taizhou Bank Co., Ltd.	306,671	10.00	10.00	345,708	120,600	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.75	3.75	155,000	6,500	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2.10	HK$8,400	HK$1,250	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	3.77	3.77	149,700	–	–	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	13.33	HK$78,750	HK$7,611	HK$(11)	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	20.00	20.00	HK$8,249	HK$447	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	16.67	HK$129,364	HK$8,990	HK$(3,853)	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	21.00	HK$78,698	HK$1,071	HK$68	Equity investment
Professional Liability Underwriting Services Ltd.	HK$810	27.00	27.00	HK$2,839	HK$323	HK$18	Equity investment
Merchants Union Consumer Finance Co., Ltd. (招聯消費金融有限公司)	1,000,000	50.00	50.00	1,081,585	61,915	–	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	50.00	HK$3,000	HK$2,586	HK$(336)	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	0.35	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	8.70	HK$11,254	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	6.00	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	3.00	–	–	–	Equity investment

Note: (1) Profits/(losses) for the reporting period indicate the impact on the consolidated net profits of the Group for the reporting period.

Derivative financial instruments

The major categories and amount of derivative financial instruments held by the Group as at 30 June 2016, are shown in the following table. For details, please refer to Note 37(f) to the financial report "Risk Management – Use of derivatives".

	30 June 2016			31 December 2015		
	Nominal amount	**Fair value**		Nominal amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	(in millions of RMB)					
Interest rate derivatives	**1,042,469**	**590**	**(577)**	1,195,623	839	(538)
Currency derivatives	**1,225,837**	**17,457**	**(16,093)**	1,141,846	9,332	(7,035)
Other derivatives	**46**	**4**	**(4)**	217	5	(2)
Total	**2,268,352**	**18,051**	**(16,674)**	2,337,686	10,176	(7,575)

Since the beginning of 2016, the RMB derivatives market developed rapidly along with the progress of reform in the interest rate and exchange rate regime. The Group actively seized opportunities arising from interest rate fluctuations in the inter-bank market to aggressively increase the proprietary trading in interest rate derivatives such as interest rate swaps, significantly increasing its share in the interest rate derivatives trading market and generating greater income from such trading activities. In the context of the more evident dual-direction fluctuations in the RMB exchange rate, the Group actively seized market opportunities brought about by the fluctuation of RMB foreign exchange swap transactions and option transactions to aggressively increase the proprietary trading in derivatives, expanding its share in the foreign exchange derivatives trading market, and eventually generating considerable income from such trading activities.

3.3.1.3 Goodwill

As at 30 June 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.

3.3.2 Liabilities

As at 30 June 2016, total liabilities of the Group amounted to RMB5,158.110 billion, representing an increase of 0.88% as compared with that at the end of 2015.

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

	30 June 2016		31 December 2015	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from customers	**3,692,648**	**71.59**	3,571,698	69.85
Deposits from banks and other financial institutions	**471,479**	**9.14**	711,561	13.92
Borrowings from the central bank	**70,500**	**1.37**	62,600	1.22
Placements from banks and other financial institutions	**155,671**	**3.02**	178,771	3.50
Financial liabilities designated at fair value through profit or loss	**21,184**	**0.41**	20,227	0.39
Derivative financial liabilities	**16,674**	**0.32**	7,575	0.15
Amounts sold under repurchase agreements	**294,234**	**5.70**	185,652	3.63
Accrued payroll	**8,720**	**0.17**	6,524	0.13
Taxes payable	**15,037**	**0.29**	12,820	0.25
Interest payable	**36,416**	**0.71**	39,073	0.76
Bonds payable	**284,882**	**5.52**	251,507	4.92
Deferred income tax liabilities	**854**	**0.02**	867	0.02
Other liabilities	**89,811**	**1.74**	64,345	1.26
Total liabilities	**5,158,110**	**100.00**	5,113,220	100.00

Deposits from customers

As at 30 June 2016, total deposits from customers of the Group amounted to RMB3,692.648 billion, representing an increase of 3.39% as compared with the end of 2015. Deposits from customers accounted for 71.59% 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.

	30 June 2016		31 December 2015	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from corporate customers				
Demand	**1,424,379**	**38.57**	1,167,467	32.69
Time	**1,067,371**	**28.91**	1,194,064	33.43
Subtotal	**2,491,750**	**67.48**	2,361,531	66.12
Deposits from retail customers				
Demand	**875,340**	**23.70**	835,062	23.38
Time	**325,558**	**8.82**	375,105	10.50
Subtotal	**1,200,898**	**32.52**	1,210,167	33.88
Total deposits from customers	**3,692,648**	**100.00**	3,571,698	100.00

As at 30 June 2016, the percentage of demand deposits to total deposits from customers of the Group was 62.27%, representing an increase of 6.20 percentage points as compared with the end of 2015. Among the figures, the corporate demand deposits accounted for 57.16% of the corporate deposits, representing an increase of 7.72 percentage points as compared with that at the end of 2015, and the retail demand deposits accounted for 72.89% of the retail deposits, representing an increase of 3.89 percentage points as compared with that at the end of 2015.

3.3.3 Shareholders' equity

	30 June 2016	31 December 2015
	(in millions of RMB)	
Share capital	**25,220**	25,220
Capital reserve	**67,523**	67,523
Investment revaluation reserve	**5,270**	6,188
Hedging reserve	**140**	241
Surplus reserve	**34,009**	34,009
Regulatory general reserve	**64,606**	64,679
Retained profits	**181,191**	145,887
Proposed profit appropriations	**–**	17,402
Difference arising from converting financial statements denominated in foreign currency	**218**	(343)
Total equity attributable to shareholders of the Bank	**378,177**	360,806
Minority shareholders' equity	**1,011**	952
Total shareholders' equity	**379,188**	361,758

3.3.4 Market share of deposit and lending businesses

According to the "Statements of Incomes and Expenditures relating to Lendings by Financial Institutions" published by the PBOC in June 2016, the market share and ranking of the Bank among the small- and medium-sized Chinese banks (including national and regional banks) in terms of total deposits and loans as at the end of the reporting period are as follows:

Items	Market share (%)	Ranking
Total deposits expressed in RMB	6.16	2
Total domestic savings deposits expressed in RMB	5.63	1
Total loans expressed in RMB	6.44	1
Total domestic personal consumption loans in RMB	14.85	1

Note: Effective from 2015, the People's Bank of China has no longer separately published the aggregate sum of national small- and medium-sized banks in preparing the "Statements of Incomes and Expenditures Relating to Lendings by Financial Institutions", and the denominator used for calculation of the market share in this report will be extended to all small-and-medium-sized banks (including national and regional banks). As a result of the changes in the denominator, the market share of the Company narrowed as compared with the corresponding period of the previous year. With effect from 2015, the People's Bank of China has implemented a new statistical system for deposits and loans, therefore, the deposits in this report include placements from non-deposit-taking financial institutions and placements from overseas financial institutions, and the loans include placements with non-deposit-taking financial institutions, indicating an expansion in the denominators as compared with previous years.

3.4 Analysis of Loan Quality

During the reporting period, the Group saw a steady growth in the volume of credit assets and a slight increase in non-performing loans. The allowance coverage ratio remained steady, and our risk loss endurance capability improved further. As at 30 June 2016, total loans and advances to customers of the Group were RMB3,026.532 billion, representing an increase of 7.16% as compared with the end of the previous year; the non-performing loan ratio was 1.83%, up by 0.15 percentage point from the end of the previous year; whereas the non-performing loan allowance coverage ratio was 189.11%, representing an increase of 10.16 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.45%, representing an increase of 0.45 percentage point as compared with the end of the previous year.

3.4.1 Distribution of loans by 5-tier loan classification

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

	30 June 2016		31 December 2015	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Normal	**2,896,310**	**95.69**	2,703,082	95.71
Special mention	**74,966**	**2.48**	73,794	2.61
Substandard	**31,531**	**1.04**	31,233	1.11
Doubtful	**17,767**	**0.59**	11,050	0.39
Loss	**5,958**	**0.20**	5,127	0.18
Total loans and advances to customers	**3,026,532**	**100.00**	2,824,286	100.00
Total non-performing loans	**55,256**	**1.83**	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 RMB55.256 billion, representing an increase of 16.55% as compared with the end of the previous year. Specifically, the increase of non-performing loans was mainly due to the contribution of doubtful loans. As at the end of the period, the proportion of doubtful loans increased by 0.20 percentage point to 0.59%. As at the end of the reporting period, the special mention loans amounted to RMB74.966 billion, representing an increase of 1.59% as compared with that at the end of the previous year, and accounting for 2.48% of the total loans, representing a decrease of 0.13 percentage point as compared with that at the end of the previous year.

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

	30 June 2016				31 December 2015			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%) (1)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)
	(in millions of RMB, except for percentages)							
Corporate loans	**1,490,792**	**49.26**	**41,458**	**2.78**	1,507,770	53.39	34,333	2.28
Working capital loans	**771,665**	**25.50**	**23,692**	**3.07**	768,942	27.23	19,220	2.50
Fixed asset loans	**345,477**	**11.41**	**4,228**	**1.22**	370,599	13.12	3,810	1.03
Trade finance	**193,059**	**6.38**	**5,222**	**2.70**	219,706	7.78	3,406	1.55
Others(2)	**180,591**	**5.97**	**8,316**	**4.60**	148,523	5.26	7,897	5.32
Discounted bills(3)	**183,081**	**6.05**	**–**	**–**	89,815	3.18	–	–
Retail loans	**1,352,659**	**44.69**	**13,798**	**1.02**	1,226,701	43.43	13,077	1.07
Micro enterprise loans	**292,191**	**9.65**	**5,219**	**1.79**	310,777	11.00	4,744	1.53
Residential mortgage loans	**614,871**	**20.32**	**2,502**	**0.41**	499,455	17.69	2,258	0.45
Credit card loans	**340,570**	**11.25**	**4,129**	**1.21**	313,244	11.09	4,296	1.37
Other(4)	**105,027**	**3.47**	**1,948**	**1.85**	103,225	3.65	1,779	1.72
Total loans and advances to customers	**3,026,532**	**100.00**	**55,256**	**1.83**	2,824,286	100.00	47,410	1.68

Notes: (1) Represents the percentage of non-performing loans 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 the first half of 2016, the Group steadily developed its retail loan business, adjusted the loan structure, increased residential mortgage loans and credit card loans and moderately slowed down the granting of micro enterprise loans. As a result, the percentage of retail loans increased by 1.26 percentage points to 44.69%. As at the end of the reporting period, the non-performing retail loan ratio was 1.02%, down by 0.05 percentage point as compared with the end of the previous year.

Since 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, the proportion of corporate loans for the reporting period decreased by 4.13 percentage points as compared with the end of the previous year. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.78%, up by 0.50 percentage point as compared with the end of the previous year.

3.4.3 Distribution of loans and non-performing loans by industry

	30 June 2016				31 December 2015			
	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio (%)(1)	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio (%)(1)
	(In millions of RMB, except for percentages)							
Corporate loans	**1,490,792**	**49.26**	**41,458**	**2.78**	1,507,770	53.39	34,333	2.28
Manufacturing	**313,733**	**10.36**	**17,056**	**5.44**	332,147	11.77	15,238	4.59
Wholesale and retail	**243,899**	**8.06**	**10,758**	**4.41**	251,373	8.90	10,279	4.09
Property development	**206,196**	**6.81**	**1,271**	**0.62**	213,080	7.54	1,174	0.55
Transportation, storage and postal services	**173,827**	**5.74**	**1,754**	**1.01**	159,349	5.64	1,387	0.87
Construction	**91,285**	**3.02**	**1,330**	**1.46**	101,270	3.59	772	0.76
Production and supply of electric power, heat, gas and water	**103,340**	**3.41**	**618**	**0.60**	112,337	3.98	78	0.07
Mining	**49,003**	**1.62**	**7,009**	**14.30**	58,308	2.06	3,923	6.73
Leasing and commercial services	**90,117**	**2.98**	**290**	**0.32**	84,240	2.98	186	0.22
Water conservancy, environment and public utilities	**32,243**	**1.07**	**9**	**0.03**	33,531	1.19	125	0.37
Information transmission, software and IT service	**51,651**	**1.71**	**150**	**0.29**	30,101	1.07	134	0.45
Others(2)	**135,498**	**4.48**	**1,213**	**0.90**	132,034	4.67	1,037	0.79
Discounted bills	**183,081**	**6.05**	**–**	**–**	89,815	3.18	–	–
Retail loans	**1,352,659**	**44.69**	**13,798**	**1.02**	1,226,701	43.43	13,077	1.07
Total loans and advances to customers	**3,026,532**	**100.00**	**55,256**	**1.83**	2,824,286	100.00	47,410	1.68

Notes: (1) Represents the percentage of non-performing loans 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 the first half of 2016, the Group supported the development of the real economy, constantly optimised its risk asset portfolio, and gave priority to non-cyclical consumer industries, 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 surplus production capacity, 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 risk, revenue and cost.

During the reporting period, 77% of the increment in non-performing corporate loans was related primarily to three industries, i.e. manufacturing, mining and construction. Thanks to continued structural optimisation of assets, total loans granted to the abovementioned industries were reduced by 7.67%. Among which, loans related to manufacturing decreased by 5.54% from RMB332.147 billion to RMB313.733 billion; loans related to mining decreased by 15.96% from RMB58.308 billion to RMB49.003 billion, and loans related to construction decreased by 9.86% from RMB101.270 billion to RMB91.285 billion.

3.4.4 Distribution of loans and non-performing loans by region

	30 June 2016				31 December 2015			
	Loan balance	Percentage of the total	Non-performing loans	Non-performing loan ratio (%)(1)	Loan balance	Percentage of the total	Non-performing loans	Non-performing loan ratio (%)(1)
	(in millions of RMB, except for percentages)							
Head Office	**414,725**	**13.70**	**4,653**	**1.12**	381,327	13.50	4,790	1.26
Yangtze River Delta	**623,695**	**20.61**	**10,654**	**1.71**	539,925	19.12	10,733	1.99
Bohai Rim	**395,225**	**13.06**	**5,554**	**1.41**	368,137	13.03	4,274	1.16
Pearl River Delta and West Side of Taiwan Strait	**516,752**	**17.07**	**6,696**	**1.30**	463,440	16.41	5,071	1.09
North-east China	**143,193**	**4.73**	**3,126**	**2.18**	140,913	4.99	3,012	2.14
Central China	**306,809**	**10.14**	**8,967**	**2.92**	292,361	10.35	9,956	3.41
Western China	**331,920**	**10.97**	**13,838**	**4.17**	345,113	12.22	8,862	2.57
Overseas	**57,947**	**1.91**	**–**	**–**	57,773	2.05	–	–
Subsidiaries	**236,266**	**7.81**	**1,768**	**0.75**	235,297	8.33	712	0.30
Total loans and advances to customers	**3,026,532**	**100.00**	**55,256**	**1.83**	2,824,286	100.00	47,410	1.68

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

As at 30 June 2016, the regions where the Company incurred a large volume of non-performing loans are Yangtze River Delta, Pearl River Delta and West Side of Taiwan Strait, Central China and Western China, where the non-performing loan ratio of the Company decreased by 0.28 percentage point, increased by 0.21 percentage point, decreased by 0.49 percentage point and increased by 1.60 percentage points, respectively.

Given the difference in economic pattern and customer base of various regions, in the first half of 2016, the Group implemented differentiated supervisory management by category for regional branches. For the risk concentrated regions, the Group selectively raised the credit access standard and dynamically adjusted the credit granting rights, so as to prevent the occurrence of regional systematic risk. As at the end of the reporting period, the percentage of the balance 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. During the reporting period, 63% of the increment in non-performing loans of the Group was related primarily to Western China. Thanks to continued optimisation of the size of assets allocated, total loans granted to the abovementioned regions were reduced by 3.82%. 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 overall increase in the non-performing loan ratio.

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

	30 June 2016				31 December 2015			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)
	(in millions of RMB, except for percentages)							
Credit loans	**724,851**	**23.95**	**8,459**	**1.17**	671,321	23.77	7,999	1.19
Guaranteed loans	**423,848**	**14.00**	**21,096**	**4.98**	444,698	15.75	19,587	4.40
Collateralised loans	**1,331,439**	**44.00**	**20,840**	**1.57**	1,241,633	43.96	16,250	1.31
Pledged loans	**363,313**	**12.00**	**4,861**	**1.34**	376,819	13.34	3,574	0.95
Discounted bills	**183,081**	**6.05**	**–**	**–**	89,815	3.18	–	–
Total loans and advances to customers	**3,026,532**	**100.00**	**55,256**	**1.83**	2,824,286	100.00	47,410	1.68

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

As at the end of the reporting period, collateralised and pledged loans increased by 4.71% as compared with the end of the previous year. Guaranteed loans decreased by 4.69% as compared with the end of the previous year while the credit loans increased by 7.97% as compared with the end of the previous year which was mainly due to the increase of credit card loans.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan balance as at 30 June 2016 (in millions of RMB)	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
A	Wholesale and retail	8,628	2.06	0.28
B	Transportation, storage and postal services	8,400	2.00	0.28
C	Wholesale and retail	6,780	1.62	0.22
D	Information transmission, software and IT services	6,710	1.60	0.22
E	Transportation, storage and postal services	5,484	1.31	0.18
F	Financial industry	5,073	1.21	0.17
G	Information transmission, software and IT services	5,000	1.19	0.16
H	Wholesale and retail	5,000	1.19	0.17
I	Transportation, storage and postal services	4,394	1.05	0.15
J	Production and supply of electric power, heat, gas and water	4,150	0.99	0.14
Total		**59,619**	**14.22**	**1.97**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB8.628 billion, representing 2.06% of the Group's net capital under the advanced approach. The loan balance of the top ten single borrowers totalled RMB59.619 billion, representing 14.22% of the Group's net capital under the advanced approach, 13.69% of the Group's net capital under the weighted approach and 1.97% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

	30 June 2016		31 December 2015	
	Loan amount	Percentage of the total (%)	Loan amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Overdue within 3 months	**30,143**	**1.00**	35,396	1.25
Overdue from 3 months up to 1 year	**31,516**	**1.04**	32,247	1.14
Overdue from 1 year up to 3 years	**19,403**	**0.64**	11,847	0.42
Overdue more than 3 years	**870**	**0.03**	878	0.03
Total overdue loans	**81,932**	**2.71**	80,368	2.84
Total loans and advances to customers	**3,026,532**	**100.00**	2,824,286	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB81.932 billion, up by RMB1.564 billion from the end of the previous year and accounting for 2.71% of its total loans, representing a decrease of 0.13 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 47.72%, guaranteed loans accounted for 33.34%, while credit loans accounted for 18.94% (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 further increased to 1.07 from 1.05 at the end of the previous year.

3.4.8 Restructured loans

	30 June 2016		31 December 2015	
	Loan amount	Percentage of the total (%)	Loan amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Restructured loans(Note)	**6,747**	**0.22**	4,531	0.16
Of which: restructured loans overdue more than 90 days	**4,539**	**0.15**	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 0.22%, representing an increase of 0.06 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the balance of repossessed assets of the Group amounted to RMB1.730 billion. After deduction of allowances for impairment losses of RMB983 million, the net repossessed assets amounted to RMB747 million.

3.4.10 Changes in the allowances for impairment losses on loans

The Group adopted two methods to assess impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was 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 of the Group.

	In the first half of 2016	2015
	(in millions of RMB)	
Balance at the beginning of the period	**84,842**	65,165
Charge for the period	**36,803**	59,486
Release for the period	**(1,596)**	(1,979)
Unwinding of discount on impaired loans (note)	**(583)**	(1,137)
Recovery of loans and advances to customers previously written off	**1,280**	1,464
Write-offs	**(16,403)**	(38,383)
Foreign exchange rate movements	**153**	226
Balance at the end of the period	**104,496**	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 RMB104.496 billion, representing an increase of RMB19.654 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 189.11%, representing an increase of 10.16 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.45%, representing an increase of 0.45 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

As at 30 June 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 13.90% and 12.09%, respectively, representing an increase of 1.44 percentage points and 1.65 percentage points respectively as compared with those under the weighted approach.

The Group	At the end of the reporting period 30 June 2016	At the end of the previous year 31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the advanced approach[1]			
1. Net core Tier 1 capital	**364,943**	347,434	5.04
2. Net Tier 1 capital	**364,956**	347,444	5.04
3. Net capital	**419,393**	403,409	3.96
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,016,300**	3,009,265	0.23
Of which: Credit risk weighted assets	**2,667,321**	2,657,383	0.37
Market risk weighted assets	**34,069**	36,972	(7.85)
Operational risk weighted assets	**314,910**	314,910	–
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	**3,018,072**	3,208,152	(5.92)
6. Core Tier 1 capital adequacy ratio	**12.09%**	10.83%	Increase of 1.26 percentage points
7. Tier 1 capital adequacy ratio	**12.09%**	10.83%	Increase of 1.26 percentage points
8. Capital adequacy ratio	**13.90%**	12.57%	Increase of 1.33 percentage points
Information on leverage ratio[2]			
9. Adjusted balance of on- and off-balance sheet assets	**6,293,110**	6,275,592	Increase of 0.28 percentage point
10. Leverage ratio	**5.80%**	5.54%	Increase of 0.26 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 Co., Ltd. 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 30 June 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 parallel run 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 parallel run period. 2016 is the second year of implementation of parallel run 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 CBRC on 12 February 2015.

The capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 13.47% and 11.66%, respectively, representing an increase of 1.52 percentage points and 1.75 percentage points respectively as compared with those under the weighted approach.

The Company	**At the end of the reporting period 30 June 2016**	At the end of the previous year 31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the advanced approach			
1. Net core Tier 1 capital	**319,987**	307,888	3.93
2. Net Tier 1 capital	**319,987**	307,888	3.93
3. Net capital	**369,727**	360,460	2.57
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**2,744,183**	2,765,712	(0.78)
Of which: Credit risk weighted assets	**2,418,637**	2,436,307	(0.73)
Market risk weighted assets	**27,839**	31,699	(12.18)
Operational risk weighted assets	**297,706**	297,706	–
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	**2,744,183**	2,966,543	(7.50)
6. Core Tier 1 capital adequacy ratio	**11.66%**	10.38%	Increase of 1.28 percentage points
7. Tier 1 capital adequacy ratio	**11.66%**	10.38%	Increase of 1.28 percentage points
8. Capital adequacy ratio	**13.47%**	12.15%	Increase of 1.32 percentage points

As at 30 June 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 12.46% and 10.44% respectively, representing an increase of 0.55 percentage point and 0.51 percentage point, respectively as compared with those at the end of the previous year.

The Group	At the end of the reporting period 30 June 2016	At the end of the previous year 31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the weighted approach (Note)			
1. Net core Tier 1 capital	**364,943**	347,434	5.04
2. Net Tier 1 capital	**364,956**	347,444	5.04
3. Net capital	**435,487**	416,834	4.47
4. Risk-weighted assets	**3,495,509**	3,499,231	(0.11)
5. Core Tier 1 capital adequacy ratio	**10.44%**	9.93%	Increase of 0.51 percentage point
6. Tier 1 capital adequacy ratio	**10.44%**	9.93%	Increase of 0.51 percentage point
7. Capital adequacy ratio	**12.46%**	11.91%	Increase of 0.55 percentage point

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

The capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.95% and 9.91%, respectively, representing an increase of 0.49 percentage point and 0.47 percentage point respectively as compared with those at the end of the previous year.

The Company	At the end of the reporting period 30 June 2016	At the end of the previous year 31 December 2015	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the weighted approach			
1. Net core Tier 1 capital	**319,987**	307,888	3.93
2. Net Tier 1 capital	**319,987**	307,888	3.93
3. Net capital	**385,821**	373,886	3.19
4. Risk-weighted assets	**3,229,457**	3,261,357	(0.98)
5. Core Tier 1 capital adequacy ratio	**9.91%**	9.44%	Increase of 0.47 percentage point
6. Tier 1 capital adequacy ratio	**9.91%**	9.44%	Increase of 0.47 percentage point
7. Capital adequacy ratio	**11.95%**	11.46%	Increase of 0.49 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 foundation IRB approach	Financial institution	655,181	655,181
	Corporate	1,420,760	1,420,760
	Retail	1,595,074	1,595,074
	Of which: Personal housing mortgages	607,415	607,415
	Qualified revolving retail	617,749	617,749
	Other retail	369,909	369,909
Portion not covered by the foundation IRB approach	On-balance sheet	2,393,033	2,689,170
	Off-balance sheet	170,969	178,814
	Counterparty	5,385	7,003

Market risk capital measurement

The Group uses various approaches to calculate its market risk capital. More 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 and the general market risk capital and specific market risk capital of overseas institutions and subsidiaries. As at the end of the first half of 2016, the market risk capital of the Group was RMB2.726 billion, and its risk-weighted assets were RMB34.069 billion. Of which, the market risk capital calculated by the internal model approach was RMB1.963 billion, and the market risk capital calculated by the standardised approach was RMB763 million.

The Group's market risk capital under the internal model approach was calculated by using the market risk value based on 250 days of historical market data, 99% of the confidence coefficient and a holding period of 10 days. The following table sets forth the market risk value indicators of the Group as at the end of the first half of 2016:

Unit: RMB million

No.	Item	Pressure risk value during the reporting period	General risk value during the reporting period
1	Average value	290	298
2	Maximum value	377	419
3	Minimum value	205	208
4	Value at the end of the period	241	312

3.6 Results of Operating Segments

The following results of operating segments are presented by business segments and geographical segments. As business segment information can better reflect the business operations of the Group, the Group chooses business segment information as the primary reporting format. Segment reporting data are principally derived from the multi-dimensional profitability report on the Company's management accounting system.

Business segments

Since 2016, in order to adapt to the synergies of customers and products, the Group started to make decisions, reports and performance results by two business lines of wholesale and retail finance as well as other business segments. The following table summarises the operating results of the business segments of the Group for the periods indicated.

(in millions of RMB, except for percentages)

Item	January to June 2016	January to June 2015 (restated)
	Profit before tax by segment	Profit before tax by segment
Wholesale finance	**28,738**	25,534
Retail finance	**27,416**	19,722
Other businesses	**(10,659)**	(1,872)
Total	**45,495**	**43,384**

During the reporting period, there saw a rise in the percentage of profit from retail finance of the Group. Profit before tax amounted to RMB27.416 billion, up by 39.01% from the corresponding period of the previous year, representing 48.82% of the total profit before tax of business lines, an increase of 5.24 percentage points as compared with the corresponding period of the previous year. At the same time, the cost-to-income ratio of retail finance was 29.32%, a decrease of 2.80 percentage points as compared with that for the corresponding period of 2015.

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 30 June 2016		Total liabilities 30 June 2016		Total profit before tax January to June 2016	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
	(in millions of RMB, except for percentages)					
Head Office	**2,258,987**	**41**	**1,972,531**	**38**	**14,933**	**33**
Yangtze River Delta	**758,281**	**14**	**751,925**	**15**	**8,402**	**18**
Bohai Rim	**540,351**	**10**	**536,082**	**10**	**5,770**	**13**
Pearl River Delta and West Side of Taiwan Strait	**599,426**	**11**	**594,147**	**12**	**7,207**	**16**
North-eastern China	**170,909**	**3**	**169,698**	**3**	**1,628**	**3**
Central China	**352,283**	**6**	**351,291**	**7**	**1,756**	**4**
Western China	**376,332**	**7**	**375,759**	**7**	**1,261**	**3**
Overseas	**142,372**	**2**	**139,802**	**3**	**929**	**2**
Subsidiaries	**338,357**	**6**	**266,875**	**5**	**3,609**	**8**
Total	**5,537,298**	**100**	**5,158,110**	**100**	**45,495**	**100**

	Total assets 31 December 2015		Total liabilities 31 December 2015		Total profit before tax January to June 2015	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, except for percentages)					
Head Office	2,105,486	38	1,808,257	35	11,166	26
Yangtze River Delta	762,902	14	761,795	15	5,827	14
Bohai Rim	511,402	9	503,469	10	6,986	16
Pearl River Delta and West Side of Taiwan Strait	607,634	11	597,665	12	7,755	18
North-eastern China	201,537	4	199,294	4	1,901	4
Central China	385,401	7	382,889	7	2,704	6
Western China	421,469	8	422,455	8	2,729	6
Overseas	142,219	3	140,900	3	977	2
Subsidiaries	336,928	6	296,496	6	3,339	8
Total	5,474,978	100	5,113,220	100	43,384	100

3.7 Others

3.7.1 Balance of off-balance-sheet items that may have a material effect on the financial positions and operating results and the related 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 June 2016, the balance of credit commitments was RMB1,094.449 billion. For details of the contingent liabilities and commitments, please refer to "Contingent liabilities and commitments" in "Notes to the Financial Statements" of this report.

3.7.2 Outstanding overdue debts

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

The contents and data in section 3.8 and below are analysed from the Company's perspective.

3.8 Analysis on Progress of Strategic Transformation

In the first half of 2016, the Company adhered to its strategic focus on "Asset-light Banking", and "One Body with Two Wings", and adopted a prudent and steady approach to achieve sound operation performance, although the macro-economy showed a "L-shaped" growth in its downward momentum, and banking industry had to deal simultaneously with the combined impact of the four headwinds of the Chinese economy, namely the slowdown in economic growth, the painful adjustments of economic structure, the enduring aftermath of the previous economic stimulus policies, and the arduous endeavour in the deepening of reform.

3.8.1 Asset-light banking

In the first half of the year, the Company, with an objective to become "lighter", continued to pursue its strategy of transformation in terms of capital management, structural adjustment of assets and liabilities, optimisation of income structure and expansion of light channels.

"Lighter" capital: as at the end of June 2016, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.95% and 9.91%, respectively, representing an increase of 0.49 percentage point and 0.47 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 24.85%, which was significantly higher than the capital cost.

"Lighter" assets: the weighted risk assets under the weighted approach accounted for 61.32% of our total assets, representing a decrease of 1.30 percentage points as compared with the end of the previous year. Thanks to the structural adjustments, the assets structure was further optimised and the total retail loans accounted for 47.83% of our total loans, with its role as the "ballast" and "stabilizer" intensified. The balance of home mortgages and credit card overdrafts increased by RMB115.7 billion and RMB27.4 billion respectively, as compared with the end of the previous year, accounting for 45.47% and 25.50% of the total retail loans respectively. On the other hand, the Company significantly reduced or withdrew corporate risk assets to make room for high-quality assets. In the first half of the year, risk assets totalled RMB52 billion were reduced or withdrawn: balance of existing loans to customers for the traditional manufacturing industry, wholesale and retail industry went down by 23% and 26% 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 77%, as compared with the end of the previous year; and the balance of loans for the culture, sports and entertainment industries rose by 15% as compared with the end of the previous year. As regard to the exposure of corporate loans, the exposure of corporate loans to customers with a high credit rating accounted for 55.89% of the total, representing an increase of 1.34 percentage points, as compared with the end of the previous year.

"Lighter" liabilities: we optimised the mechanism for pricing of deposits and differentiated authorisation, and compressed high-cost structured deposits by RMB36.8 billion. As at the end of the period, the balance of structured deposits and demand deposits were RMB93.477 billion and RMB2,240.264 billion, respectively. As a result, the proportion of demand deposits increased by 6.13 percentage points to 63.16%.

"Lighter" income structure: in the first half of the year, we deployed a smaller volume of assets to achieve a rapid increase in net operating income: we reported a rapid increase of 8.55% in net operating income, which accounted for 2.05% of the total assets, representing a year-on-year increase of 0.05 percentage point. Of which, net interest income rose by 1.70% year-on-year, net non-interest income rose by 21.20% year-on-year, whose share of the total income increased to 39.23%.

"Lighter" channels: we implemented the strategy of "prioritising the development of mobile phone applications" by establishing "All-in-one Net (一網通)", an online light account payment system to promote the transformation of mobile banking from a transaction-based APP to an operation-based platform, creating a mobile phone-based "O2O" business process and building a new retail-oriented mobile finance platform. In the first half of the year, the number of customers who downloaded our mobile banking application reached 34.09 million and the total number of registered credit card users of CMB Life (掌上生活) reached 25.06 million. We entered into agreements with more than 230 commercial establishments for our "All-in-one Net (一網通)" and payment system, and completed connection with 14 trial-based commercial establishments including Didi Chuxing (滴滴). Cost-to-income ratio dropped to 22.88%.

3.8.2 One Body with Two Wings

As at the end of the previous year, the Company fine-tuned the organisational structure of "One Body with Two Wings", with a view to bringing the "Two Wings" under unified objectives, unified thinking and unified actions for the in-depth and efficient operations of clients. In the first half of the year, both "One Body" and "Two Wings" continued to achieve higher productivity.

"One Body" remained robust as the industry leader. Profit before tax from retail finance amounted to RMB26.957 billion, representing a year-on-year increase of 36.68%; cost-to-income ratio was 28.89%, representing a year-on-year decrease of 3.23 percentage points; net non-interest income from retail finance rose by 22.55% year-on-year, accounting for 37.84% of the 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 460,000 "customers at gold card and Sunflower level and above (雙金客戶)" became our biggest value contributor. The total assets under management (AUM) from our retail customers were RMB5.17 trillion, a record increase of RMB423.7 billion; the amount of demand deposits rose by RMB36.0 billion, accounting for 74.27% of the total. Insurance premium received on commission basis rose by 151.35% year-on-year with an addition of RMB77.1 billion of AUM. Total retail loans amounted to RMB1,334.877 billion, accounting for 47.83% of the Company's total loans and advances to customers; housing loans, credit card overdrafts and other loans grew rapidly, enabling us to achieve a higher yield and effective risk prevention at the same time. In the nomination for "Excellence in Retail Financial Services in Asia Pacific for 2016" organised by The Asian Banker magazine, the Company was awarded the "Best Retail Bank in China" for the seventh time and the "Best Joint Stock Retail Bank in China" for the twelfth time. In addition, the Company once again ranked among the top 10 retail banks in the Asia-Pacific Region.

"Two Wings" grew stronger and became more competitive. As for **corporate finance**, we enhanced connections with our core customers and significantly improved efficiency in expanding our basic client base. In the first half of the year, more than 160,000 customers opened new saving accounts. As for transaction banking, the competitive edge of systematisation took an initial shape. 141,700 new customers began to use cash management service of the Company, and the number of effective core customers in the supply chain and the number of customers from upstream and downstream industries increased by 489 and 2,871 respectively. As for **financial institutions finance**, we 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. The Investment Banking and Financial Markets Group gave a stronger impetus as the turbo engine and strategic spearhead in our strategy of "One Body with Two Wings". Net non-interest income of investment banking rose by 61.36% year-on-year; structural optimisation contributed to further increase in income from the bond underwriting business; a number of major M&A and privatisation projects were successfully implemented; the volume of structured financing business increased significantly. Custody business was brought to a new height, ranking among the top in the industry in terms of size and revenue.

Coordinated efforts were made for "One Body with Two Wings" for common development. The Company pushed forward with coordinated development between "One Body" and "Two Wings" based on its systematic cross-sales guidance standard. In the first half of the year, we recorded a year-on-year increase of 13.20% in the number of newly added companies using our payroll service and a year-on-year increase of 26.80% in the total number of companies using our payroll service; the number of cards issued under our corporate card service, finance card service and civil service card service reached 56,700 in total; we managed pension assets of over RMB140 billion; our diamond-class customers made a referral of 792 corporate customers; we worked hard to tap into potential interbank customers such as policy banks and securities firms, creating RMB750 million in corporate deposits; the Asset Management Department provided 1,032 marketable wealth management products to the retail business line in the amount of RMB3,955.954 billion.

Based on its own advantages and features, the strategy of "Asset-light Banking", and "One Body with Two Wings" was the necessary choice of the Company aiming to weather the economic downturn, seize structural opportunities and enhance its differentiated competitiveness. To summarise our first-half performance, we have come closer to our strategic transformation objective. In the future, we will keep our strategic focus firmly and stay confident of the journey ahead. We'll stay true and work unswervingly to the mission of "building CMB into a bank that thrives for centuries".

3.9 Changes in External Environment and Corresponding Measures

3.9.1 Impact of Changes in Operating Environment and Key Business Concerns

1. Overview of the macroeconomic and financial outlook

In the first half of 2016, the domestic economy generally continued its downward trend, and the "L-shaped" growth trend became increasingly apparent as major economic data showed a short-term stability in the first quarter followed by a downturn in the second quarter. Stable infrastructure investment became a major pillar for overall investments in the first half of the year. Investment in real estates rebounded from the bottom in the first quarter and declined in the second quarter. Curbed by prolonged overcapacity, investment in the manufacturing sector trailed off and added to continuous slowdown in overall investments. The growth in consumption decelerated slightly and remained stable, while the growth in residents' 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. Affected by seasonal factors at the beginning of the year, the food prices became a cushion for commodity prices, especially during the cyclical peak period of pork supply, CPI generally stood at approximately 2%, a relatively high level compared to the previous year. Driven by the rebound in the price of bulk commodities and international oil price, the PPI decline continued to narrow. The number of new employment in urban area and the unemployment rate remained stable as a whole. In order to alleviate the pressure of economic slowdown, the Central Bank continued to implement its loose but prudent monetary policy. Nevertheless, in order to facilitate structural reform on the supply side and leashed by exchange rates, the central bank flexibly utilised various monetary policy tools such as deposit reserve ratio cuts, open market operation, medium-term lending facilities and collateral-replenished loans to reasonably maintain adequate liquidity in the market, which was different from the comprehensive loose pattern of making consecutive cuts in interest rates and deposit reserve ratios in the previous year. In the meantime, the government proactively utilised fiscal policies 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 the first half of 2016, the net interest margin of the Company was 2.63%, representing a decrease of 19 basis points as compared with the previous year, 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.

The structure of assets and liabilities (adjusted for those on demand) of the Company currently shows the characteristics of moderate asset sensitivity. Among which, the products priced on deposits and loans are assets sensitive, while those priced on liberalised interest rates are liabilities sensitive, partly offsetting the total exposure. Based on the re-pricing duration of various products, deposits, loans and bond issuances decreased slightly as a whole as compared with those at the end of the previous year, while bond investments and interbank financing increased as compared with those at the end of the previous year.

Looking forward to the second half of the year, the situation of "asset shortage" will continue to accompany the declining return on interest-earning assets. In addition, the debt cost will become relatively rigid in the context of interest rate liberalisation, and coupled with the impact of the change from business tax to value-added tax with price and tax separated, it is predicted that the carrying value of net interest margin of the Company will continue to decline slightly. In order to overcome the negative effect of the decline in net interest margin, the Company will further enhance asset operation. The Company will adhere to the principle of risk pricing and the balance of volume and price, and diligently improve the overall return. In the meantime, the Company will further enhance the refined management of liabilities, effectively control deposit cost, constantly expand customer base and proactively promote the steady growth of deposits. By taking the above methods, the Company will be able to put a leash on the decline of net interest margin in the second half of 2016.

3. *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 the first half of 2016, by adhering to the operation concept of "Asset-light Banking", the Company increased the granting of asset-light 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 decreased by 0.98% as compared with the end of the previous year and the percentage of risk assets declined accordingly. Despite less capital consumption, the Company maintained a steady growth in profitability and continuous improvement in the capital adequacy ratio and the capital efficiency ratio. The risk-weighted assets (taking into consideration the minimum requirements during the grace period) under the advanced approach decreased by 7.50% as compared with the end of the previous year, which was mainly because 2016 is the second year of the grace period for the advanced approach and the adjustment coefficient for the minimum capital requirement was adjusted from 95% to 90%. In the meantime, the Company continued 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, implement the internal capital adequacy assessment procedures (ICAAP), keep a dynamic balance of supply and demand of capital, study the optimisation of capital structure, trace the progress of the international capital regulatory reform and carry out the Basel III global quantitative estimates and the quantitative estimates of systematically important banks.

The Company adhered to the development strategies of marketisation, branding and internationalisation, continued to promote the development of its assets securitisation business to provide extra room for capital saving. During the reporting period, the Company totally issued 3 phases of credit asset-backed securities with the aggregate issuance volume of RMB3.922 billion. As at the end of the reporting period, the Company totally issued 11 phases of credit asset-backed securities, with the aggregate issuance volume of RMB55.58 billion, leading the industry in terms of business types and market share.

In the second half of the year, the Company will unswervingly adhere to the strategic orientation of "Asset-light Banking", optimise business structure and customer structure, further adopt the advanced approach for risk capital measurement, enhance the return on capital and value creation, and fully improve the performance of capital operation.

4. *The formation and disposal of non-performing loans*

As at 30 June 2016, the non-performing loan ratio of the Company was 1.92%, representing an increase of 0.12 percentage point as compared with the end of the previous year, while the proportion of special mention loans to the total was 2.54%, down by 0.11 percentage point from the end of the previous year. The allowance coverage ratio of our non-performing loans was 190.60%, representing an increase of 13.51 percentage points as compared with the end of the previous year. The credit cost ratio was 2.59%, an increase of 0.24 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

During the first half of 2016, the Company's non-performing loans increased at a slower pace. From the perspective of trend, the ratio of incremental non-performing loans declined during the first quarter on both a quarter-on-quarter and a year-on-year basis, while both the amount and ratio of incremental non-performing loans of the second quarter declined as compared with the corresponding period of the previous year; from the perspective of industry, the growth of non-performing loans slowed down in the manufacturing, wholesale and retail industry; from the perspective of geographic area, the growth of non-performing loans slowed down in the Yangtze River Delta, Bohai Ring and the Central China; and from the perspective of customer base, the growth of non-performing loans from the medium, small and micro enterprises also became stabilised and slowed down. Of the total non-performing loans, those extended to the state-owned enterprises accounted for approximately 10%. We expect a certain level of uncertainty regarding the improvement of non-performing loan increment ratio as there is substantial uncertainty with non-performing loan growth of large enterprises.

In 2016, the pilot project of securitisation of non-performing assets was reactivated, which provided a new channel for the disposal of the banks' non-performing assets, diversified the portfolio of investments in the financial market, helped to accelerate economic transformation and prevent systemic risks. We relied on our efficient and sophisticated operating mechanism to accelerate the process of securitisation of the non-performing assets. During the reporting period, the Company completed issuance of "Hecui Phase I (和萃一期)" and "Hecui Phase II (和萃二期)" securities backed by credit card non-performing loans and retail small and micro enterprise NPLs, pursuant to which, non-performing assets in an aggregate principle of approximately RMB2.6 billion were disposed of. The nominal value of securities issued amounted to RMB700 million. 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 isolation of the assets, optimisation of the structure of our assets and liabilities, improvement on liquidity, transmission from asset holding to asset services and improvement on revenue structure and capital adequacy ratios.

The Company has disposed non-performing assets in a timely manner to mitigate relevant risks. In the first half of the year, in addition to the introduction of asset securitisation to dispose non-performing assets, the Company also put more 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. Meanwhile, the Company carried out bulk transfer of non-performing assets that could be transferred at reasonable market prices to dispose of assets promptly.

In addition, the pilot project of debt-to-equity conversion was also reactivated during the year, which was of positive significance in lowering the operating leverage of the enterprises, stimulating their potential and propelling the healthy development of the economy. The Company has been monitoring closely the movements of policies in respect of debt-for-equity conversion 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.

5. *Assets 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 proactively and dynamically adjusted its credit policy, implemented stringent entry standards with respect to customers, regions and projects, continued to enhance the on- and off-balance sheet quota control on full statistical calibres and strengthened the customer list management, with special support dedicated to the core customers of the head office and branches so as to deepen strategic cooperation with the prestigious real estate developers, thereby further raising the proportion of its strategic customers 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 RMB318.219 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standard assets), representing a decrease of RMB13.402 billion as compared with the end of the previous year. Among which, the balance of loans for domestic corporate real estate amounted to RMB164.057 billion, representing a decrease of RMB9.169 billion as compared with the end of the previous year, which accounted for 5.88% of the Company's total loans, down by 0.81 percentage point 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, increasing vacancy rate and decreasing rental rates as a result of great negative impact of the economic downturn on office and commercial real properties, the non-performing loan ratio was 1.02%, up by 0.35 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, proprietary investment 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, adhered to the entry standard of "high level and strong cash flow", and prioritised the allocation of its credit resources to the government financing platforms being operated under commercial principles 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 RMB236.117 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 RMB21.488 billion as compared with the end of the previous year. Among which, the balance of loans on balance sheet amounted to RMB122.670 billion, representing a decrease of RMB8.629 billion as compared with the end of the previous year, which accounted for 4.40% of the total loans granted by the Company, down by 0.67 percentage point as compared with the end of the previous year. There was no non-performing asset.

For overcapacity industries such as iron and steel, cement, plate glass, electrolytic aluminium, shipbuilding, polysilicon and coal chemicals, the Company raised its entry standards, refined customer list management, supported its quality customers 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 economic downturn, 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 coal chemical industry. During the reporting period, the balance of our loans extended to overcapacity industries amounted to RMB51.470 billion, representing an increase of RMB2.426 billion (mainly the loans extended to the industry leaders and quality customers) as compared with the end of the previous year, and accounting for 1.84% of total loans of the Company, down by 0.05 percentage point as compared with that at the end of the previous year. The non-performing loan ratio of the Company was 7.22%, up by 1.76 percentage points as compared with that at the end of the previous year.

6. *The investment of wealth management funds in credit bonds, beneficiary rights of margin financing and securities lending, margin financing in the secondary stock trading market, and equity-pledged financing*

During the reporting period, the Company adhered to its principle of steady investment. Balance of proprietary investment of wealth management funds in credit bonds (excluding outbound entrusted bond investment, funds of public offering bonds, etc.) at the end of the period amounted to RMB585.693 billion, representing 62.67% of the wealth management funds invested in bonds. To enhance risk management of credit bonds, based on the original risk management measures for the investment of wealth management funds in credit bonds, the Company prepared and implemented "Measures for Management of Bond Pools in Asset Management Business of China Merchants Bank" during the reporting period, which continued to promote the construction of bond pools with the management principle of "graded credit review, approval of transactions at different levels, continuous tracking management and strict risk withdrawal ". It managed bond issuers and bonds in different ratings and pools by establishing appraisal pools and warning pools: our front office team conducted investment transactions directly according to the assessment opinions of appraisal pools and the approval of different levels; while the warning pools were used in the track management and reduction and withdrawal of holdings of risky bonds. As at the end of the reporting period, the risks associated with this business were generally kept under control. For details about the outbound entrusted bond investment of the Company, please refer to "Asset management business" in Section 3.10.2.

As at the end of the reporting period, balance of wealth management funds invested in beneficiary rights of margin financing and securities lending of the Company amounted to RMB6.128 billion, representing a decrease of 77.77% as compared with the end of the previous year, mainly due to the fact that customers' financing demand weakened in the wake of drastic fluctuations in the market since the previous year and from the beginning of this year, and that securities firms were able to raise funds by way of bond issuance, leading to reduced demand for margin financing and securities lending. During the reporting period, the Company implemented strict entry approval system for such business, froze the credit limits of securities firms in full amount, strengthened its daily monitoring, verified its asset value on a monthly basis, and suspended the businesses newly introduced by securities firms which were penalised by the CSRC, so as to strengthen risk control over such businesses. As at the end of the reporting period, the associated risks were kept under control.

As at the end of the reporting period, the Company's wealth management funds invested in margin financing in the secondary stock trading market amounted to approximately RMB45.510 billion, representing an increase of 50.02% as compared with the end of the previous year. New businesses were mainly from the financing demand of certain institutional investors with strong financial strength. During the reporting period, the Company adopted strict risk control measures to verify the source of funds from subordinated investors and subordinated investors' ability to cover their short position and review the investment scope of our products, and made reasonable investments within the permitted scope in accordance with the CBRC's window guidance and policy requirements for structured products. As at the end of the reporting period, the risks associated with this business were kept under control.

As at the end of the reporting period, the Company's wealth management funds invested in the equity-pledged financing business amounted to RMB15.978 billion, representing a decrease of 34.63% as compared with the end of the previous year, which was mainly due to the fact that the overall substantial decline of market financing interest rates since 2016 led to greater pressure from early repayment and replacement of existing transactions. During the reporting period, the Company has adopted the prudent investment principle, rather than the more aggressive strategies to follow the market, such as high share pledge ratio, to strictly prevent the market downturn risk. As at the end of the reporting period, the risks associated with this business were controllable.

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

On 28 April 2016, the CBRC issued the "Notice on Regulating the Transfer of Beneficiary Rights to Credit Assets among Financial Institutions in the Banking Industry" (Yin Jian Ban Fa [2016] No. 82) (hereinafter referred to as the "Notice"), stipulating that the registration of transfer of the beneficiary rights to credit assets shall be tightened and the investment of wealth management funds of a bank in its own credit assets shall be prohibited. Since the issuance of the Notice, the Company has strictly complied with the relevant requirements, ceasing to invest wealth management funds to the Bank's transferrable credit assets. The existing transactions will be settled as contracted and the proportion of the transferrable credit assets to non-standard debt assets has decreased accordingly. Meanwhile, the Company has strictly complied with the relevant requirements in the Notice with respect to reporting on wealth management products, reporting and submitting the relevant product information in a timely manner.

8. The proprietary funds invested in non-standard debt assets

As at 30 June 2016, the balance of the Company's proprietary funds invested in non-standard debt assets amounted to RMB528.711 billion, representing a decrease of 22.79% as compared with that at the end of the previous year. Among which, the balance of our proprietary funds invested in non-standard debt assets under the credit category amounted to RMB208.619 billion, representing a decrease of 12.49% as compared with that at the end of the previous year. The non-performing ratio was 1.46%, up by 0.66 percentage point as compared with that at the end of the previous year, mainly due to the sluggish real economy in which the customers of our proprietary funds invested in non-standard assets were short of funds and were unable to repay their borrowings on time. The balance of our proprietary funds invested in non-standard debt assets under the non-credit category amounted to RMB320.092 billion, representing a decrease of 28.30% as compared with that at the end of the previous year, which was affected by the asset shortage, the increase in tax cost upon the change from business tax to value-added tax, tougher external regulatory requirements and the adjustments in internal treasury strategies. The business of proprietary funds invested in non-standard debt assets developed on the basis of risk exposure of financial institutions were mainly classified into three categories:

The first category comprises negotiated deposits or term deposits being placed with other commercial banks, which recorded a balance of RMB22.582 billion as at the end of June 2016, representing a decrease of 57.79% as compared with that at the end of the previous year, mainly due to the fact that the cost of this business rose upon the change from business tax to value-added tax which resulted in a failure to renew a large number of matured deposits and the Company became more prudent in approving this business because of frequent occurrence of the risk events associated with this business in the interbank market.

The second category comprises the beneficiary rights to discounted bank acceptance bills and commercial acceptance bills, which recorded a balance of RMB294.963 billion as at the end of June 2016, representing a decrease of 22.40% as compared with that at the end of the previous year, which was mainly due to the following two reasons: firstly, the investment demand decreased along with an expansion in the scale of bills financing and a decline in the interest rates of non-standard investments; secondly, there was an adjustment in the capital utilisation structure of the Company.

The third category comprises creditor's beneficiary rights to other commercial banks (creditor's rights include principal-guaranteed wealth management products, domestic letter of credit, etc.). As there were a continuous decrease in the issuance volume of interbank principal-guaranteed wealth management products available for investment, and an increase in the tax cost of investments in principal-guaranteed wealth management products and the beneficial rights of domestic letter of credit upon the change from business tax to value-added tax, this business recorded a balance of RMB2.548 billion as at the end of June 2016, representing a decrease of RMB10.271 billion as compared with that at the end of the previous year.

The Company has enhanced and will continue to enhance risk review and compliance review in the use of funds, accurately measure risks and make adequate capital provision based on the nature of investment assets in strict compliance with the requirements of the "Notice on Regulating the Interbank Business of Financial Institutions" (Yin Fa [2014] No. 127) ("Notice No. 127"). As at 30 June 2016, the balance of provision for our proprietary funds invested in non-standard debt assets under the credit category amounted to RMB4.456 billion, with an allowance ratio of 2.14%, representing an increase of 0.14 percentage point as compared with that at the end of the previous year.

9. *The resale to Party B under repurchase agreement (買入返售乙方) and the resale to Party C under repurchase agreement (買入返售丙方) (CMB as funding provider)*

As at 30 June 2016, the balance of the Company's resale to Party B under repurchase agreement (買入返售乙方) (CMB as funding provider) including the trust beneficiary rights under resale agreements, the asset management schemes and the debenture beneficiary rights aggregated to RMB10.006 billion, representing a decrease of 61.10% as compared with that at the end of the previous year. The three items of non-performing assets totalled RMB764 million with a non-performing loan ratio of 7.49%, of which RMB564 million is being claimed against the relevant financial institutions. It is estimated that the possibility to eventually record a loss on those assets is remote. The Company has made capital provision for these assets based on the risk exposure of corresponding financial institutions, and has ceased to engage in the trust beneficiary rights under resale agreements, the asset management schemes and the debenture beneficiary rights as required by the Notice No.127, the existing transactions of which will be settled as contracted.

As at 30 June 2016, the balance of the Company's resale to Party C under repurchase agreement (買入返售丙方) amounted to RMB5.750 billion, down by 49.82% as compared with that at the end of the previous year.

10. *Financial Technology (Fintech)*

During the reporting period, the Company attached great importance to the innovative applications of big data, cloud computing, artificial intelligence and other emerging technologies in businesses such as customer management, risk management, payment, wealth management and asset management, and determined to promote the transfer of its business mode into internet-based one by adhering to the strategy of "Building internal service platforms, connecting to external traffic and conducting traffic-based operations". Remarkable progress has been achieved in this regard.

In respect of retail finance, the Company adhered to its business development strategy of "Mobile Goes First" and drove innovation in its products and business modes with mobile phone as its top focus, explored methods to rebuild our mobile-based O2O flow and accelerate the business mode upgrade based on mobile applications. For more information about the mobile user application of Mobile Banking and CMB Life, please refer to Section 3.8.1 and 3.10.4. During the reporting period, based on our All-in-one Net, the Company has enabled clients to open All-in-one Net account (Type II account) online and has expanded this to external scenarios by combining All-in-one Net payment. So far, more than 230 commercial establishments have made deals with the Company, with successful connection to 14 pilot commercial establishments, including Didi ChuXing. The Bank expanded its portfolio with new "All-in-one Mobile" products such as Apple Pay and Samsung Pay, as well as CMB-Checkout, an innovative credit card payment solution. We also launched the AUM Flash Lending, an Internet-based credit product, which enabled qualified customers to apply for loans real-time with instant verification and approval. The "New O2O Process for Future Branches" campaign was also introduced in four of our "Future Branches", including the Jiangning Sub-branch under the Nanjing Branch, aiming to promote the O2O asset-management service featuring "online wealth examination + offline asset allocation" and snatching customers aggressively through retail facilities and credit card O2O. For sunflower-card and gold-card holders, we provided them with the multi-channel customer services featuring "core services on multiple service platforms".

In the wholesale banking area, we focused on improving transaction banking system and accelerating the offline to online transfer process of our interbank business. During the reporting period, we introduced the E+ account Internet-based financial solution, which integrated a variety of comprehensive financial products and services, including but not limited to settlement, investment and financing, establishing a cycle of peer-to-peer Internet financial services aiming to build an Internet-based eco-system facilitated by the Company. Our Zhao Ying Tong B2B transaction platform has had its fundamental framework completed, with online service channels ready to serve our customers with online services such as information search, deal making, registration and interbank wealth management transactions. As at the end of the reporting period, the number of customers using Zhao Ying Tong to manage their wealth amounted to 986, with more than 100 online registration applications received, and more than 15% of online client conversion ratio.

During the reporting period, the Company aggressively promoted its collaboration with partners from other industries, aiming to build an Internet-based financial eco-system highlighted with the Bank's own characteristics. Firstly, the strategic cooperation with Didi Chuxing has entered a new stage with tangible results: a complete set of payment solutions through our All-in-one Net account has been developed, the Didi Chuxing driver payroll service is now supported and a CMB – Didi joint-brand card was launched. The cooperation was aimed to shape a new economic mode within which every party is able to share economic fruits. Secondly, Merchants Union Consumer Finance Co., Ltd. ("Merchants Union"), the joint venture established between the Bank and China Unicom, carried out the consumer finance business via Internet. As at the end of June 2016, Merchants Union has secured a total of 13,095,000 registered customers, among which 3,269,000 have been granted credit. A total of RMB20.39 billion of loans have been granted with a balance of RMB8.25 billion. Thirdly, the Bank and China Merchants Group have jointly set up CMB Qianhai Financial Asset Exchange Co., Ltd., through which the Bank will be able to register, entrust and list financial products, connecting the assets and capital efficiently.

3.9.2 Outlook and Measures

At present, the overall situations at home and abroad are quite complicated, and the development of global economy, trade and investments has not seen any upward trend yet. For the domestic side, the major indexes gauging the nation's economic growth have not shown favourable results, and in terms of economic development, the nation has encountered a number of apparent phenomena, situations and issues that have not been met before.

Looking forward to the second half of the year, the world economy will remain in turmoil and adjustment period, and the overall situation is not optimistic. The transformation from old to new growth momentum of the domestic economy has not yet completed, and problems accumulated since the last round of upward cycle have emerged prominently. Factors such as reoccurrence of external economic fluctuations, stronger internal distorts, continuous accumulation and intermittent release of financial risks, and comprehensive implementation of structural reform, may result in further downward pressure on the economy.

For the banking industry, the continuous emergence of hidden problems around non-performing loans, constant weakening of effective demand for credit, difficulties in seeking quality assets resulted from asset shortage and increasingly stringent regulatory pressure will bring more challenges to the operation and development of commercial banks. However, there are also a number of positive factors which will become important opportunities to relieve operational pressure. Firstly, the government is expected to implement more vigorous fiscal policy and increase investments in infrastructure in order to compensate the lack of private investment and stabilise economic growth; secondly, the rapid development of direct financing, especially under the background of deepening reform of the registration system, expansion of asset securitisation, and accelerated formation of the multi-level capital market, multiple ways of equity financing in relation to listed companies will become more popular; thirdly, under the environment of slowdown in economic growth and market volatility, domestic consumer financing has shown great potential and good prospects for development, thus the growth of household sector will be promising with added leverage; fourthly, major market players will accelerate the reshuffle with a new climax of mergers and acquisitions, and along with the industrial consolidation and integration, a large number of quality enterprises will be emerging; fifthly, the external environment for the development of small-and micro-enterprise businesses has experienced favourable changes; with increasing enthusiasm of "mass entrepreneurship and innovation", the small and micro enterprises business will face new opportunities for development.

Based on the above favourable factors, in the second half of 2016, the Company is well prepared to seize emerging structural opportunities while carefully implementing its transformation strategies featuring "Asset-light Banking" and "One Body with Two Wings". Under the guidance of its operation philosophy known as "assets determine liabilities", the Bank will focus on strategic customers, consumption finance and small- and micro- enterprise customers, acquire more quality assets and develop its expertise. At the same time, in accordance with the work schedule fixed at the beginning of the year, the Bank will continue to carry forward its four business campaigns and make sure the operation targets for the whole year will be successfully accomplished.

3.10 Business Operation

In the first half of 2016, facing the challenging and complicated economic and financial situations, the Company adhered to its transformation strategies featuring "Asset-light Banking" and "One Body with Two Wings" and the four operating guidelines, namely "Stringent Risk Control, Structural Adjustments, Reform Deepening and Rigid Corporate Governance", and made the most out of its advantages to keep itself abreast of the trend of the time, seize opportunities in an unfavorable environment and speed up the pace of transformation. The Bank also strove to increase its market share through innovation and reform, turn risk control and management into benefits, facilitate business operation by adjusting the Company's structure and make improvements with steady steps, which all contribute to the Bank's sustainable and healthy development. Meanwhile, apart from further promoting its asset-light operation, the Bank has been maintaining a coordinated balance between the increase in total assets and liabilities, driving the growth of non-interest income at a faster pace, optimising the Bank's asset structure and reducing the proportion of risk assets. All of these efforts have been continuously contributing to the effectiveness of asset-light banking.

3.10.1 Retail finance

Business overview

In the first half of 2016, the retail finance business of the Company focused on the customers and continuously optimised the operating procedures, so as to improve operational efficiency and promote the rapid growth of net operating income, therefore the retail finance of the Company maintained a rapid growth in its profit contribution and steady improvement in value contribution. Its profit before tax reached RMB26.957 billion, representing an increase of 36.68% as compared with the corresponding period of the previous year. As a percentage to the total profit before tax of business lines of the Company, it increased to 49.27%, representing an increase of 5.69 percentage points as compared with the corresponding period of the previous year. The net operating income from the retail finance also maintained a rapid growth. It reached RMB52.150 billion, representing an increase of 15.83% as compared with the corresponding period of the previous year, and accounting for 48.38% of the net operating income of the Company, up by 3.04 percentage points as compared with the corresponding period of the previous year. Among which, the net interest income from retail finance reached RMB32.417 billion, representing an increase of 12.10% as compared with the corresponding period of the previous year and accounting for 62.16% of the net operating income from retail finance of the Company; the net non-interest income from retail finance amounted to RMB19.733 billion, representing an increase of 22.55% as compared with the corresponding period of the previous year and accounting for 37.84% of the net operating income from retail finance, and 46.66% of the net non-interest income of the Company. In 2016, the retail finance of the Company recorded a commission income of RMB4.665 billion from bank cards (including credit cards), representing an increase of 6.24% as compared with the corresponding period of the previous year; the fee and commission income from retail wealth management was RMB13.688 billion, representing an increase of 23.24% as compared with the corresponding period of the previous year on the same calibre and accounting for 70.42% of the net fee and commission income from retail finance.

In contrast to its domestic peers, the Company has been always prioritising development of retail finance business, and promoting construction of its retail finance business system to form systematic advantages. In the first half of the year, the Company continuously optimised the management system, product system, service system, distribution system and risk prevention system of retail finance business, and further solidified retail customer base. The Company possesses outstanding competitive edge 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 June 2016, the number of retail customers of the Company reached 72.37 million, representing an increase of 8.11% as compared with the end of the previous year. Among which, the number of Sunflower-level and above customers (being retail customers of the Company with minimum total daily average assets of RMB500,000 per month) reached 1,805,200, representing an increase of 9.57% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB5,173.3 billion, representing an increase of 8.92% as compared with the end of the previous year. Among which, the balance of total assets under management from Sunflower-level and above customers amounted to RMB4,101.3 billion, representing an increase of 9.97% as compared with the end of the previous year, and accounting for 79.27% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers amounted to RMB1,129.4 billion, representing a slight increase of 0.02% as compared with the end of the previous year. Of which, the percentage of demand deposits grew to 74.27%, up by 3.17 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. As at the end of the reporting period, a total of 97,962,700 All-in-one Cards were issued by the Company. The average deposit balance per All-in-one Card amounted to RMB10,800, almost unchanged as compared with the end of the previous year; the transaction amount of "All-in-one Card" via POS reached RMB493.1 billion, representing an increase of 14.97% as compared with the corresponding period of the previous year.

In the first half of 2016, the Company further consolidated its retail customer base through a number of initiatives, thereby achieving balanced development in total assets under management (AUM) from retail customers and deposits business. During the reporting period, by drawing upon the development opportunities of Internet finance, the Company actively capitalised on opportunities brought about by Big Data and vigorously promoted the customer acquisition model through "light" channels. The Company also upgraded its services in all aspects and provided its customers with professional asset portfolio and financing services according to their customised fund requirements as well as differentiated risk preferences and life cycles. At the same time, the Company strengthened analysis of market volatility and important policies, and increased efforts in prospective analysis of medium-term trend opportunities and risks and portfolio strategy, with a view to helping customers preserve and enhance the value of their assets. In addition, the Company secured the settlement funds of the mass customers in daily life by providing various facilitation services including mobile banking, CMB Life (掌上生活), professional version of internet banking, All-in-one Net and payment of utility fees, and solidified settlement funds of personal loan customers with complementary financing services and convenient settlement instruments. Furthermore, the Company continued to strengthen the development and promotion of new deposit products so as to cater for customers' demand for diversified and flexible deposit products, thereby effectively mitigating the impact of deposit migration as a result of various factors such as interest rate liberalisation, market volatility and diversified wealth management products.

Wealth management

In the first half of 2016, the Company recorded RMB3,956.0 billion in accumulated sales of personal wealth management products, RMB242.1 billion in the distribution of open-ended funds, RMB83.8 billion in agency distribution of trust schemes and RMB93.0 billion in premium from agency distribution of insurance policies. Fee and commission income from retail wealth management business was RMB13.688 billion, representing an increase of 23.24% as compared with the corresponding period of the previous year. Among them, income from agency distribution of insurance policies amounted to RMB4.154 billion, representing an increase of 150.24% as compared with the corresponding period of the previous year; income from entrusted wealth management amounted to RMB3.495 billion, representing an increase of 103.08% as compared with the corresponding period of the previous year; income from agency distribution of funds amounted to RMB4.141 billion, representing a decrease of 20.62% as compared with the corresponding period of the previous year; income from agency distribution of trust schemes amounted to RMB1.770 billion, representing a decrease of 27.40% as compared with the corresponding period of the previous year; and income from agency distribution of precious metal amounted to RMB128 million, representing an increase of 80.28% as compared with the corresponding period of the previous year.

During the reporting period, the Company actively responded to the severe market volatility, homogenisation among peers and intense competition from other industries, assisted customers in recognising investment trends in the global market and in building a reasonable investment philosophy through closely following and timely responding to the changes in the financial market with authoritative global market research constantly provided by the Investment Decision-making Committee from time to time. Moreover, the Company progressively diversified its wealth management product portfolio, formulated investment strategies, developed and implemented product investment portfolio, with a view to continuously creating value for customers. In addition, the Company further improved customer service procedures for pre-sale, during sale and post-sale stages under the customer-centric principle, constantly launched the compliance education program for staff, enhanced the effort of inspection for compliant sales, and strengthened the management of licensed sales and compliant sales, so as to establish and constantly improve a sound and compliant asset portfolio service system.

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 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 30 June 2016, the Company had 53,954 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 10.04% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,423.7 billion, representing an increase of 13.70% 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 49 private banking centres and 61 wealth management centres in 53 domestic cities and 2 overseas cities.

In the first half of 2016, in order to proactively respond to market fluctuations, the Company continued to deepen comprehensive customer management, constantly established diversified customer acquisition, further improved overseas organisational framework, continued to promote the development of market-research-driven products and implement asset allocation, and pushed forward the comprehensive upgrade of private banking business by providing various services including discretionary entrustment, tax planning, overseas equity trust, family trust, M&A financing and investment banking matchmaking, with a view to building an integrated financial service platform. During the reporting period, the Company was awarded the "Best Private Bank in China Region" selected by Euromoney for the sixth time, and swept the "Best Ultra-high Net Worth Customer Service" and the "Best International Customer Service" for its outstanding contributions in the provision of services for domestic ultra high-end customers and international customers.

Credit cards

As at the end of the reporting period, the Company had issued 73.59 million credit cards in total; the total number of active cards was 40.62 million, and 2.80 million new cards were issued during the reporting period. As at the end of the reporting period, the number of active credit cards users was 33.28 million, representing an increase of 7.25% as compared with the end of the previous year. The Company continued to improve the efficiency of customer acquisition and customer management. The cumulative transaction value of credit cards of the Company for the period from January to June 2016 was RMB1,053.5 billion, representing an increase of 25.55% as compared with the corresponding period of the previous year, and the average transaction value per month of each active card was RMB4,452. The percentage of the revolving balances of credit cards was 24.67%. The balance of credit card overdrafts was RMB340.406 billion, representing an increase of 8.74% as compared with the end of the previous year. Interest income from credit cards for January to June 2016 amounted to RMB15.555 billion, representing an increase of 26.33% as compared with the corresponding period of the previous year. Non-interest income from credit cards was RMB5.237 billion, representing an increase of 13.65% as compared with the corresponding period of the previous year. During the reporting period, the Company maintained prudent risk management strategies to maintain sound asset quality, the non-performing loan ratio of credit cards business was 1.21% at the end of the reporting period, and the risk exposure was under control.

During the reporting period, the Company continued to strengthen the various functions of CMB Life client server (掌上生活客戶端), and rapidly promoted the mobile internet development of core credit card business, thereby achieving over 25 million subscribers for CMB Life (掌上生活); established and constantly optimised customer service system to improve customer's experience; vigorously promoted its asset-light customer acquisition model, improved its efficiency in acquiring customers using diversified data-driven technology, and constantly optimised its customer mix; capitalised on "online application + offline verification (網上申請， 網點核身)" project to vigorously promote the electronic application and approval of credit cards, and to boost the cross-sales across the retail system of the Bank; improved the multi-level and multi-dimensional credit card product system, continued to strengthen all-currencies credit cards, and launched innovative credit card products such as Booking Co-branded Card (Booking聯名卡), LOL Monkey King Card (英雄聯盟齊天大聖卡), HelloKitty Heart-shape Card (HelloKitty心形卡) and Naruto Collection Edition Card (火影忍者珍藏紀念卡), with a view to securing the acquisition of all customer groups; launched innovative consumer financial products including Consumption Reserve (消費備用金) and E-CMB-Loan (E招貸) to gradually improve high-yield businesses and products system; enhanced the layout of payment products, launched Apple Pay ahead of its peers and launched "CMB Life Payment" (掌上生活支付) to improve customer's payment experience; focused on traffic and loyalty management, targeting at restaurant vouchers and movie tickets, being the two popular lifestyle activities for customers and established "Local Discount" channel for CMB Life; continued to make innovations in points promotional activities, and launched crowd funding products such as "Points Accumulation for Dreams to Come True" (積分圓夢) in order to promote the mobile Internet-oriented transformation of points management; and focused on overseas customers, upgraded overseas marketing activities such as "Extraordinary Asia", and launched "Featured Business Partners Plan for Travel in US" (暢遊美國精選商戶計劃), with a view to maintaining its leading position in the overseas market.

Retail loans

In the first half of 2016, the Company proactively seized market opportunities, strived to expand the scale of retail loans, and controlled the retail credit risk. As at 30 June 2016, the total retail loans of the Company amounted to RMB1,334.877 billion, representing an increase of 10.36% as compared with the end of the previous year and accounting for 47.83% of the Company's total loans and advances to customers, up by 1.12 percentage points as compared with the end of the previous year. During the reporting period, the floating range of weighted average interest rates of newly granted retail loans in RMB (weighted at actual amounts, same as below) increased by 3.37 percentage points to 21.43% as compared with the whole previous year.

In the first half of 2016, the Company responded to the market and customers' needs by actively supporting the development of the residential mortgage loan business and steadily increasing loans to micro- enterprises. As at the end of the reporting period, balance of housing loans of the Company was RMB606.945 billion, representing an increase of 23.55% as compared with the end of the previous year and accounting for 45.47% of retail loan of the Company. As at the end of the reporting period, balance of loans granted by the Company to micro-enterprises totalled RMB290.321 billion, representing a decrease of 6.04% (calculated on the Bank's calibre) as compared with the end of the previous year, and accounting for 21.75% of retail loans, down by 3.80 percentage points as compared with the end of the previous year. The non-performing loan ratio of loans granted to micro- enterprises was 1.80%, representing an increase of 0.26 percentage point as compared with the end of the previous year. However, the generation of non-performing loans in respect of micro- enterprises has gradually stabilised. During the reporting period, the floating ranges of weighted average interest rate of loans of the Company newly granted to micro-enterprise was 41.95%, up by 4.92 percentage points as compared with the whole previous year.

The creditworthiness and solvency of certain individual customers deteriorated due to weak macro-economic conditions, declining financing demand and accelerated risk exposures. As at 30 June 2016, the balance of the special mention retail loans of the Company amounted to RMB19.428 billion, representing an increase of 19.56% as compared with the end of the previous year, and the proportion of special mention retail loans increased by 0.12 percentage point as compared with that at the end of the previous year; balance of non-performing retail loans amounted to RMB13.789 billion with a non-performing loan ratio of 1.03%, down by 0.05 percentage point as compared with the end of the previous year, which was mainly due to the fact that the Company increased the granting of residential mortgage loans, optimised the retail loan policies and continued to enhance the disposal of non-performing assets during the reporting period. Excluding credit cards, the mortgage and pledged loans accounted for 88.33% of the balance of new non-performing retail loans of the Company in the first half of 2016, representing a mortgage and pledge rate of 63.83%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the risk associated with non-performing retail loans was generally controllable.

The Company put great emphasis on loan risk management and endeavoured to formulate a whole-process risk management system covering its front, middle and back office. During the reporting period, the Company actively strengthened the management of its retail credit team to enhance the team's professional risk management capabilities; steadily promoted centralised loan approval by the Head Office, with the proportion of retail loans subject to centralised approval accounting for more than 75%, suggesting a new stage of automatic investigation and approval for housing mortgage business. After years' development, the centralised loan approval centre of the Head Office has developed a number of diversified risk control management capabilities, including information review and verification via Extranet. Meanwhile, the Company constantly optimised and applied the risk-control model to product policy formulation, loan approval, post-loan and other procedures, and basically established a standardised, systematic and data-based risk control system. In addition, after the release of loans, relying on the analysis of system and data, the Company achieved effective control over the work flow and strategy for post-loan collection, and built a standardised system comprising of pre-warning, loan recovery and disposal so that the Company was able to prevent default risks at an early stage and improve the post-loan management efficiency. Moreover, the Company constantly upgraded and improved the asset-light development of retail credit operating platforms, further enhanced the operational efficiency of the Cloud Mortgage PAD Platform and promoted the online operation of peer-to-peer lending serial products.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB27.758 billion, accounting for 50.73% of profit before tax of business lines of the Company. The net operating income from wholesale finance of the Company was RMB54.361 billion, representing an increase of 1.58% as compared with the corresponding period of the previous year, and accounting for 50.43% of the net operating income of the Company. Among which, the net interest income from wholesale finance amounted to RMB32.741 billion, representing a decrease of 6.74% as compared with the corresponding period of the previous year, and accounting for 60.23% of the net operating income of wholesale finance; and net non-interest income of wholesale finance amounted to RMB21.620 billion, representing an increase of 17.44% as compared with the corresponding period of the previous year and accounting for 39.77% of the net operating income of wholesale finance, and 51.12% of the non-interest income of the Company.

Corporate customers

In the first half of 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 an asset-light bank and keep abreast of the changes in customers' financing needs. The Company had 22,600 corporate borrowers, representing a decrease of 14.72% as compared with the end of the previous year.

During the reporting period, the Company continuously consolidated its customer base. The number of the Company's corporate depositors increased to 1,165,300, exceeding the one-million benchmark. Among which, more than 160,000 new customers opened accounts in the Company during the reporting period, representing an increase of 12.70% as compared with the corresponding period of the previous year.

Corporate loans

Corporate loan businesses of the Company include working capital loans, fixed asset loans, trade finance and other loans, such as M&A loans and corporate mortgage loans. As at 30 June 2016, total corporate loans of the Company amounted to RMB1,279.087 billion, representing a decrease of 1.38% as compared with the end of the previous year and accounting for 45.84% of total loans and advances to customers. The non-performing loan ratio of corporate loans was 3.10%, representing an increase of 0.50 percentage point as compared with the end of the previous year, which was mainly due to weaker solvency of enterprises during the economic downturn, as well as the stringent criteria of the Company for recognition of non-performing loans, which is aimed to reflect the quality of its loan assets in a more prudent way.

As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB886.982 billion, representing a decrease of 0.17% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 72.64% of our total loans granted to domestic enterprises, up by 1.63% as compared with the beginning of the year with a non-performing loan ratio of 2.84%, up by 0.69 percentage point as compared with the beginning of the year; the balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB172.705 billion, representing a decrease of 9.40% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 14.14% of our total loans granted to domestic enterprises, down by 1.09% as compared with the beginning of the year with a non-performing loan ratio of 4.96%, up by 1.15 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 classification of certain enterprises based on the calibre of the Company at the beginning of the year since they have become larger. As at the end of the reporting period, the balance of loans of the Company granted to small enterprises totalled RMB161.459 billion, representing a decrease of 6.21% over the beginning of the year, and accounting for 13.22% of domestic corporate loans, down by 0.54 percentage point as compared with the beginning of the year. The non-performing loan ratio was 3.43%, representing a decrease of 0.56 percentage point as compared with the beginning of the year. The number of small enterprise customers of the Company was 855,300, representing an increase of 21.35% as compared with the beginning of the year. During the reporting period, the floating range of weighted average interest rate of the Company's new loans granted to small enterprises was 23.81%, up by 0.85 percentage point as compared with the whole previous year.

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 30 June 2016, the balance of credit loans to strategic emerging industries was RMB64.137 billion, representing an increase of RMB8.224 billion as compared with the end of the previous year, and accounting for 5.01% of the total corporate loans of the Company; and the balance of green credit loans was RMB158.041 billion, representing an increase of RMB1.538 billion as compared with the end of the previous year, and accounting for 12.36% of the total corporate loans of the Company. For further details of loans extended to the areas strictly regulated by the State such as the real estate industry and local government financing vehicles, please refer to Section 3.9.1 in this report.

The "Qian Ying Zhan Yi (千鷹展翼)" program is a strategic brand of the Company to serve innovative emerging technology enterprises. During the reporting period, the Company increased its effort to build up the "Qian Ying Zhan Yi (千鷹展翼)" customer base, proactively explored the investment and loan linking business, innovated the "Tou Dai Tong (投貸通)", a new credit financing product, promoted the two business models of options and direct small-amount investments on a pilot basis, and provided innovative SMEs with comprehensive tailor-made financial services. As changes in certain enterprises resulted in the updating of relevant data at the beginning of the year in accordance with the "Qian Ying Zhan Yi (千鷹展翼)" registration standards, the number of the "Qian Ying Zhan Yi (千鷹展翼)" customers at the beginning of the year was adjusted accordingly compared with the end of the previous year. As at 30 June 2016, the total number of registered customers reached 22,335, representing an increase of 8.18% as compared with the beginning of the year. The customers that have credit lines granted by the Company accounted for 38.10% of all registered customers, indicating a continuous expansion in our customer base; total amount of the credit lines granted to such customers as at the end of the reporting period amounted to RMB269.334 billion, and the balance of loans granted to such customers amounted to RMB106.864 billion. As a high-quality customer base which the Company has been striving to expand, the "Qian Ying Zhan Yi (千鷹展翼)" program adopts the customer acquisition model of targeted marketing according to a specific target list. As its industry distribution structure was kept in line with the direction of economic transformation, its non-performing loan ratio was lower than the overall non-performing loan ratio of the Company, which stood at 1.72%. In the first half of the year, 11 "Qian Ying Zhan Yi (千鷹展翼)" customers completed IPO in China and opened special accounts in the Company to receive proceeds from IPO, with a total of RMB1.841 billion under custody.

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 30 June 2016, the balance of syndicated loans amounted to RMB104.332 billion, representing an increase of RMB17.548 billion 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 RMB890.428 billion during the reporting period, ranking first among its peers. As at 30 June 2016, the balance of discounted bill loans amounted to RMB176.634 billion, representing an increase of 113.28% as compared with the end of the previous year and accounting for 6.33% of the Company's total loans and advances to customers.

Corporate customer deposits

In the first half of 2016, the corporate customer deposits of the Company maintained steady growth with continuous improvement in quality. As at 30 June 2016, the balance of corporate customer deposits amounted to RMB2,417.486 billion, representing an increase of 5.46% as compared with the end of the previous year; the daily average balance amounted to RMB2,267.415 billion, representing an increase of 4.81% as compared with the previous year; the demand deposits accounted for 57.97% of total deposits from our corporate customers, up by 7.86 percentage points as compared with the end of the previous year. In the first half of 2016, the average cost of deposits from corporate customers was 1.56%, down by 0.50 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 30 June 2016, the total number of customers using cash management service of the Company reached 973,570, representing an increase of 17.03% as compared with the end of the previous year. Thanks to the Company's continuous efforts to forge the "C+ Cash Management Solution" brand, the number of newly opened accounts exceeded 110,000, and the number of newly issued "All-in-one Card for Company (公司一卡通)" reached 289,300. Basic cash management business experienced healthy development. As at 30 June 2016, the total number of contracted customers of Cross-border Cash Pool reached 282, and the total number of customers who had completed their relevant regulatory filing or made capital transfers under the Free Trade Zone Cross-border RMB Cash Pool reached 103. The Company continued to push forward the optimisation, innovation and promotion of "C+ Account-portfolio deposits", Virtual Cash Pool, Multi-level Cash Pool and Global Cash Management (GCM). In addition, the Company also continuously promoted its cross-bank cash management products, innovatively launched the mobile interlink series 2.0 application of Cross-bank Solution for Cash Management (CBS), enhanced the functions of Mobile Security Management Platform (EMM) and launched the Centralised Transaction Banking Coordination Platform, which effectively facilitated the promotion of various major projects targeting at industry leaders, multinational enterprises and fiscal management units. As a result, the number of group customers under management reached 718, and the number of enterprises under management exceeded 28,100.

With respect to supply chain finance, the Company further optimised the whole transaction procedures for core customers through smart supply chain finance, established a product system which fully covers "settlement plus financing" offerings by adhering to the dual-core strategy of fostering the "core banking for core customers", focused on upgrading and promoting the innovative products such as C+ smart bill pool, payment agency service and new financing channels for supply chain. In the first half of 2016, in adherence to the "customer-oriented" concept, the Company further tapped on its quality customers in the supply chain and raised the standards for core enterprises and their upstream and downstream customers. Calculated on the new statistical calibre, as at 30 June 2016, the Company had a total of 958 effective core customers in the supply chain and 12,216 effective customers from upstream and downstream industries, representing an increase of 104.26% and 30.72% (calculated on the same calibre) respectively as compared with the beginning of the year. The balance of supply chain finance amounted to RMB71.099 billion, representing an increase of 4.56% as compared with the end of the previous year.

With respect to integrated financing for domestic trade as well as for domestic and foreign trade, the Company further promoted the combination and extended application of integrated financing products for domestic trade and foreign trade, proactively made adjustments to its distribution structure of financing assets, focused on promoting innovation of businesses involving the use of domestic letter of credit, and aggressively developed cross-bank domestic letter of credit business, with a view to effectively saving capital. During the reporting period, the trading volume of cross-bank domestic letter of credit business calculated on full statistical calibres amounted to RMB33.310 billion, representing a year-on-year increase of 24.00%. Despite the increased pressure on the granting of loans to corporate customers, the negotiated payments of cross-bank domestic letter of credit recorded a contrarian growth. The total amount of domestic letter of credit issued reached RMB75.939 billion; and the amount of domestic factoring reached RMB13.125 billion, representing a year-on-year increase of 50.53%. Facing the inadequate funding demand from foreign trade enterprises and the requirement for more prudent risk management, the Company innovated the "Te Xian Yi Financing (特險易融資)" product and other service models to promote the granting of its loans to customers. As a result, the onshore financing for international trade was kept stable with a monthly average balance of USD5.851 billion.

With respect to corporate card and other products, thanks to coordinated marketing of retail and corporate lines, the Company had issued a total of 56,700 corporate cards and other products as at 30 June 2016, and the intermediary business income amounted to RMB49 million during the reporting period.

With respect to cross-border finance business, the Company increased its efforts to innovate the asset-light products by capitalising on structural development opportunities, focused on promoting the rapid development of "Cross-border Zi Ben Tong (跨境資本通)", and upgraded the smart cross-border finance platform. In the first half of 2016, affected by the substantial decline in both imports and exports, the Company completed onshore international settlements of USD113.810 billion, representing a year-on-year decrease of 18.84%; the market share of our cross-border payments was 3.38%, and ranking second among the national small- and medium-sized banks (based on the statistics of the State Administration of Foreign Exchange); the foreign exchange settlements for customers amounted to USD71.929 billion, representing a year-on-year decrease of 11.56% and a market share of 4.44%, ranking first among the national small- and medium-sized banks (based on the statistics of the State Administration of Foreign Exchange). The number of onshore customers of our international business reached 53,200, representing a year-on-year increase of 7.86%.

With respect to offshore business, the Company increased its efforts to promote and expand its offshore business and continued to solidify its business foundation, thereby realising a steady and healthy growth in offshore business. As at 30 June 2016, the number of offshore customers of the Company reached 42,100, representing an increase of 6.05% as compared with the end of the previous year; offshore international settlements amounted to USD135.232 billion, representing a year-on-year increase of 22.09%; the balance of deposits from offshore customers amounted to USD14.316 billion, representing a decrease of 12.37% as compared with the end of the previous year; the balance of offshore loans amounted to USD8.291 billion, representing an increase of 22.56% as compared with the end of the previous year. Credit assets remained high in quality with a non-performing loan ratio of 0.49%; the cumulative net non-interest income reached USD71.4531 million, representing a year-on-year decrease of 10.15%.

Investment banking business

During the reporting period, the Company adhered to the "asset-light operation" strategy for its investment banking business, further studied the changes in the capital market situation, and grasped business opportunities to improve its profitability, thus realising a steady business growth. The net non-interest income amounted to RMB1.754 billion, representing a year-on-year increase of 61.36%, indicating a further enhancement in its brand influence.

With respect to bond underwriting business, the Company aggressively extended its business boundaries by capitalising on panda bonds, financial bonds, the securities backed with assets from financial institutions, the asset-backed bills and other innovative products, successfully underwrote the first perpetual bonds using proceeds as project capital in the market and the first tier 2 capital bonds issued by assets management firms in the market, establishing the Company's innovative image and good reputation in the bond capital market. In addition, the Company proactively leveraged on the new policies for issuance of debts and financing instruments (DFI) (儲架發行) to establish a partnership with a number of large-sized state-owned enterprises in respect of debt financing. In the first half of the year, the Company led the underwriting of 227 bonds with total underwriting amount of RMB167.767 billion.

With respect to M&A finance business, the Company took it as one of its strategic businesses, focused on listed companies, the reform of state-owned enterprises and cross-border M&A to underwrite a batch of influential and significant M&A projects, and led the granting of several large-amount M&A syndicated loans. Hence, the brand influence improved rapidly. In the first half of the year, the Company provided the M&A loans of RMB39.292 billion to 72 customers for their M&A transactions, and the income from M&A intermediary business recorded a substantial year-on-year growth.

With respect to other investment banking businesses, the Company further enriched the product lines of structured financing business, improved business processes and expanded sources of capital, establishing the diversified capital cooperation relationship with external institutions such as insurance companies, funds firms and securities companies. In the first half of the year, the Company further tapped on market opportunities in relation to industry funds, government-guided funds, PPP and securitisation of corporate assets, resulting in a substantial increase in financing amount, actual amount of loans granted and number of reserve projects. The Company made breakthroughs in its equity capital market business by providing listed and private companies with diversified and personalised equity investment, financing and consultancy service to gradually improve the loyalty of its key customers, and promoted the establishment of a more comprehensive investment banking business structure.

Financial institutions business

The Company intensified construction of channels and enhanced value contribution from its financial institutions customers for the purpose of 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 30 June 2016, the balance of placements from banks and other financial institutions reached RMB464.564 billion, representing a decrease of 33.90% 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 8.26 percentage points as compared with the end of the previous year to 66.77%, leading other national small- and medium-sized banks in terms of the volume and proportion of demand deposits. Due to a 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 RMB88.6 billion, representing a decrease of 39.89% as compared with the end of the previous year. During the reporting period, the Company sold RMB1.78 trillion wealth management products issued by banks and other financial institutions through the "Zhao Ying Tong (招赢通)" platform, representing an increase of 147.22% as compared with the corresponding period of the previous year. Due to sustained downturn of the stock market and thin trading of the stock market, the closing balance of funds under third-party custody amounted to RMB145.871 billion, representing a decrease of 15.93% as compared with the end of the previous year. The Company had 7,053,600 third-party custody customers, representing an increase of 9.44% 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 business was RMB36,761.9 billion, representing an increase of 152.14% as compared with the corresponding period of the previous year. Our rediscount business with the central bank amounted to RMB32.279 billion, representing a decrease of 7.08% as compared with the corresponding period of the previous year, still ahead of our peers in terms of trading amount. Affected by the market and regulatory policies, the amount of placements in the cross-border interbank RMB clearing accounts opened in the Company decreased significantly. During the reporting period, the volume of cross-border interbank RMB clearing service amounted to RMB411.572 billion, representing a decrease of 59.69% as compared with the corresponding period of the previous year, and the total number of clearing accounts amounted to 139, an increase of 7 as compared with the end of the previous year. The number of cross-border interbank RMB clearing accounts of the Company ranked first among the national small- and medium-sized banks. The number of customers with indirect connection to the Cross-border Interbank Payment System (CIPS) ranked second among the national small- and medium-sized banks. During the reporting period, the Company maintained business cooperation with 77 securities firms including 4 newly added ones for the settlement and custody of margin trading and short selling.

The Company has been qualified as a futures margin depository bank on China Financial Futures Exchange (CFFEX), Zhengzhou Commodity Exchange (ZCE) and Dalian Commodity Exchange (DCE), and also as a member of Shanghai Clearing House for comprehensive foreign exchange settlements. As at 30 June 2016, the balance of all types of deposits of the Company from futures exchanges and futures companies was RMB9.542 billion with 216 futures margin depository accounts.

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 2,132 wealth management products in the first half of the year, and recorded an aggregate of RMB7.76 trillion in the bank-wide sales of wealth management products, representing an increase of 46.68% as compared with the corresponding period of the previous year. As at the end of the reporting period, the balance of wealth management business of the Company amounted to RMB2,044.857 billion, representing an increase of 12.31% 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 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 rapid 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. During the reporting period, the Company enhanced the portfolio of quality assets and continued to improve the risk/reward ratio of asset allocation. On one hand, the Company used bond assets to effectively relieve the reinvestment pressure through structure and strategy optimisation and increase of investment; on the other hand, the Company expanded the entrusted bond investment strategy, increased multi-strategy entrusted investments and achieved growth in bond yield. As at the end of the reporting period, total balance of bond investments amounted to RMB934.625 billion, representing an increase of 9.07% as compared with the end of the previous year. The new allocation of bond assets, government-guided funds and investments in securitised assets were steadily promoted. The Company invested in non-standard debt assets 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 debt assets amounted to RMB183.306 billion. The non-standard debt assets were mainly from companies and other financial institutions to which credit line were granted. During the reporting period, as the Company enhanced risk management, our asset quality did not deteriorate obviously. To cope with the stock market adjustments, the Company focused on structure adjustment of and risk control over equity assets, and the increase in holdings of quality listing companies in such assets. For details, please refer to Section 3.9.1 of this report.

Secondly, the management of entrusted bond investment was improved steadily. The Company formulated corresponding access standards according to different types of institutions, exercised strict control over access threshold, carried out comprehensive appraisal on the performance of external entrusted agencies on a monthly basis and made adjustments on their investment quota accordingly. Meanwhile, the Company imposed restrictions on leverage level, credit ratings, concentration ratio, investment period and other aspects to strictly control the risk from outbound entrusted bond investment. As at the end of the reporting period, the overall leverage ratio of outbound entrusted bond investment was 127.50% (including the principal). Among the default events of different bonds this year, none of default event was involved in the accounts managed by our entrusted bond managers.

Thirdly, the proportion of net-value products was increasing. According to regulatory orientation, the Company increased the development and issuance of net-value products. We changed the practice of guaranteeing repayment of principal and interest, and prevented the off-balance-sheet wealth management risk from affecting the balance sheet items through net-value products and promoted 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 RMB1,399.468 billion, representing an increase of 45.52% as compared with the end of the previous year, and accounting for 68.44% of the balance of wealth management business, up by 15.62 percentage points as compared with the end of the previous year.

Fourthly, product innovation was promoted deeply. During the reporting period, the Company issued "Golden Life" series wealth management products to retail customers of supplementary pension, so as to establish the Company's differentiated competitive advantage in supplementary pension; the Company launched structured wealth management products linked to shares and commodities, so as to fulfill the investment demand of customers in the volatile market; the Company continued to optimise the functions of 7*24 hours subscription, redemption and quick redemption in "Zhao-zhao Jin (朝招金)" and "Ri-ri Ying (日日盈)" for private investors, so as to improve customers' experience; the Company issued an aggressive wealth management product, "Zhou-zhou Fa (週週發)", to private banking clients, and issued "Zhao-zhao Jin (朝招金)" which was specially designed for Mobile Banking users, so as to fulfill the wealth management demand of private banking customers and private network banking customers; and the Company launched structured wealth management products linked to overseas investment funds, so as to explore more modes of bank-affiliated guaranteed fund business and to provide new channels of multiple asset allocation overseas for customers.

Asset custody business

Under the strategic guidance of accelerating development of "light bank", the Company's asset custody business continued to maintain a good growth momentum in the first half of 2016. With respect to business development, our asset custody business recorded a record high in terms of volume and revenue from custody of assets in the first half of the year, and was among the leading domestic asset custodians. As at the end of the reporting period, the number of custody projects of the Company was 13,047, representing an increase of 13.39% as compared with the end of the previous year, and the balance of assets under custody amounted to RMB8,445.284 billion, representing an increase of 18.02% as compared with the end of the previous year; the accumulative custody fee income amounted to RMB2.743 billion, representing an increase of 43.39% as compared to the corresponding period of the previous year. During the reporting period, the professional services and industry-leading technology of the asset custody business of the Company obtained more recognition in the industry as testified by winning the "Top Ten Financial Product Innovation Award" in the contest for 2016 China Financial Innovation Award organised by The Banker, won the "2016 Best Asset Custodian Bank in China Award" organised by The Asset, becoming the only domestic custodian bank to receive this honor, and received the "Best Custodian Bank for 2016" award organised by the 21st Century Business Herald, which indicated increasing market influence of its custody business.

Financial markets business

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 moderately extended the duration of investments. The incremental investments were primarily medium-term bonds with maturity of 3 to 7 years, prioritising on government bonds, local bonds and credit bonds with good credit standing. In the first half of 2016, against the broad backdrop of economic slowdown and structural transformation, the Company's credit bond investment upheld the principle of "Sound and Prudent". Firstly, the Company raised the standards for credit bond investments. The incremental investments focused on such issuers as central companies and state-owned companies with high-credit standings, prioritizing on industries in line with the economic transformation direction. On the other hand, the Company strengthened management before and after credit bond investment, optimised the structure of portfolios, aggressively reduced investments in over-capacity sectors, thereby effectively reduced credit risks of investment portfolios. Secondly, the Company proactively adjusted and optimised the structure of its portfolios by capitalising on the opportunities brought about by fluctuations in interest rates and credit spreads to keep relative balance between the risks and gains of portfolios. As at the end of the reporting period, the balance of RMB bond portfolio of the Company was RMB757.043 billion, with portfolio duration of 4.21 years and a portfolio yield rate of 3.83%.

Foreign currency investments: the Company seized opportunities to increase investments based on its judgment on the international market situation. Firstly, the Company implemented a proactive investment strategy, focusing on USD credit bonds issued by Chinese institutions and moderately controlling the duration of incremental investments. Secondly, the Company actively participated in the spread transactions of newly issued bonds and range trading operation to realise interest spread gains and increase portfolio income. Thirdly, the Company moderately participated in derivative product transaction for management of portfolio risks. As at the end of the reporting period, the balance of the foreign currency investment portfolio of the Company amounted to USD7.087 billion, with portfolio duration of 1.62 years and the portfolio yield of 2.16%.

In the first half of 2016, the Company's trading volume of RMB-denominated options reached RMB458.0 billion, representing an increase of 48.77% as compared with the corresponding period of the previous year; the trading volume of RMB exchange rate swaps reached RMB1,437.8 billion, representing an increase of 36.00% as compared with the corresponding period of the previous year; the trading volume of single customer derivatives reached RMB160.4 billion, representing an increase of 122% as compared with the corresponding period of the previous year; and the net non-interest income of foreign exchange transactions on behalf of customers reached RMB1.377 billion, representing an increase of 41.38% as compared with the corresponding period of the previous year.

3.10.4 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 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 30 June 2016, the Company had 133 branches, 1,628 sub-branches, one exclusive branch-level operation center (credit card center), one representative office, 3,282 self-service centers, 11,813 self-service machines (including 2,014 automatic teller machines and 9,799 cash recycle machines) and 5,746 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 in Singapore; a branch in Luxembourg; and a representative office in both London and Taipei. In addition, the London Branch of the Company was approved to commence operation by the British regulatory authority on 19 January 2016.

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 effectively relieved the pressure on physical outlets of the Company. As at the end of the reporting period, the overall counter replacement ratio in respect of retail e-banking channels reached 97.79%, representing an increase of 0.47 percentage point over the previous year. The visual electronic counter replacement ratio of non-cash transactions reached 47.00%, representing an increase of 26.52 percentage points over the previous year. The overall counter replacement ratio in respect of corporate e-banking channels reached 60.73%, representing an increase of 1.69 percentage points as compared with the corresponding period of the previous year. As the mobile cheques (移動支票) and other new payment and settlement products innovated and launched by the Company were well received in the market, the replacement results was remarkable; whereas 94.17% of transaction settlements was completed via online corporate finance services, representing a decrease of 0.81 percentage point from the high level as compared with the corresponding period of the previous year.

Mobile banking

The personal mobile banking business of the Company maintained rapid growth in the first half of 2016 as mobile banking customers were increasingly active with an aggregate of 996 million logins in the Bank's mobile banking application during the reporting period, making it the most dynamic e-channel for customers of the Company. As of 30 June 2016, the aggregate number of downloads of the Bank's mobile banking application reached 79.11 million, and the aggregate number of customers who downloaded the application reached 34.09 million, of which 22.25 million users were active customers during the year. Meanwhile, the number of mobile banking transactions and volume of mobile payments have been increasing rapidly. In the first half of 2016, the total cumulative number of mobile banking transactions amounted to 1.873 billion, up by 146.78% as compared with that in the corresponding period of the previous year; and the cumulative transaction amount reached RMB6.21 trillion, up by 57.24% as compared with that in the corresponding period of the previous year. Specifically, the number of mobile banking transactions was 332 million, up by 41.28% as compared with that in the corresponding period of the previous year; and the amount of mobile banking transactions was RMB5.29 trillion, up by 49.12% as compared with that in the corresponding period of the previous year. The number of mobile payment transactions was 1.541 billion, up by 193.82% as compared with that in the corresponding period of the previous year; and the amount of mobile payment transactions was RMB0.92 trillion, up by 129.03% as compared with that in the corresponding period of the previous year.

During the reporting period, the Company proactively expanded mobile Internet, vigorously built the asset-light platform designed to develop its mobile phone-based retail business, and successively launched the Mobile Bank 4.1 and 4.2, thereby providing premium and convenient wealth management information, product recommendation and living services and aggressively promoting the transformation of the Mobile Bank from a transaction-based APP to an operation-based platform.

In 2016, the Company raised the standards for recognition of effective corporate mobile phone banking users. As at 30 June 2016, under the new calibre, the number of users of corporate mobile banking services of the Company amounted to 196,900. During the reporting period, the Company received from its users 4,300,000 requests on various services including account enquiries and payments and settlements, which effectively met our corporate customers' demand for mobile financial services, and has become an online marketing and service channel targeting corporate customers.

Online banking

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

As for the retail online banking business, as at the end of the first half of 2016, the number of active users of the retail online banking professional edition of the Company was 20.64 million. In the first half of 2016, customers increasingly used mobile phones and other mobile handsets to get access to online financial services along with continuous development of Internet finance. As the PC-based e-bank professional version was negatively affected by the change of transaction habits and the diversification of transaction channels, the total cumulative number of online retail finance transactions decreased by 12.36% to 644 million as compared with the corresponding period of the previous year; and the accumulated transaction amount was RMB15.43 trillion, representing a decrease of 10.33% as compared with the corresponding period of the previous year. Specifically, the number of online banking transactions was 223 million, up by 9.20% as compared with the corresponding period of the previous year; and the amount of online banking transactions was RMB15.10 trillion, down by 9.69% as compared with the corresponding period of the previous year; the number of online payment transactions was 421 million, down by 20.65% as compared with the corresponding period of the previous year; and the accumulated amount of online payment transactions was RMB330 billion, down by 32.14% as compared with the corresponding period of 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 30 June 2016, the total number of corporate online banking customers of the Company reached 960,934, representing an increase of 16.42% as compared with the end of the previous year. The accumulated number of corporate online banking transactions of the whole Bank was 93.6308 million, representing an increase of 73.97% as compared with the corresponding period of the previous year. The accumulated transaction amount of corporate online banking transactions of the whole Bank amounted to RMB48.71 trillion, representing an increase of 28.95% as compared with the corresponding period of 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 a variety of intimate service in a real-time, comprehensive, fast and professional manner, including business advisory and transaction, visual counters, online loan service, online wealth management, direct transactions, distant assistant service and online interactive service.

In the first half of 2016, the Company constantly improved the service capability and customer experience for its direct banking in accordance with the general targets of implementing "service upgrading" and "Asset-light Banking" throughout the bank. As a result, the online intelligent services accounted for 59.78%, up by 20.59 percentage points as compared with the corresponding period of the previous year; the manual telephone access ratio reached 98.21%; the percentage of manual telephone responses within 20 seconds reached 95.51%; and the customer service satisfaction ratio reached 99.62%, up by 0.53 percentage point as compared with the corresponding period of the previous year, all setting a record high.

In the first half of 2016, we proactively rolled out the asset-light operation model for online loan service of direct banking. During the reporting period, a total of 350,000 applications for online loans were accepted, with the number of successful loan marketing cases doubled as compared with the corresponding period of the previous year.

3.10.5 Overseas businesses

Hong Kong Branch

Established in 2002, the Company's Hong Kong Branch is engaged in corporate banking and retail banking. With regard to corporate 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 other financial institutions. 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 the first half of 2016, leveraging on the advantages of Hong Kong as the bridgehead of China's foreign economic and trade activities and as one major international finance centre of the world, 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 rapidly expand its share in the retail banking market. Meanwhile, 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$1.048 billion, profit before tax of HK$1.023 billion and profit per capita of over HK$6.09 million.

New York Branch

Established in 2008, the Company's New York Branch represents the first Chinese-funded bank approved and issued in 17 years with a bank operating license by the U.S. authorities following the promulgation of Foreign Bank Supervision Act of 1991 in the United States. It currently has 110 employees. As an integral part of internationalisation of China Merchants Bank, with strong support from the parent bank and focusing on the U.S. market, the New York Branch is strategically located in the heart of the global capital market, and is committed to providing a featured cross-border financial platform characterised by mutual coordination, while giving full play to its role as a bridge connecting China and U.S. capital markets.

During the reporting period, based on its own actual conditions, the New York Branch formulated the following clear strategic business development plan: under the guidance of "asset-light, professional and operating as an investment bank" philosophy, aiming to maximise its capital value and relying on asset securitisation, the New York Branch will strive to grow three areas of emerging businesses, namely corporate, financial institutions and private banking businesses with focus on cross border M&A, asset management, private banking, financial markets and asset securitisation, forge professionalism and highlight its operational features, so as to build the New York Branch into an outstanding overseas branch with unique features.

With respect to new business development, the New York Branch has obtained its private banking license, and will accelerate the development and innovation of its wealth management services for private banking customers, in an effort to offer integrated domestic and overseas financial services to high-value customers of China Merchants Bank. With respect to wholesale business, the New York Branch has built influence and established brands in cross-border mergers and acquisitions, cross-border asset management and advisory services. It is also conducting in-depth study of cross-border asset securitisation business, and offers new cross-border investment products to domestic customers. The New York Branch helped domestic customers to obtain overseas financing in an innovative manner through credit default swaps, and enhanced its cross-border and cross-market profitability of bill business by opening up various channels which connect the domestic market to the overseas RMB market, the monetary market and the interbank wealth management market. In addition, it has established a business network comprising global financial markets to serve cross-border customers, so as to develop its capability to conduct global investment transactions. By capitalising on the continuous progress of the RMB internationalisation, the New York Branch vigorously developed cross-border RMB business in the United States.

During the reporting period, the New York Branch realised a net operating income of USD44.07 million and profit before tax of USD28.80 million.

Singapore Branch

Established in 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 solutions to Chinese companies "going global" and Singaporean companies "being brought in". In addition to the general deposit and loan services, it also offers featured products including M&A financing, Cross-border Trade Express, global financing and cross-border settlement and sales of foreign exchange.

In the first half of 2016, in response to the financial market turmoil at home and abroad, the Singapore Branch actively and firmly promoted the transformation of asset-light banking in accordance with the requirements of the Head Office, and focused on pushing forward the construction of "three platforms and one centre". In addition, the Singapore Branch continued to implement the strategy of attaching equal importance to cross-border financial services and local business to focus on the cultivation of core customer base. By proactively expanding emerging businesses including project financing in the peripheral market and buyer's credit, the Singapore Branch achieved smooth development of its various businesses despite the unfavourable business environment. With respect to corporate business, the Singapore Branch successfully completed the first cross-border business for Liangjiang New District, Chongqing by closely monitoring developments in the cooperation policies in China and Singapore. With respect to financial institutions business, the Singapore Branch successfully expanded into the Indonesian and Vietnamese markets and opened up new channels for the Bank's business as a whole. In addition, the Private Banking Centre of Singapore is currently under active preparation.

In the first half of 2016, the Singapore Branch realised a net operating income of USD6,365,000 and profit before tax of USD3,250,400.

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 consultancy, bond underwriting and asset management for enterprises "going global" from China and "being 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 the first half of 2016, the Luxembourg Branch achieved rapid business growth by actively responding to policy changes, firmly capturing various market opportunities such as M&A financing and capitalising on improved efficiency and strengthened cooperation with domestic and overseas banks and financial institutions. As at the end of the reporting period, the Luxembourg Branch realised total assets of €607 million and a net operating income of €1,653,600.

London Branch

Established in 2016, the London Branch of the Company mainly focuses on corporate banking business and provides customers with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans, trade finance and cross-border M&A financing), settlement and asset custody. It also engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with other financial institutions.

As at the end of the reporting period, the London Branch realised total assets of USD304 million and a net operating income of USD827,100.

3.10.6 Wing Lung Group

Founded in 1933, Wing Lung Bank has a capital of HK$1.161 billion as at 30 June 2016, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries ("Wing Lung Group") comprise deposit-taking, lending, investment and wealth management, credit cards, online banking, documentary bills, leasing and hire purchase loans, foreign exchange, securities brokerage, asset management, insurance business, mandatory provident fund, property management, trustee, nominee and investment banking services. At present, Wing Lung Bank has a total of 37 banking offices in Hong Kong, 4 branches and sub-branches in Mainland China, one branch in Macau, and three overseas branches, located respectively in Los Angeles, San Francisco, the United States and the Cayman Islands. As at 30 June 2016, the total number of employees of Wing Lung Bank is 1,925.

For the period ended 30 June 2016, profit attributable to the shareholders of Wing Lung Group was HK$1.841 billion, representing an increase of 1.62% as compared with the corresponding period of the previous year. In the first half of 2016, it recorded a net interest income of HK$1.661 billion, representing a decrease of 18.70% as compared with the corresponding period of the previous year. The net interest margin was 1.50%, down by 18 basis points as compared with the corresponding period of the previous year. Net non-interest income was HK$1.348 billion, representing an increase of 32.63% as compared with the corresponding period of the previous year. The cost-to-income ratio for the first half of 2016 was 32.60%, representing an increase of 1.12 percentage points as compared with the corresponding period of the previous year. The non-performing loan ratio (including trade bills) was 0.51%.

As at 30 June 2016, the total assets of Wing Lung Group amounted to HK$237.866 billion, representing a decrease of 7.44% as compared with the end of 2015. Total equity attributable to shareholders amounted to HK$27.961 billion, representing an increase of 5.78% as compared with the end of 2015. Total loans and advances to customers (including trade bills) amounted to HK$130.979 billion, representing a decrease of 10.35% as compared with the end of 2015. Deposits from customers amounted to HK$171.532 billion, representing a decrease of 4.82% as compared with the end of 2015. Loan-to-deposit ratio was 70.27%, up by 5.85 percentage points as compared with the end of 2015. As at 30 June 2016, the common equity Tier-1 capital ratio of Wing Lung Group was 12.36%, its Tier-1 capital ratio was 14.21% and its total capital ratio was 17.58%. The average liquidity maintenance ratio for the reporting period was 39.52%, all above regulatory requirements.

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

3.10.7 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, securities brokerage, asset management, wealth management and equity investments.

As at 30 June 2016, CMBIC had a registered capital of HK$4.129 billion, 225 employees, total assets of HK$8.058 billion, representing an increase of 143.73% as compared with the end of the previous year and net assets of HK$5.912 billion, representing an increase of 189.09% as compared with the end of the previous year. In the first half of 2016, CMBIC achieved a net operating income of HK$668 million, representing an increase of 46.49% as compared with the corresponding period of the previous year; and realised a net profit of HK$137 million, representing a decrease of 46.48% as compared with the corresponding period of the previous year.

3.10.8 China Merchants Fund

Established on 27 December 2002 with a registered capital of RMB210 million, CMFM is the first Sino-foreign joint venture fund management company under the approval of the CSRC. As at the end of the reporting period, the Company had 55% equity interest in CMFM. The scope of business of CMFM covers fund establishment, fund management and other operations approved by the CSRC.

As at 30 June 2016, CMFM reported total assets of RMB2.989 billion, down by 6.91% as compared with the end of the previous year, net assets of RMB1.751 billion, up by 21.68% as compared with the end of the previous year. It had a workforce of 300 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 (招商財富) and China Merchants Asset Management (Hong Kong) (招商資管(香港)) amounted to RMB991.8 billion. In the first half of 2016, CMFM realised a net operating income of RMB1.112 billion, representing an increase of 8.38% as compared with the corresponding period of the previous year; and achieved a net profit of RMB316 million, representing an increase of 6.39% as compared with the corresponding period of the previous year.

3.10.9 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 World Trade Organisation (WTO). As at the end of the reporting period, the Company had 50% equity interest 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 30 June 2016, CIGNA & CMB Life Insurance had a registered capital of RMB1.45 billion and a workforce of 2,461 employees, total assets of RMB22.481 billion, representing an increase of 23.77% as compared with the end of the previous year, and net assets of RMB2.821 billion, representing an increase of 1.79% as compared with the end of the previous year. In the first half of 2016, CIGNA & CMB Life Insurance realised an insurance income of RMB7.357 billion, representing an increase of 103.80% as compared with the corresponding period of the previous year, and a net profit of RMB171 million, representing a decrease of 10.35% as compared with the corresponding period of the previous year.

3.11 Risk Management

The Company, through transforming itself into an asset-light 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 the supreme authority of the Company in relation to risk management. The Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies that align with the 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 37 to the financial statements.

3.11.1 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 business at different authorisation levels. The decision-making entities include: the Risk and Compliance Management Committee, the Loan Approval Committee and the Special Loan Approval Committee of the Head Office, as well as the Risk Control 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 credit assets into different categories under an internal 10-category classification system. The classification of a credit asset may be initiated by a relationship manager or a risk control officer and then reviewed by credit risk management departments of the Head Office and our branches according to their respective authorisation.

In the first half of 2016, against the background of mounting downward economic pressure, and complicated and volatile international environment, the Company kept to its strategy of "Asset-light Banking" and "One Body with Two Wings", as well as 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)" to accelerate 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 management of and communication about risk appetites, monitored major risk appetite indicators on a regular basis and enhanced management over the process of risk appetite operations; strengthened the centralised management of authorisation and risks for investment banking, asset management and agency services; streamlined a variety of emerging financing businesses and included them into the unified risk management system, thereby laying a solid foundation for the healthy and sustainable development of our business.

Secondly, the Company actively adjusted asset structure and optimised asset portfolio allocation. The Company aggressively developed low-capital-consumption asset business, such as personal housing mortgage and credit card businesses; continued to adjust structure of corporate assets, strictly implemented the "customer list management" under the Head Office and its branches that categorises customers into strategic customers and customers that should be reduced and withdrawn from; we dynamically adjusted industry credit policies, gave priority to emerging industries, fields related to people's living standard and consumption, energy conservancy and environmental protection. We enhanced efforts to untie from customers 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, with focus on asset quality, took proactive measures for risk prevention and control, actively reduced or withdrew risky 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 loans that came due, 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; in order to prevent and control risks in advance, the Company enhanced efforts to separate from customers with risk pre-warning, formulated "Targeted Measure for Every Account (一戶一策)", a risk management measure for customers with large-sum risk pre-warning for "Early Detection, Early Pre-warning and Early Disposal (早發現、早預警、早處置)"; the Company firmly reduced and withdrew risky assets in seven areas, namely overcapacity industries, customers with small enterprise risk, private guarantee companies, customers with high group risks, customers with general risk pre-warning, risk guarantee circle and micro-finance loans; sought accountability, strictly, seriously and quickly, for the non-performing loans granted to 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 introducing asset securitisation as a new channel, 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 risky assets through multiple means and tapping into the value of non-performing assets. We enhanced team building for management of non-performing assets and professional operations, established an asset security system, achieved integrated operation of collecting non-performing assets before, during and after the litigation, thereby further improving our capability for operating non-performing assets.

Fifthly, the Company strengthened management and continued to improve its risk management system. 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》)", urging relevant departments under the Head Office and its branches to put such method into practice and establish a mechanism to seek accountability that combines responsibilities, powers and interests, thereby enhancing 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 oversight mechanism was established.

Sixthly, the Company steadily increased application of quantitative risk management tools. The Company optimised and developed a number of internal rating models, further improved the model precision and coverage of internal rating, and enhanced research on applications of risk quantification tools to routine risk management.

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.

3.11.2 Country risk management

Country risks represent the risks of economic, political and social changes and developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfill 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 30 June 2016, the assets of the Company exposed to the country risk remained insignificant, 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.

3.11.3 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. 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 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 implemented, 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.

At the beginning of 2016, based on the prediction on larger fluctuations in domestic and overseas markets and the increase in the probability of occurrence of credit risk events at home, the Company prudently formulated the annual authorisation and limit policies and further increased the frequency of monitoring certain businesses, thereby optimising the risk measurement and monitoring tools. Each interest rate risk indicator for the trading account was satisfactory under effective risk control.

(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 centralised 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 calculated by simulating the scenario of changes in interest rates, the changes in economic value (EVE) indicator, and 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 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. In the first half of 2016, the results of stress test show that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the set limits and warning value.

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 meeting 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 shift asset and liability business and the utilisation of off-balance shift 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 will launch the upgrading and revamping of its existing asset and liability management system in the second half of 2016.

In the first half of 2016, the Company has been closely monitoring the change of the external interest rate environment, conducting the rolling forecast for future movements in interest rates, strengthening its monitoring and analysis of NII fluctuation and deepening its analysis of difference in NII progress and anticipation. Based on the above-mentioned macro prediction and refined internal management, the Company proactively put forward the proposal on optimisation of assets and liabilities, so as to ensure that the overall interest rate risk level remains anchored to the management target and to safeguard the stable operation of NII.

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 Board of Supervisors, the senior management, special committees and relevant departments 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 centralised 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 of the Board, business planning and risk forecast, and delegated the Market Risk Management Department to perform daily monitoring and on-going reporting.

In the first half of 2016, financial markets over the world continued to experience turbulence. The RMB exchange rate was under depreciation pressure in anticipation of downward revision of the global economic outlook. Given the two-way volatility of RMB against USD and the narrowing difference between the onshore and offshore foreign exchange rates, the Company aggressively expanded agency business to proactively reduce the risk exposure, and achieved a stable income from each of the foreign exchange businesses under the trading book.

(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 centralised 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 analysis refers to the measurement primarily from the dimension of currencies, and use the short-sided method and the correlation approach to measure the cumulative exposure of the Bank; 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.

In the first half of 2016, the Company paid close attention to exchange rate movements, took initiative to analyse the impact of exchange rate changes in light of the macroeconomic conditions at home and abroad, and proposed a balance sheet optimisation program 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 limited authority management to ensure that risks are kept within reasonable limits.

3.11.4 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 further implemented the risk assessment, monitoring and alert policy, improved risk management model and strengthened prevention and control of risks. Firstly, we carried out a comprehensive risk assessment focusing on the strategic businesses and major businesses of the Bank, conducted special assessments from various perspectives including personnel, system, process and risk management and made corresponding recommendation on management. Secondly, we constantly enhanced our management of various operational risks with innovative ideas. Starting with the assessment of business risk and personnel risk, we focused on carrying out regular risk and control self-assessment ("RCSA") on the operational risk associated with key businesses or products of corporate, retail, investment banking and financial market, operational management and other business lines as well as the abnormal behaviours of front-line personnel serving as 9 specified posts in business lines. Thirdly, we continuously promoted the fundamental construction and cultural publicity of operational risk management by improving approaches for operational risk management, organising video training programs across the Bank, editing quite a few volumes of the periodical Developments of Operational Risk Management and produced micro films based on a number of selected cases for alert and education purposes. Fourthly, we further strengthened outsourcing and IT risk management. We organised and promoted various risk assessment work for newly outsourced products of the Head Office and continuously monitored outsourcing risk indicators. We also diversified and optimised IT risk indicator monitoring system, pushed ahead with the fundamental construction work for the business continuity management ("BCM") system, organised respective departments to complete annual work and report on BCM, and promoted and optimised the BCM system platform.

3.11.5 Liquidity risk management

Liquidity risk is the risk that the Company cannot satisfy its customers by repaying deposits that fall due, granting new loans or providing financing, or that the Company cannot satisfy these requirements at a normal cost.

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 Board of Supervisors, 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 Board of Supervisors shall be responsible for the supervision and assessment on the duty performance of the Board of Directors and the senior management in liquidity risk management. 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 Management Committee (ALCO) shall, under the authority of the senior management, perform part of the duties of the Executive Office of President of the Head Office on its behalf and 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 centralised 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 organised regular liquidity contingency drillings to guard against any liquidity crisis.

In the first half of 2016, with market liquidity at a moderate-to-loose level, the central bank adopted a more 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 basically in line with that of the market, and overall liquidity was relatively stable due to steady growth in deposits from customers and the progressive investment of assets. As at the end of June 2016, the Company's liquidity coverage ratio was 105.35%[1], representing 25.35 percentage points higher than the minimum requirement of CBRC. Local-currency 3-month liquidity gap ratio and foreign-currency 3-month liquidity gap ratio were -4.17%[2] and 10.63% respectively, both within the limits on liquidity risk exposure, and the maturity mix of local currency and foreign currencies remained relatively reasonable. Stress test[3] 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 flexibly using FTP and achieved a balance between the source of funds and use of funds so as to continuously improve maturity mismatch of assets and liabilities. Secondly, the Company strengthened its management of active liability taking by flexibly conducting short-, medium- and long-term active liability taking according to its own liquidity profile and market interest rate trend, including issuance of negotiable interbank certificates of deposits and certificates of large-amount deposits. Thirdly, the Company strengthened liquidity risk management of standalone business lines. Specifically, as for standalone business lines such as bills business, assets management and wealth management business, the Company implemented risk limit management according to their respective risk features to improve its maturity mismatch management, so as to ensure liquidity risk is under control. Fourthly, the Company carried out proactive risk management. Taking into consideration of the market conditions and 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. Fifthly, the Company progressively pushed forward asset securitisation. In the first half of 2016, the Company launched asset securitised products of RMB3.922 billion, including credit card statement products of RMB3.219 billion, non-performing loans from credit card business of RMB233 million and non-performing loans from small- and micro-enterprises of RMB470 million.

As at the end of June 2016, 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.

3.11.6 Reputational risk management

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

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

1 Liquidity coverage ratio is an external regulatory indicator – the legal person calibre
2 The liquidity gap ratio is the Company's internal management indicator – the domestic calibre
3 The stress test is the Company's internal management indicator – the domestic calibre

During the reporting period, relying on its systematic reputational risk management, the Company strengthened the front-line management of reputational risk, expanded the monitoring coverage of media, increased the monitoring frequency of new mainstream media including WeChat and news APP and further improved whole-network monitoring system and crisis response system of the Bank, thereby effectively improving its efficiency of handling public sentiments. At the same time, the Company carried out news communication and provided guidance for public sentiments in an innovative manner, and established and improved mechanisms to communicate with media organisations including its own media, thus reducing its exposure to reputational risk.

3.11.7 Compliance risk management

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

During the reporting period, the Company proactively adapted to the adjustments in regulatory polices, positively addressed the significant changes in financial situations and risk control. Concentrating its efforts on strategic transformation, business process changes and management system, the Company reshuffled the manners and measures adopted for managing compliance matters and held fast to the bottom line of compliant operation, resulting in improved management efficiency. The major measures are as follows: the Company formulated and published Guiding Opinions for 2016 Internal Control and Compliance Work of the Bank and assigned the management ideas and requirements of the head office to the Bank; strengthened the understanding of polices and the circulation and delivery of new regulations in a more timely and relevant manner, enforced regulatory policies and identified business opportunities; provided professional legal compliance services so as to actively facilitate improvement in asset quality and innovation of business and products; promoted all entities and organisations of the Bank to establish internal control and compliance teams for standardising the duties of internal control and compliance staff and performance-related appraisal requirements of all organs; focusing on "Strict Governance of the Bank", organised staff of the Bank to conduct incompliance-correction campaign, carried out bank-wide test of compliance knowledge with sustained and extensive publicity; established a solid internal control and compliance information-sharing mechanism, explored and improved a new compliance review mechanism, continued to optimise systems and strengthen process control and enforcement; pushed the chief executives and compliance officer of each domestic branch to attend compliance courses, and the heads of sub-branches and compliance supervisor to promote and explain compliance-related knowledge, continuously creating a good compliance environment; promoted the centralised management of supervision and inspection and rectification of issues, strengthened accountability to ensure the effectiveness and seriousness of internal control and compliance.

3.11.8 Anti-Money Laundering management

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

In the first half of 2016, the Company has strengthened its efforts in anti-money laundering management of overseas branches and cross-border businesses and drafted the Guide to Self-assessment on Anti-money Laundering for Overseas Branches (《境外機構反洗錢自評估指引》). In addition, the Bank constantly improved its anti-money laundering system, added or adjusted criteria for anti-money laundering monitoring. In order to meet the demand for settlement of cross-border RMB accounts, the Company integrated the anti-money laundering name-list verification system with the interbank agency clearing system, and developed the corresponding due diligence procedures. Furthermore, the Company further stepped up the centralised monitoring and analysis efforts by appropriately assigning additional anti-money laundering professionals to improve the effectiveness and professionalism of the anti-money laundering work.

3.12 Profit Appropriation

The profit appropriation plan for 2015

The profit appropriation plan of the Company for 2015 was considered and approved at its 2015 Annual General Meeting held on 28 June 2016.

As stated in the audited financial statements of the Company for 2015, 10% of the profit after tax of RMB53.189 billion, equivalent to RMB5.319 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets, equivalent to RMB10.720 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 declared a cash dividend (tax included) of RMB6.90 for every 10 Shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The actual appropriation amount in HKD was 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 has been carried forward to the next year. In 2015, the Company did not transfer any capital reserve into share capital.

The Board of Directors of the Company has already implemented the above-mentioned profit appropriation plan. For further information, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

Interim Dividend Appropriation for 2016

The Company would not distribute interim dividend for the first half of 2016, nor would it transfer any capital reserve into share capital (for January-June 2015: nil).

3.13 Social Responsibility

In 2016, adhering to the social responsibility philosophy of "committing to sustainable finance, enhancing sustainable value and contributing to sustainable development", the Company will continue to improve social responsibility management mechanism, fully communicate with stakeholders, fulfill corporate social responsibility and make contributions to the sustainable development of our economy and society. During the reporting period, the Company continuously supported the development of Wuding County and Yongren County in Yunnan by organising its employees to make donations including cash and necessities, participated in the "Promotion of Financial Knowledge in China's Banking Industry" campaign promoted by the China Banking Association and attached great importance to the service designed to protect the interest of financial consumers. The Company also continuously advocated the idea of "monthly donation" and "happy donation" and promoted public charity from everybody.

By order of the Board
Li Jianhong
Chairman of the Board of Directors
18 August 2016

IV Important Events

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

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

4.2 Interests and short positions of directors, supervisors and senior management

As at 30 June 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), which have been notified to the Company and the 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 the 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

4.3 Disciplinary actions imposed on the Company, directors, supervisors and senior management and the shareholders holding more than 5% of our Shares

As far as the Company is aware, during the reporting period, none of the Company, its directors, supervisors or senior management or the shareholders holding more than 5% of our Shares was subject to investigation by relevant authorities or to mandatory measures imposed by judicial organs or discipline inspection authorities. None of them was referred or handed over to judicial authorities or prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor were they be prohibited from engagement in the securities markets, given notice of criticism, nor determined as unqualified, nor been publicly censured by any stock exchange. Neither the Company nor the shareholders holding more than 5% of the Shares of the Company has been penalised by other regulatory bodies which have significant impacts on the businesses of the Company.

4.4 Undertakings made by the Company and shareholders holding more than 5% of our shares

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 "CM Group" or "China Merchants Group"), China Merchants Steam Navigation Co. Ltd. and China Ocean Shipping (Group) Company had undertaken that they would not seek for related party transactions on terms more favourable 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 did not violate the aforesaid undertakings.

4.5 Significant connected transactions

4.5.1 Overview of connected transactions

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

4.5.2 Connected transactions which are unrelated to the granting of financial assistance

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. (hereinafter referred to as "Anbang Insurance") and its associates (Anbang Insurance and its associates are collectively 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 cap for the continuing connected transactions with CMFM Group for each of the years of 2015 and 2016 would be RMB3 billion. On 28 April 2015, with the approval of the Board of Directors of the Company, the Company announced that the annual cap for the continuing connected transactions with CM Securities Group for each of the years 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 cap for the continuing connected transactions with Anbang Insurance Group for each of the years of 2015, 2016 and 2017 would be RMB1.2 billion. Further details were disclosed in the Announcements on Continuing Connected Transactions published by the Company on 26 August 2014, 28 April 2015 and 16 June 2015, respectively.

CMFM Group

The fund distribution agency services provided by the Company to CMFM Group constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

The Company and CM Securities held 55% and 45% equity interest in CMFM, respectively. CMFM is a connected subsidiary 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 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 30 June 2016, the amount of the continuing connected transactions between the Company and CMFM Group was RMB985.88 million (unaudited).

CM Securities Group

The third-party custody business, agency sales of asset management plans, collective investment products and other services provided by the Company to CM Securities Group constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As at the end of the reporting period, China Merchants Group held 29.97% equity interest in the Company (including those deemed to be held by it through affiliated companies). As China Merchants Group held 50.86% equity interest in CM Securities, CM Securities is therefore a connect person of the Company pursuant to the Hong Kong Listing Rules.

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 fee paid by CM Securities Group to the Company was determined based on normal market pricing policies in accordance with the Service Cooperation Agreement.

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 30 June 2016, the amount of the continuing connected transactions between the Company and CM Securities Group was RMB247.19 million (unaudited).

Anbang Insurance Group

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

Anbang Property & Casualty Insurance Company Ltd. is one of the Bank'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 10.72% equity interest in the Bank. According to the Hong Kong Listing Rules, Anbang Insurance is a connected person of the Bank.

On 16 June 2015, the Company entered into a Service Cooperation Agreement with Anbang Insurance 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 paid by Anbang Insurance Group to the Bank was determined based on normal market pricing policies in accordance with the Service Cooperation Agreement.

The annual cap for the continuing connected transactions between the Company and Anbang Insurance Group for 2016 was RMB1.2 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 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 30 June 2016, the amount of the continuing connected transactions between the Company and Anbang Insurance Group was RMB1,027.36 million (unaudited).

4.6 Material litigations and arbitrations

So far as the Company is aware, as at 30 June 2016, the Company was involved in the following litigation cases in the ordinary course of business: the number of pending litigation and arbitration cases in which the Company was involved totalled 24,603 with a total amount of principal and interest of approximately RMB71.24 billion. Of which, there were a total of 466 pending litigation and arbitration cases against the Company as at 30 June 2016, with a total claim amount of RMB1.915 billion. There were 32 pending cases with a principal amount exceeding RMB100 million, involving a total amount of approximately RMB10.906 billion with interest of RMB740 million. Although there was an increase in the number and amount of cases where the Company took legal actions to have recourse against the debtors due to economic downturn, the Company is of the view that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

4.7 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 Company.

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 PBOC and the CBRC, there was no other significant discloseable guarantee.

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.

4.8 In relation to the Engagement of Accounting Firms for 2016

The term of office of KPMG Huazhen (Special General Partnership) and KPMG expired upon conclusion of the 2015 Annual General Meeting of the Company. With reference to the relevant requirements of the *Notice on Issuing the Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (for Trial Implementation)* (《金融企業選聘會計師事務所招標管理辦法(試行)》) (Cai Jin [2010] No.169) issued by the Ministry of Finance on the term of office of the same accounting firm engaged by the financial enterprise consecutively and as approved at the 2015 Annual General Meeting of the Company, the Company agreed to engage Deloitte Touche Tohmatsu Certified Public Accountants LLP (Special General Partnership) as the domestic accounting firm of the Company and its subsidiaries in China for 2016 and Deloitte Touche Tohmatsu Certified Public Accountants as the international accounting firm of the Company and its overseas subsidiaries for 2016. The above engagement shall be for a term of one year. Please refer to the documents of 2015 Annual General Meeting and relevant poll results announcement of the Company for further details.

4.9 Use of funds by related parties

So far as the Company is aware, 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 connected transactions not entered into on an arm's length basis.

4.10 Review of interim results

Deloitte Touche Tohmatsu, being the external auditor of the Company, has reviewed the interim financial report of the Company prepared in accordance with the disclosure requirements of the International Accounting Standards and the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Company has also reviewed and approved the interim results and financial report of the Company for the period ended 30 June 2016.

4.11 Publication of interim report

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

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

V Share Capital Structure and Shareholder Base

5.1 Changes in Shares of the Company during the reporting period

		31 December 2015		Changes in the reporting period	30 June 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 233,862 shareholders, including 37,782 holders of H Shares and 196,080 holders of A Shares. No Share is subject to trading moratorium. The Company did not issue any internal employee shares.

Based on the publicly available information and so far as the Company's directors were aware of, as at 30 June 2016, the Company had met the public float requirement of the Hong Kong Listing Rules.

5.2 Top ten shareholders and top ten shareholders whose shareholdings are not subject to trading moratorium

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. (note 1)	/	4,545,593,609	18.02	H Shares	6,869,692	0	0
2	China Merchants Steam Navigation Company Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	0	0	0
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	0	0	0
4	China Ocean Shipping (Group) Company	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	0	0	0
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	0	0	0
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	0	0
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	0	0	0
8	China Securities Finance Corporation Limited	Domestic legal person	852,762,527	3.38	A Shares not subject to trading moratorium	254,327,785	0	0
9	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal person	696,450,214	2.76	A Shares not subject to trading moratorium	0	0	0
10	China Communications Construction Company Limited	State-owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	0	0	0

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., Shenzhen Chu Yuan Investment and Development Company Ltd. and China Merchants Finance Investment Holdings Co., Ltd. are subsidiaries of China Merchants Group Ltd.. As at 30 June 2016, China Merchants Group Ltd. held an aggregate of 29.97% of the total issued shares of the Company through companies in which it held shareholding/exerted control/acted in concert with any of them. 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. Both China Ocean Shipping (Group) Company and Guangzhou Maritime Transport (Group) Company Ltd. are the companies controlled by China COSCO Shipping Corporation Limited. The Company is not aware of any affiliated relationships among other shareholders.

3. The State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC of the State Council") approved the allocation of Sinotrans & CSC Holdings Co., Ltd. ("Sinotrans & CSC") into China Merchants Group at nil consideration. 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. Since uncertainties exist in the matters relevant to the change in equity interest in this acquisition, China Merchants Steam Navigation Company Ltd. applied to CSRC for suspension of the examination review relevant to the matters on its application for a waiver of its general offer obligation and received an approval from the CSRC on 8 June 2016. 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.

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

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

As at 30 June 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	2,426,079,282	1		
				3,573,456,697		17.32	14.17
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

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 (%)
JPMorgan Chase & Co.	H	Long	Beneficial owner	130,279,452			
		Long	Investment manager	196,641,270			
		Long	Custodian	77,743,182			
				404,663,904	2	8.81	1.60
		Short	Beneficial owner	23,214,130	2	0.50	0.09
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
Boyuan Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Guoxin International Investment Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial owner	477,903,500	3	10.41	1.89

Notes:

(1) 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 Group 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 (1.3) 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) China Merchants Industry Development (Shenzhen) Limited held 55,196,540 A Shares (long position) in the Company. China Merchants Industry Development (Shenzhen) Limited was a wholly owned subsidiary of China Merchants China Direct Investments Limited. China Merchants Group Ltd. indirectly controls 27.59% interest in China Merchants China Direct Investments Limited through China Merchants Finance Holdings Company Limited, its wholly owned subsidiary. 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 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 days prior notice in writing. Therefore, China Merchants Group Ltd. is a related party that dominates the major decision makings of China Merchants Industry Development (Shenzhen) Limited.

(2) JPMorgan Chase & Co. was deemed to hold interests in a total of 404,663,904 H Shares (long position) and 23,214,130 H Shares (short position) in the Company by virtue of its control over a number of corporations, which were directly or indirectly wholly-owned by JPMorgan Chase & Co..

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 77,743,182 H Shares. Besides, 30,569,733 H Shares (long position) and 23,214,130 H Shares (short position) were held through derivatives as follows:

4,522,000 H Shares (long position) and 3,957,500 H Shares (short position)	– through physically settled derivatives (on exchange)
269,000 H Shares (short position)	– through cash settled derivatives (on exchange)
3,500,000 H Shares (long position) and 3,834,739 H Shares (short position)	– through physically settled derivatives (off exchange)
22,547,733 H Shares (long position) and 15,152,891 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 Boyuan 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 Guoxin International Investment 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) Boyuan Investment Company Limited (referred to in (3) above) was deemed to hold the 477,903,500 H Shares in the Company which Guoxin International Investment Corporation Limited was deemed to hold by virtue of holding 90% interest in Guoxin International Investment Corporation Limited.

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

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the shares and underlying shares of the Company as at 30 June 2016 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

6.1 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth(Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Li Jianhong	Male	1956.5	Chairman	2014.8-2019.6	–	–
			Non-Executive Director	2014.7-2019.6		
Li Xiaopeng	Male	1959.5	Vice Chairman	2015.11-2019.6	–	–
			Non-Executive Director	2014.11-2019.6	–	–
Tian Huiyu	Male	1965.12	Executive Director	2013.8-2019.6	–	–
			President and Chief Executive Officer	2013.9-2019.6		
Sun Yueying	Female	1958.6	Non-Executive Director	2001.4-2019.6	–	–
Li Hao	Male	1959.3	Executive Director, First Executive Vice President and Chief Financial Officer	2007.6-2019.6	–	–
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8-2019.6	–	–
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2019.6	–	–
Su Min	Female	1968.2	Non-Executive Director	2014.9-2019.6	–	–
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-2019.6	–	–
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-2019.6	–	–
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7-2019.6	–	–
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11-2019.6	–	–
Guo Xuemeng	Female	1966.9	Independent Non-Executive Director	2012.7-(Note 1)	–	–
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1-2019.6	–	–
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8-2019.6	–	–
Fu Junyuan	Male	1961.5	Shareholder Supervisor	2015.9-2019.6	–	–
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6-2019.6	–	–
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6-2019.6	–	–
Jin Qingjun	Male	1957.8	External Supervisor	2014.10-2019.6	65,800	65,800
Ding Huiping	Male	1956.6	External Supervisor	2016.6-2019.6	–	–
Han Zirong	Male	1963.7	External Supervisor	2016.6-2019.6	–	–
Xu Lizhong	Male	1964.3	Employee Supervisor	2016.6-2019.6	–	–
Huang Dan	Female	1966.6	Employee Supervisor	2015.3-2019.6	–	–
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5-2019.6	–	–
Ding Wei	Male	1957.5	Executive Vice President	2008.5-2019.6	–	–
Zhu Qi	Male	1960.7	Executive Vice President	2008.12-2019.6	–	–
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2019.6	–	–
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7-present	–	–
Wang Liang	Male	1965.12	Executive Vice President	2015.1-2019.6	–	–
			Secretary of Board of Directors	(Note 1)		
Zhao Ju	Male	1964.11	Executive Vice President	2015.2-2019.6	–	–
Lian Bolin	Male	1958.5	Executive Assistant President	2012.6-present	–	–
Ma Zehua	Male	1953.1	Former Vice Chairman	2014.8-2016.6	–	–
			Former Non-Executive Director	2014.3-2016.6		
Li Yinquan	Male	1955.4	Former Non-Executive Director	2001.4-2016.6	–	–
Zhu Genlin	Male	1955.9	Former Shareholder Supervisor	2003.5-2016.6	–	–
Liu Zhengxi	Male	1963.7	Former Shareholder Supervisor	2012.5-2016.6	–	–
Pan Ji	Male	1949.4	Former External Supervisor	2011.5-2016.6	–	–
Dong Xiande	Male	1947.2	Former External Supervisor	2014.6-2016.6	–	–
Xiong Kai	Male	1971.4	Former Employee Supervisor	2014.8-2016.6	–	–
Wang Qingbin	Male	1956.12	Former Executive Vice President and General Manager of Beijing Branch	2011.6-2016.6	–	–
Xu Shiqing	Male	1961.3	Former Secretary of Board of Directors	2013.5-2016.6	–	–

Notes:

1. For details about the terms of office of Ms. Guo Xuemeng and Mr. Wang Liang, please refer to "Appointment and Resignation of Directors, Supervisors and Senior Management" in this Chapter.

2. None of the directors, supervisors and senior management listed in the above table holds share options or has been granted restricted shares of the Company.

6.2 Appointment and Resignation of Directors, Supervisors and Senior Management

In June 2016, the change of session of each of the Board of Directors and the Board of Supervisors was 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 are newly elected as Non-executive Directors of the Tenth Session of the Board of Directors of the Company, and Mr. Wong See Hong is newly elected as Independent Non-executive Director of the Tenth Session of the Board of Directors of the Company. The appointment qualifications of Mr. Xu Lirong, Mr. Zhang Jian, Mr. Wang Daxiong, Mr. Zhang Feng and Mr. Wong See Hong are still subject to approval by the banking regulator(s) in the PRC. Mr. Ma Zehua ceased to be Vice Chairman and Non-executive Director of the Company and Mr. Li Yinquan ceased to be Non-executive Director of the Company. Mr. Xu Lirong was elected as Vice Chairman at the first meeting of the Tenth Session of the Board of Directors of the Company, but his qualification for serving as Vice Chairman is still subject to approval by the banking regulator(s) in the PRC. Ms. Guo Xuemeng should continue her duty until Mr. Wong See Hong's appointment qualification is approved.

According to the resolutions passed at the 2015 Annual General Meeting of the Company, Mr. Wen Jianguo and Mr. Wu Heng are newly elected as Shareholder Supervisors of the Tenth Session of the Board of Supervisors of the Company and Mr. Ding Huiping and Mr. Han Zirong are 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 is 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 Board of Directors of the Company and Mr. Wang will take office upon obtaining approval by the banking regulator(s) in the PRC and the Certificate for Qualification of Secretary to the Board Training issued by Shanghai Stock Exchange. The Board of Directors ceased to employ Mr. Wang Qingbin as Vice Chairman of the Company for the reason of his age. Mr.Xu Shiqing ceased to be the Secretary of Board of Directors of the Company due to a change of job.

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

6.3 Changes of Occupations of Directors and Supervisors

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

2. Ms. Sun Yueying, Non-executive Director of the Company, also serves as the Chairman of China Shipping Container Lines Company Limited (a company listed on Hong Kong Stock Exchange), ceased to be the Director of China Merchants Securities Co., Ltd. (a company listed on Shanghai Stock Exchange).

3. Mr. Li Hao, Executive Director and First Executive Vice President of the Company, also serves as the Vice Chairman of Wing Lung Bank Limited and Director of China Internet Banking Association, CMB International Capital Holdings Corporation Limited and Merchants Union Consumer Finance Co., Ltd..

4. Mr. Hong Xiaoyuan, Non-executive Director of the Company ceased to be the Chairman of China Merchants Holdings (U.K.) Co., Ltd..

5. Ms. Su Min, Non-executive Director of the Company, also serves as the Director of China Merchants Securities Co., Ltd. (a company listed on Shanghai Stock Exchange).

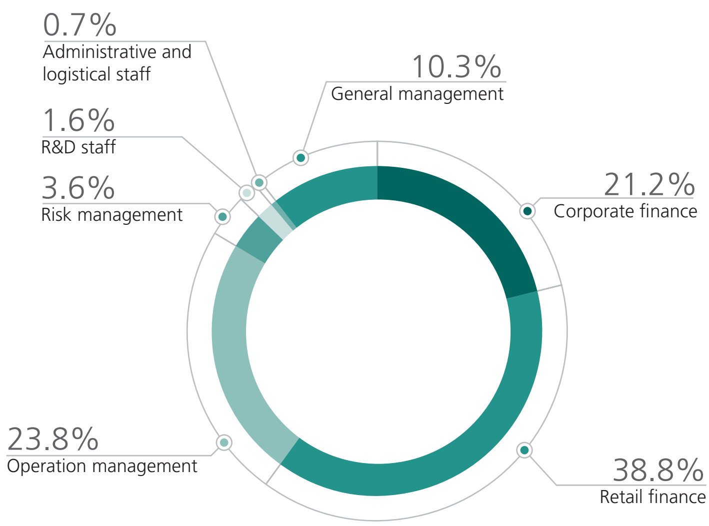
6. Mr. Leung Kam Chung, Antony, Independent Non-executive Director of the Company, also serves as the Chairman of Nan Fung Group.

7. Mr. Jin Qingjun, External Supervisor of the Company, ceased to be the Independent Director of New China Asset Management Co., Ltd. and Xi'an Dagang Road Machinery Co., Ltd. (西安達剛路面機械股份有限公司) (a company listed on Shenzhen Stock Exchange).

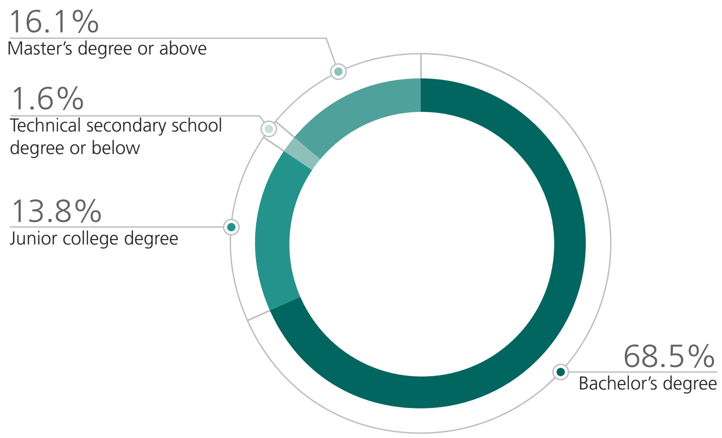
6.4 Information about Employees

As at 30 June 2016, the Company had 68,424 employees (including dispatched employees). In addition, the Company is responsible for payment of costs for 486 retired employees. The composition of our employees in service is set out as follows:

(1) Professional Structure



(2) Educational Structure



6.5 Branches and Representative Offices

During the reporting period, the Company continued to push forward expansion of its branch network. One second-level branch was approved to start business, namely Nanyang Branch. Our London Branch outside Mainland China was approved to commence business. The following table sets forth the branches and representative offices as at 30 June 2016:

Regions	Name of branches	Business address	Postal code	No. of sub-branches/ offices	No. of employees	Volume of assets (RMB million)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,070	2,077,195
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,442	339,075
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	107	4,358	200,425
	Shanghai Pilot Free Trade Zone Branch	Waigaoqiao Building, 6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	29	5,090
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	78	2,669	143,147
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	66	2,481	129,957
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	33	1,113	64,445
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	36	1,127	118,198
	Wuxi Branch	9 Xueqian Road, Wuxi	214001	16	695	28,005
	Wenzhou Branch	1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	12	476	28,546
	Nantong Branch	111 Gongnong Road, Nantong	226007	13	432	22,810

Regions	Name of branches	Business address	Postal code	No. of sub-branches/ offices	No. of employees	Volume of assets (RMB million)
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	9	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	114	4,649	262,413
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	55	1,731	51,678
	Tianjin Branch	Yujia Building, 255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300204	42	1,587	87,312
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	67	1,938	73,286
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	15	314	11,885
	Tangshan Branch	44 Beixin Road West, Lubei District, Tangshan	063000	2	147	1,761
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	76	2,670	92,769
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	107	4,736	292,622
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	39	1,090	55,959
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361001	31	889	47,155
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	17	444	23,262
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	32	922	37,613
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	33	1,044	38,565
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	53	1,603	46,321
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	38	1,263	51,256
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	38	994	40,630
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	28	560	27,040

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

Regions	Name of branches	Business address	Postal code	No. of sub-branches/ offices	No. of employees	Volume of assets (RMB million)
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	64	2,212	104,335
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330003	51	1,241	67,328
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	54	1,410	44,322
	Hefei Branch	China Merchants Bank Mansion, 169 Funan Road, Hefei	230061	42	1,091	47,043
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	38	1,111	48,932
	Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	26	813	29,402
	Haikou Branch	1-3/F, Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou	570100	10	256	9,316
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	52	1,474	51,212
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	28	796	26,154
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	62	1,708	57,992
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	45	1,408	64,579
	Urumchi Branch	China Merchants Bank Mansion, 2 Huanghe Road, Urumchi	830000	18	657	21,585
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	43	1,256	65,094
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010040	18	645	25,420
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	456	20,891
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	19	404	17,226
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	12	352	14,226
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	9	250	10,299
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	168	100,041
	USA Representative Office	509 Madison Avenue, Suite 306, New York, U.S.A	–	1	1	1
	New York Branch	535 Madison Avenue 18th Floor, New York, U.S.A	1002	1	112	38,733
	Singapore Branch	One Raffles Place, Tower 2, #32-61, Singapore	048616	1	42	3,177
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	2	2
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	2	1
	Luxembourg Branch	20, Boulevard Royal, Luxembourg	L–2449	1	21	993
	London Branch	18/F, 20 Fenchurch Street, EC3M 3BY	–	1	23	77
Other assignments					31	–
Total			**–**	**1,772**	**68,424**	**5,266,802**

VII Corporate Governance

7.1 Overview of Corporate Governance

During the reporting period, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the special committees under the Board of Directors and the Board of Supervisors of the Company functioned proactively and effectively, secured prudence and compliance with the Company's operation, and ensured sustainable and healthy growth of the Company. During the reporting period, the Company held a total of 34 meetings of all sorts. Among them, there was 1 shareholders' general meeting, 7 meetings of the Board of Directors, 17 meetings of the special committees under the Board of Directors, 5 meetings of the Board of Supervisors and 4 meetings of the special committees under the Board of Supervisors.

Having conducted thorough self-inspection, the Company was not aware of any non-compliance with 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.

7.2 Information about General Meetings

During the reporting period, the Company convened 1 shareholders' general meeting, being the 2015 Annual General Meeting held in Shenzhen on 28 June 2016. The notifying, convening, holding and voting procedures of the meeting complied with the Company Law, the Articles of Association of the Company and the relevant requirements of the Hong Kong Listing Rules. For details of the relevant proposals considered at the meeting, please refer to the announcement in respect of the resolutions passed at the 2015 Annual General Meeting dated 28 June 2016 published on China Securities Journal, Shanghai Securities News and Securities Times, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.3 Information about Meetings of the Board of Directors and its Special Committees

During the reporting period, the Company convened 7 meetings of the Board of Directors (2 on-site meetings, 5 meetings voted by correspondence), considered and approved 50 proposals, heard 9 themed reports. Special committees under the Board of Directors convened 17 meetings (3 by the Strategy Committee, 2 by the Nomination Committee, 5 by the Risk and Capital Management Committee, 5 by the Audit Committee, and 2 by the Related-Party Transactions Control Committee), studied and reviewed 50 proposals and heard 14 themed reports.

7.4 Information about Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors held 5 meetings (2 on-site meetings, 3 meetings voted by correspondence), considered 22 proposals, and heard 5 themed reports. Special committees under the Board of Supervisors convened 4 meetings (3 by the Nomination Committee, with 4 proposals considered; 1 by the Supervision Committee, with 1 proposal considered).

The Board of Supervisors attended 2 on-site meetings of the Board of Directors and 1 general meeting. The chairman and members of the Supervision Committee under the Board of Supervisors attended 6 meetings of the special committees under the Board of Directors, including 2 meetings convened by the Strategy Committee, 2 meetings convened by the Audit Committee and 2 meetings convened by the Risk and Capital Management Committee.

7.5 Securities Transactions of Directors, Supervisors and the Relevant Employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2016.

The Company has also established guidelines for the relevant employees' securities transactions, which are no less exacting than the Model Code. The Company is not aware of any non-compliance with the aforesaid guidelines by employees.

7.6 Internal Control

During the reporting period, the Bank strictly complied with the relevant requirements of the Internal Control Guidelines for Commercial Banks issued by CBRC, staying focused on the development strategies of "One Body with Two Wings" and "Asset-light Banking" across the Bank, precisely planning out four major areas such as "asset quality", "restructuring", "structural reform" and "strict management of the Bank", continuing to improve the internal control system and promoting the healthy development of the businesses. Having completed the first batch of structural reform in 11 branches, the Bank proceeded to push forward the second-phase structural reform across the Bank, gradually breaking the structure that focuses on the management of outlets, which in turn has gradually increased their capability to self run; Streamlining the end-to end operation processes, the Bank constantly optimised business processes and risk management. Aiming at further promoting the management of strategic customer name list, the Bank is building up a core customer service system for inter-regional collaboration and promoting the "Iron Triangle" mode of operation, thereby strengthening the management of core customer base. Through optimizing a comprehensive risk management system, the Bank strongly promoted the supervision on branches by category, strengthening the management of non-performing assets and recovering non-performing assets in cash. Improving comprehensive performance appraisal system in its branches to comprehensively evaluate their operation and management, the Bank set the strategic performance indicators with a view to guiding the change of extensive business model of the branches. Organizing competitive selection of cadres, the Bank implemented the mechanism of "promoted or demoted", one of the "six feasibilities" in terms of personnel management of the Bank; The Bank continued to improve its backup talent pool at management level as well as overseas backup talent, sending more personnel overseas for the purpose of exchange of communication while focusing on the training for core personnel. Proactively responding to the risks arising from market for bills, the Bank carried out several round of risk screenings and business inspection in an effort to further improve the measures to control bill business and prevent risks associated with it. The Company continued to employ voice and video recording during sales of financial products and reinforce supervision and inspection on sales of financial products and management of "order flying", aiming to control and prevent it. We continued to exercise general control over the supervision and resolution of problems while accelerating introduction as well as optimization and upgrade of the supervision platform, and maintained records of employees' incompliance behaviours via the platform. We rolled out an anti-incompliance campaign across the Bank and arranged for our employees to systematically study the Code of Conduct for Banking Professionals, the Compliance Manual for CMB Employees and Employee's Behaviour Bans of China Merchants Bank etc., imposed the Online Compliance Knowledge Test on our employees and demanded the subordinate units to carry out overall screening and targeted investigation in line with the requirements of the incompliance rectification programme. We carried out education and case review activities in respect of the "Ten Iron Rules" so as to improve our employees' disciplinary awareness and keep it high; we also made inspection tours to eight of our affiliates in two batches, with the aim of enhancing corporate governance, and made constant efforts to reinforce accountability with emphasis on significant audit findings and other issues. We increased our on-site and off-site auditing efforts and made sure the follow-up rectification and assessment measures were materialised, so as to ensure the implementation of our strategic decisions across the Bank and legal operation in compliance with the laws and regulations.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2015 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.

7.7 Statement of Compliance with the Hong Kong Listing Rules

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 (including the revised risk management and internal control principles) and the recommended best practices (if applicable).

Report on Review of Interim Financial Report

Deloitte.
德勤

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TO THE BOARD OF DIRECTORS OF

China Merchants Bank Co., Ltd.

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

Introduction

We have reviewed the interim consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 111 to 210, which comprise the consolidated statement of financial position as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim consolidated financial statements in accordance with IAS 34.

Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

18 August 2016

Unaudited Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2016**	2015 (Restated)
Interest income	3	**108,857**	119,059
Interest expense	4	**(41,380)**	(52,509)
Net interest income		**67,477**	66,550
Fee and commission income	5	**39,991**	32,699
Fee and commission expense		**(2,212)**	(1,952)
Net fee and commission income		**37,779**	30,747
Other net income	6	**7,986**	6,950
Operating income		**113,242**	104,247
Operating expenses	7	**(31,596)**	(31,680)
Charge for insurance claims		**(133)**	(146)
Operating profit before impairment losses		**81,513**	72,421
Impairment losses	8	**(36,170)**	(29,171)
Share of profits of associates		**–**	2
Share of profits of joint ventures		**152**	132
Profit before taxation		**45,495**	43,384
Income tax	9	**(10,163)**	(10,215)
Profit for the period		**35,332**	33,169
Attributable to:			
Equity shareholders of the Bank		**35,231**	32,976
Non-controlling interests		**101**	193
Earnings per share			
Basic and diluted (RMB)	11	**1.40**	1.31

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2016**	2015
Profit for the period		**35,332**	33,169
Other comprehensive income for the period after tax and reclassification adjustments			
Items that will be reclassified to profit or loss			
Exchange difference on translation of financial statements of overseas subsidiaries		**561**	38
Available-for-sale financial assets: net movement in investment revaluation reserve		**(853)**	1,286
Cash flow hedge: net movement in hedging reserve		**(101)**	271
Equity-accounted investees – share of other comprehensive income		**(65)**	21
		(458)	1,616
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability		**–**	(24)
Other comprehensive income for the period, net of tax	10	**(458)**	1,592
Attributable to:			
Equity shareholders of the Bank		**(458)**	1,592
Non-controlling interests		**–**	–
Total comprehensive income for the period		**34,874**	34,761
Attributable to:			
Equity shareholders of the Bank		**34,773**	34,568
Non-controlling interests		**101**	193

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2016	31 December 2015
Assets			
Cash		**13,603**	14,381
Precious metals		**10,963**	16,099
Balances with central bank	12	**556,041**	569,961
Balances with banks and other financial institutions	13	**123,551**	63,779
Placements with banks and other financial institutions	14	**211,229**	185,693
Amounts held under resale agreements	15	**155,045**	343,924
Loans and advances to customers	16	**2,922,036**	2,739,444
Interest receivable		**26,328**	24,934
Financial assets at fair value through profit or loss	17(a)	**52,852**	59,081
Derivative financial assets	37(f)	**18,051**	10,176
Available-for-sale financial assets	17(b)	**339,927**	299,559
Held-to-maturity investments	17(c)	**435,829**	353,137
Debt securities classified as receivables	17(d)	**558,054**	716,064
Interests in joint ventures	18	**2,840**	2,732
Interests in associates	19	**54**	54
Property and equipment	20	**31,783**	31,835
Investment properties	21	**1,686**	1,708
Intangible assets	22	**3,551**	3,595
Goodwill	23	**9,954**	9,954
Deferred tax assets	24	**24,504**	16,020
Other assets		**39,417**	12,848
Total assets		**5,537,298**	5,474,978
Liabilities			
Borrowing from central bank		**70,500**	62,600
Deposits from banks and other financial institutions	25	**471,479**	711,561
Placements from banks and other financial institutions	26	**155,671**	178,771
Amounts sold under repurchase agreements	27	**294,234**	185,652
Deposits from customers	28	**3,692,648**	3,571,698
Interest payable		**36,416**	39,073
Financial liabilities at fair value through profit or loss	29	**21,184**	20,227
Derivative financial liabilities	37(f)	**16,674**	7,575
Debt securities issued	30	**284,882**	251,507
Salaries and welfare payable		**8,720**	6,524
Tax payable		**15,037**	12,820
Deferred tax liabilities	24	**854**	867
Other liabilities		**89,811**	64,345
Total liabilities		**5,158,110**	5,113,220

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2016	31 December 2015
Equity			
Share capital	31	**25,220**	25,220
Capital reserve		**67,523**	67,523
Investment revaluation reserve		**5,270**	6,188
Hedging reserve		**140**	241
Surplus reserve		**34,009**	34,009
Regulatory general reserve		**64,606**	64,679
Retained profits		**181,191**	145,887
Proposed profit appropriations	32(b)	**–**	17,402
Exchange reserve		**218**	(343)
Total equity attributable to equity shareholders of the Bank		**378,177**	360,806
Non-controlling interests	39	**1,011**	952
Total equity		**379,188**	361,758
Total equity and liabilities		**5,537,298**	5,474,978

Approved and authorised for issue by the Board of Directors on 18 August 2016.

Mr. Li Jianhong	**Mr. Tian Huiyu**	**Company Chop**
Director	*Director*	

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 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 earnings	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 period		–	–	(918)	(101)	–	(73)	35,304	(17,402)	561	17,371	59	17,430
(a) Net profit for the period		–	–	–	–	–	–	35,231	–	–	35,231	101	35,332
(b) Other comprehensive income for the period	10	–	–	(918)	(101)	–	–	–	–	561	(458)	–	(458)
Total comprehensive income for the period		–	–	(918)	(101)	–	–	35,231	–	561	34,773	101	34,874
(c) Changes by the shareholder's equity													
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(42)	(42)
(d) Profit appropriations													
(i) Reversal of regulatory general reserve appropriations		–	–	–	–	–	(73)	73	–	–	–	–	–
(ii) Dividends paid for the year 2015		–	–	–	–	–	–	–	(17,402)	–	(17,402)	–	(17,402)
At 30 June 2016		25,220	67,523	5,270	140	34,009	64,606	181,191	–	218	378,177	1,011	379,188

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 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 earnings	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 period		–	–	1,307	271	–	2	32,950	(16,897)	38	17,671	187	17,858
(a) Net profit for the period		–	–	–	–	–	–	32,976	–	–	32,976	193	33,169
(b) Other comprehensive income for the period	10	–	–	1,307	271	–	–	(24)	–	38	1,592	–	1,592
Total comprehensive income for the period		–	–	1,307	271	–	–	32,952	–	38	34,568	193	34,761
(c) Changes by the shareholder's equity													
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	38	38
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(15)	(15)
(d) Profit appropriations													
(i) Appropriations to regulatory general reserve		–	–	–	–	–	2	(2)	–	–	–	–	–
(ii) Dividends paid for the year 2014		–	–	–	–	–	–	–	(16,897)	–	(16,897)	(29)	(16,926)
At 30 June 2015		25,220	67,523	3,209	108	28,690	53,981	154,615	–	(1,271)	332,075	843	332,918

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

	Six months ended 30 June	
	2016	2015
Operating activities		
Profit before tax	**45,495**	43,384
Adjustments for:		
– Impairment losses on loans and advances	**35,207**	29,026
– Impairment losses on investments and other assets	**963**	145
– Unwind of discount	**(583)**	(439)
– Depreciation of properties and equipments and investment properties	**2,083**	1,943
– Amortisation of other assets	**304**	208
– Net gain on debt securities and equity investments	**(5,132)**	(4,941)
– Interest income on investments	**(23,577)**	(23,249)
– Interest expense on issued debt securities	**5,041**	3,259
– Share of profits of associates	**–**	(2)
– Share of profits of joint ventures	**(152)**	(132)
– Net gains on disposal of properties and equipment	**(13)**	(1)
Changes in:		
Balances with central bank	**(22,728)**	4,418
Loans and advances to customers	**(217,369)**	(145,103)
Other assets	**(31,127)**	(26,217)
Deposits from customers	**120,950**	137,354
Deposits and placements from banks and other financial institutions	**(154,600)**	237,743
Balances and placements with banks and other financial institutions with original maturity over 3 months	**(67,114)**	57,508
Borrowing from central bank	**7,900**	5,000
Other liabilities	**20,367**	15,176
Cash (used in) generated from operating activities	**(284,085)**	335,080
Income tax paid	**(16,241)**	(13,805)
Net cash (used in) generated from operating activities	**(300,326)**	321,275
Investing activities		
Payment for the purchase of investments	**(445,242)**	(664,638)
Proceeds from the disposal of investments	**475,545**	352,374
Gains received from investments	**26,904**	28,548
Payment for the purchase of property and equipment and other assets	**(2,512)**	(4,222)
Proceeds from the disposal of property and equipment and other assets	**418**	62
Proceeds of loans from joint venture	**5**	–
Net cash generated from (used in) investing activities	**55,118**	(287,876)

The notes on pages 119 to 210 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2016**	2015
Financing activities			
Proceeds from the issue of debt securities		**7,910**	3,055
Proceeds from the issue of negotiable interbank certificates of deposit		**273,480**	72,680
Proceeds from the issue of certificates of deposit		**5,409**	21,381
Proceeds from non-controlling shareholders		**–**	38
Repayment of negotiable interbank certificates of deposit		**(241,950)**	(19,800)
Repayment of certificates of deposit		**(11,450)**	(21,968)
Repayment of debt securities issued		**(1,000)**	–
Repayment of redemption of non-controlling equity		**(42)**	(15)
Interest paid on issued debt securities		**(4,299)**	(1,870)
Net cash generated from financing activities		**28,058**	53,501
Net (decrease)/increase in cash and cash equivalents		**(217,150)**	86,900
Cash and cash equivalents as at 1 January		**635,843**	471,471
Effect of foreign exchange rate changes		**(761)**	(2,674)
Cash and cash equivalents as at 30 June	33(a)	**417,932**	555,697
Cash flows from operating activities include:			
Interest received		**85,791**	93,762
Interest paid		**38,762**	55,815

The notes on pages 119 to 210 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

1 General information

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").

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.

As at 30 June 2016, apart from the Head Office, the Bank had 50 branches in the Mainland China, Hong Kong, New York, Singapore, Luxembourg and London. In addition, the Bank has four representative offices in Beijing, New York, London and Taipei.

The particulars of the Bank's major subsidiaries as at 30 June 2016 are set out below.

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	Chairman of the Board
CMB International Capital Holdings Corporation Limited ("CMBICHC")	Hong Kong	HKD4,129	100%	Financial advisory services	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited ("CMBFLC")	Shanghai	RMB6,000	100%	Finance lease	Limited company	Lian Bolin
Wing Lung Bank Limited ("WLB")	Hong Kong	HKD1,161	100%	Banking	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd ("CMFM")	Shenzhen	RMB210	55%	Asset management	Limited company	Li Hao

(Expressed in millions of Renminbi unless otherwise stated)

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

(a) Basis of preparation and principal accounting policies

This unaudited interim financial report has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This interim financial report also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This unaudited interim financial report of the Group should be read in conjunction with the 2015 annual consolidated financial statements.

This interim financial report is unaudited but reviewed by Audit Committee of the Board. This unaudited interim financial report is also reviewed by Deloitte Touche Tohmatsu in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Except as described below, the Group's accounting policies applied in preparing this unaudited interim financial report are consistent with those policies applied in preparing the financial report as at 31 December 2015.

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 IFRS	Annual Improvements to IFRSs 2012-2014 Cycle

The adoption of these new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(Expressed in millions of Renminbi unless otherwise stated)

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

(a) Basis of preparation and principal 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
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
IFRS 16	Leases	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	a date to be determined

Except for the impact of IFRS 9, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

The Group is assessing the impact of IFRS 9 on the interim financial report.

(b) Accounting estimates and judgements

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The Group's accounting estimates and judgements applied in preparing these unaudited interim financial report are consistent with those accounting estimates and judgements applied in preparing the consolidated financial statements as at 31 December 2015.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

3 Interest income

	Six months ended 30 June	
	2016	2015 (Restated)
Loans and advances to customers		
– Corporate loans	**33,801**	41,469
– Retail loans	**40,057**	37,579
– Discounted bills	**2,418**	2,356
Balances with central bank	**4,059**	4,333
Balances and placements with banks and other financial institutions	**2,282**	2,728
Amounts held under resale agreements	**2,663**	7,345
Investments	**23,577**	23,249
Interest income on financial assets that are not at fair value through profit or loss	**108,857**	119,059

Note: For the six months ended 30 June 2016, included in the above is interest income of RMB583 million accrued on impaired loans (for the six months ended 30 June 2015: RMB439 million) and nil on impaired debt securities investments (for the six months ended 30 June 2015: nil).

4 Interest expense

	Six months ended 30 June	
	2016	2015 (Restated)
Deposits from customers	**23,561**	32,176
Borrowing from central bank	**1,391**	438
Deposits and placements from banks and other financial institutions	**9,230**	15,078
Amounts sold under repurchase agreements	**2,157**	1,558
Debt securities issued	**5,041**	3,259
Interest expense on financial liabilities that are not at fair value through profit or loss	**41,380**	52,509

(Expressed in millions of Renminbi unless otherwise stated)

5 Fee and commission income

	Six months ended 30 June	
	2016	2015 (Restated)
Bank cards fees	**4,798**	4,492
Remittance and settlement fees	**3,366**	1,980
Agency services fees	**9,676**	8,791
Commissions from credit commitment and lending business	**2,363**	2,565
Commissions on trust and fiduciary activities	**15,991**	10,552
Others	**3,797**	4,319
	39,991	32,699

6 Other net income

	Six months ended 30 June	
	2016	2015 (Restated)
Profit (loss) from fair value change		
– financial instruments held for trading	**(887)**	122
– financial instruments designated at fair value through profit or loss	**(1,000)**	(60)
– derivatives instruments	**(1,030)**	310
– precious metals	**662**	(175)
	(2,255)	197
Profit (loss) from investments.		
– financial instruments at fair value through profit or loss	**1,113**	1,027
– available-for-sale financial assets	**790**	451
– gain on disposal of bills	**4,311**	4,331
– physical precious metals	**1,886**	(63)
– others	**31**	122
	8,131	5,868
Exchange gain(loss)	**939**	324
Other income		
– rental income from operating lease of property and equipment	**423**	194
– insurance income	**407**	234
	830	428
Others	**341**	133
	7,986	6,950

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

7 Operating expenses

	Six months ended 30 June	
	2016	2015
Staff costs		
– Salaries and bonuses	**11,592**	11,553
– Social insurance and corporate supplemental insurance	**2,567**	2,427
– Others	**2,200**	1,932
	16,359	15,912
Turnover tax and surcharges	**5,133**	6,266
Property, equipment and investment properties depreciation	**2,083**	1,943
Rental expenses	**2,002**	1,861
Other general and administrative expenses	**6,019**	5,698
	31,596	31,680

8 Impairment losses

	Six months ended 30 June	
	2016	2015
Loans and advances to customers (Note 16(c))	**35,207**	29,026
Amounts due from banks and other financial institutions (Note 13, Note 14(c), Note 15(d))	**(9)**	(10)
Investments		
– Available-for-sale financial assets (Note 17(b))	**35**	15
– Held-to-maturity investments(Note 17(c))	**(10)**	(1)
– Debt securities classified as receivables(Note 17(d))	**727**	63
	752	77
Others	**220**	78
	36,170	29,171

Notes to the Unaudited Interim Financial Report
For the Six Months ended 30 June 2016
(Expressed in millions of Renminbi unless otherwise stated)

9 Income tax

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

	Six months ended 30 June	
	2016	2015
Current income tax expense		
– Mainland China	**17,905**	16,239
– Hong Kong	**443**	363
– Overseas	**49**	106
	18,397	16,708
– Deferred taxation	**(8,234)**	(6,493)
	10,163	10,215

Notes:

(i) The applicable income tax rate for the Bank's operations in Mainland China is 25% for the six months ended 30 June 2016. (six months ended 30 June 2015: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% for the six months ended 30 June 2016. (six months ended 30 June 2015: 16.5%).

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

10 Other comprehensive income

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

	Six months ended 30 June					
	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	**(1,098)**	**245**	**(853)**	1,680	(394)	1,286
Cash flow hedge:						
– Net movement in hedging reserve	**(135)**	**34**	**(101)**	361	(90)	271
Exchange differences	**561**	**–**	**561**	38	–	38
Equity-accounted investees						
– share of other comprehensive income	**(65)**	**–**	**(65)**	21	–	21
Remeasurement of defined benefit scheme redesigned through reserve	**–**	**–**	**–**	(29)	5	(24)
Other comprehensive income	**(737)**	**279**	**(458)**	2,071	(479)	1,592

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

10 Other comprehensive income *(continued)*

(b) Movement in the investment revaluation reserve and hedging reserve relating to components of other comprehensive income

	Six months ended 30 June	
	2016	2015
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**(297)**	1,650
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	**(556)**	(364)
Net movement in the investment reserve during the period recognised in other comprehensive income	**(853)**	1,286
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	**3**	207
Reclassification adjustment for amounts transferred to profit or loss		
– Realised (gains)/losses	**(104)**	64
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(101)**	271

11 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2016 and 30 June 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 six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
Net profit attributable to equity shareholders of the Bank	**35,231**	32,976
Weighted average number of shares in issue (in million) (note)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**1.40**	1.31

Note: Movements of share capital are included in Note 31 of the interim financial report.

(Expressed in millions of Renminbi unless otherwise stated)

12 Balances with central bank

	30 June 2016	31 December 2015
Statutory deposit reserve (note (i))	**483,386**	464,686
Surplus deposit reserve (note (ii))	**67,155**	103,803
Fiscal deposits	**5,500**	1,472
	556,041	569,961

Notes:

(i) Statutory deposit reserve funds are deposited with the People's Bank of China (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 are calculated at 15.0% and 5.0% for eligible RMB deposits and foreign currency deposits respectively as at 30 June 2016 (31 December 2015: 15% and 5.0% 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, net credit balances of entrusted business and overseas RMB deposits from overseas financial institutions.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside the Mainland China are mainly for clearing purposes.

13 Balances with banks and other financial institutions

	30 June 2016	31 December 2015
Balances in Mainland		
– Banks	**50,813**	30,387
– Other financial institutions	**2,153**	935
	52,966	31,322
Balances outside Mainland		
– Banks	**70,677**	32,570
– Other financial institutions	**20**	13
	70,697	32,583
	123,663	63,905
Less: Impairment allowances		
– Banks	**(109)**	(123)
– Other financial institutions	**(3)**	(3)
	(112)	(126)
	123,551	63,779

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

13 Balances with banks and other financial institutions *(continued)*

Movements of allowances for impairment losses

	30 June 2016	31 December 2015
As at 1 January	**126**	74
Charge for the period/year	**9**	73
Releases for the period/year	**(23)**	(21)
As at 30 June/31 December	**112**	126

14 Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	30 June 2016	31 December 2015
Placements in Mainland		
– Banks	**59,501**	66,458
– Other financial institutions	**120,464**	47,067
	179,965	113,525
Placements outside Mainland		
– Banks	**31,320**	72,219
	31,320	72,219
	211,285	185,744
Less: Impairment allowances		
– Banks	**(56)**	(51)
	(56)	(51)
	211,229	185,693

(Expressed in millions of Renminbi unless otherwise stated)

14 Placements with banks and other financial institutions *(continued)*

(b) Analysed by residual maturity

	30 June 2016	31 December 2015
Maturing		
– Within one month (inclusive)	**111,153**	133,415
– Between one month and one year (inclusive)	**95,582**	48,449
– Over one year	**4,494**	3,829
	211,229	185,693

(c) Movements of allowances for impairment losses

	30 June 2016	31 December 2015
As at 1 January	**51**	46
Charge for the period/year	**47**	21
Releases for the period/year	**(42)**	(16)
As at 30 June/31 December	**56**	51

15 Amounts held under resale agreements

(a) Analysed by nature of counterparties

	30 June 2016	31 December 2015
Amounts held under resale agreements in Mainland		
– Banks	**10,535**	128,803
– Other financial institutions	**144,710**	215,321
	155,245	344,124
Less: Impairment allowances		
– Banks	**(200)**	(200)
	155,045	343,924

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

15 Amounts held under resale agreements *(continued)*

(b) Analysed by residual maturity

	30 June 2016	31 December 2015
Maturing		
– Within one month (inclusive)	**146,674**	296,789
– Between one month and one year (inclusive)	**8,371**	43,575
– Over one year	**–**	3,560
	155,045	343,924

(c) Analysed by assets types

	30 June 2016	31 December 2015
Bonds	**143,822**	210,481
Bills	**719**	106,729
Trust beneficiary rights	**4,613**	10,693
Asset management schemes	**5,393**	11,381
Right of debt securities	**498**	4,640
	155,045	343,924

(d) Movements of allowances for impairment losses

	30 June 2016	31 December 2015
At 1 January	**200**	–
Charge for the period/year	**–**	200
As at 30 June/31 December	**200**	200

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers

(a) Loans and advances to customers

	30 June 2016	31 December 2015
Corporate loans and advances	**1,490,792**	1,507,770
Discounted bills	**183,081**	89,815
Retail loans and advances	**1,352,659**	1,226,701
Gross loans and advances to customers	**3,026,532**	2,824,286
Less: Impairment allowances		
– Individually assessed	**(19,106)**	(14,624)
– Collectively assessed	**(85,390)**	(70,218)
	(104,496)	(84,842)
Net loans and advances to customers	**2,922,036**	2,739,444

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

Analysed by industry sector and category:

Operation in Mainland China

	30 June 2016	31 December 2015
Manufacturing	**296,632**	318,679
Wholesale and retail	**233,528**	236,513
Property development	**168,075**	175,912
Transportation, storage and postal services	**165,127**	145,473
Production and supply of electric power, heating power, gas and water	**101,177**	109,942
Construction	**90,589**	96,387
Leasing and commercial services	**85,452**	80,788
Mining	**45,968**	52,178
Water, environment and public utilities management	**32,167**	33,431
Telecommunications, software and IT services	**47,817**	28,076
Others	**84,675**	76,477
Corporate loans and advances	**1,351,207**	1,353,856
Discounted bills	**183,076**	89,815
Residential mortgage	**606,963**	491,290
Credit cards	**340,346**	312,985
Micro-finance loans	**290,321**	308,973
Others	**97,653**	96,828
Retail loans and advances	**1,335,283**	1,210,076
Gross loans and advances to customers	**2,869,566**	2,653,747

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers *(continued)*

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

Analysed by industry sector and category: *(continued)*

Operation outside Mainland China

	30 June 2016	31 December 2015
Financial concerns	**40,152**	46,585
Property development	**38,121**	37,168
Wholesale and retail	**10,371**	14,860
Transport and transport equipment	**8,700**	13,876
Manufacturing	**17,101**	13,468
Recreational activities	**2,536**	3,627
Information technology	**3,834**	2,025
Others	**18,770**	22,305
Corporate loans and advances	**139,585**	153,914
Discounted bills	**5**	–
Residential mortgage	**7,908**	8,165
Credit cards	**224**	259
Micro-finance loans	**1,870**	1,804
Others	**7,374**	6,397
Retail loans and advances	**17,376**	16,625
Gross loans and advances to customers	**156,966**	170,539

Note: As at 30 June 2016, over 90% of the Group's loans and advances to customers were conducted in People's Republic of China (unchanged compared the positions as at 31 December 2015).

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses

	For the six months ended 30 June 2016			
	Impairment allowances for loans and advances which are collectively assessed	Impairment allowances for impaired loans and advances		
		Which are collectively assessed	Which are individually assessed	Total
At 1 January	**62,412**	**7,806**	**14,624**	**84,842**
Charge for the period (Note 8)	**15,442**	**5,158**	**16,203**	**36,803**
Release for the period (Note 8)	**(642)**	**(1)**	**(953)**	**(1,596)**
Write-offs	**–**	**(5,635)**	**(10,768)**	**(16,403)**
Unwinding of discount	**–**	**–**	**(583)**	**(583)**
Recoveries of loans and advances previously written off	**–**	**724**	**556**	**1,280**
Exchange difference	**126**	**–**	**27**	**153**
At 30 June	**77,338**	**8,052**	**19,106**	**104,496**

	For the year ended 31 December 2015			
	Impairment allowances for loans and advances which are collectively assessed	Impairment allowances for impaired loans and advances		
		Which are collectively assessed	Which are individually assessed	Total
At 1 January	50,855	4,733	9,577	65,165
Charge for the period	12,194	11,603	35,689	59,486
Release for the period	(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

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	30 June 2016					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances for which impairment losses are individually assessed (note (ii))	Total	Gross Impaired loans and advances as a % of gross loans and advances	Fair value of collateral held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– Financial institutions	200,514	–	11	200,525	0.01	7
– Non-financial institution customers	2,771,089	13,793	41,125	2,826,007	1.94	11,316
	2,971,603	13,793	41,136	3,026,532	1.81	11,323
Less:						
Impairment allowances for loans and advances to						
– Financial institutions	(376)	–	(4)	(380)		
– Non-financial institution customers	(76,962)	(8,052)	(19,102)	(104,116)		
	(77,338)	(8,052)	(19,106)	(104,496)		
Net loans and advances to						
– Financial institutions	200,138	–	7	200,145		
– Non-financial institution customers	2,694,127	5,741	22,023	2,721,891		
	2,894,265	5,741	22,030	2,922,036		

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	31 December 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 collateral 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
	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)		
	(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		
	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 include impairment losses are assessed in following ways:

- collectively: that is portfolios of homogeneous loans and advances; or
- individually.

(iii) The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

16 Loans and advances to customers *(continued)*

(e) Finance leases receivable

The table below provides an analysis of finance leases receivable for leases of certain property and equipment in which the Group is the lessor:

	30 June 2016			31 December 2015		
	Total minimum lease receivable	Unearned finance income	Present value of minimum lease receivable	Total minimum lease receivable	Unearned finance income	Present value of minimum lease receivable
Within 1 year (inclusive)	39,916	(4,675)	35,241	38,512	(4,126)	34,386
Over 1 year but within 5 years (inclusive)	71,937	(8,368)	63,569	65,430	(6,177)	59,253
Over 5 years	20,650	(1,915)	18,735	13,044	(1,048)	11,996
	132,503	(14,958)	117,545	116,986	(11,351)	105,635
Less: Impairment allowances						
– Individually assessed			(312)			(169)
– Collectively assessed			(1,876)			(1,692)
			(2,188)			(1,861)
Net investment in finance leases receivable			115,357			103,774

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments

	Note	**30 June 2016**	31 December 2015
Financial assets at fair value through profit or loss	17(a)	**52,852**	59,081
Derivative financial assets	37(f)	**18,051**	10,176
Available-for-sale financial assets	17(b)	**339,927**	299,559
Held-to-maturity investments	17(c)	**435,829**	353,137
Debt securities classified as receivables	17(d)	**558,054**	716,064
		1,404,713	1,438,017

(a) Financial assets at fair value through profit or loss

	Note	**30 June 2016**	31 December 2015
Financial assets held for trading	(i)	**42,765**	50,809
Financial assets designated at fair value through profit or loss	(ii)	**10,087**	8,272
		52,852	59,081

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

	30 June 2016	31 December 2015
(i) Financial assets held for trading		
Listed		
In Mainland		
– PRC government bonds	**25,907**	17,543
– Bonds issued by policy banks	**5,750**	9,622
– Bonds issued by commercial banks and other financial institutions	**1,376**	4,513
– Other debt securities	**3,074**	13,472
– Equity investments	**1**	4
– Investments in funds	**1**	1
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**2,166**	1,347
– Other debt securities	**1,768**	2,535
– Equity investments	**699**	740
	40,742	49,777
Unlisted		
In Mainland		
– Investments in funds	**431**	–
Outside Mainland		
– Equity investments	**69**	–
– Investments in funds	**105**	5
	605	5
Long position in precious metal contracts	**1,418**	1,027
	42,765	50,809

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

	30 June 2016	31 December 2015
(ii) Financial assets designated at fair value through profit or loss		
Listed		
In Mainland		
– PRC government bonds	**304**	304
– Bonds issued by policy banks	**2,972**	3,874
– Other debt securities	**68**	66
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**602**	420
– Other debt securities	**3,514**	2,536
	7,460	7,200
Unlisted		
Outside Mainland		
– Bonds issued by policy banks	**1,108**	–
– Bonds issued by commercial banks and other financial institutions	**1,327**	235
– Other debt securities	**192**	837
	2,627	1,072
	10,087	8,272

	30 June 2016	31 December 2015
(iii) Analysed by issuing authority		
Issued by:		
– Sovereigns	**26,211**	17,847
– Banks and other financial institutions	**18,025**	21,784
– Corporates	**8,616**	19,450
	52,852	59,081

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(b) Available-for-sale financial assets

	30 June 2016	31 December 2015
Listed		
In Mainland		
– PRC government bonds	**122,972**	94,381
– Bonds issued by policy banks	**65,243**	66,726
– Bonds issued by commercial banks and other financial institutions	**35,945**	37,742
– Other debt securities	**33,200**	49,238
– Equity investments	**231**	311
– Investments in funds	**70**	20
Outside Mainland		
– PRC government bonds	**50**	48
– Bonds issued by policy banks	**7,722**	–
– Bonds issued by commercial banks and other financial institutions	**12,873**	5,912
– Other debt securities	**9,930**	8,246
– Equity investments	**1,194**	1,273
– Investments in funds	**73**	62
	289,503	263,959
Less: impairment allowances	**(277)**	(239)
	289,226	263,720

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(b) Available-for-sale financial assets *(continued)*

	30 June 2016	31 December 2015
Unlisted		
In Mainland		
– Bonds issued by PBOC	**95**	94
– Bonds issued by commercial banks and other financial institutions	**278**	12,602
– Other debt securities	**255**	1,214
– Equity investments	**1,180**	1,091
– Investments in funds	**22,363**	723
Outside Mainland		
– Bonds issued by policy banks	**5,585**	2,096
– Bonds issued by commercial banks and other financial institutions	**14,456**	9,979
– Other debt securities	**6,421**	8,030
– Equity investments	**229**	231
– Investments in funds	**276**	207
	51,138	36,267
Less: impairment allowances	**(437)**	(428)
	50,701	35,839
	339,927	299,559

	30 June 2016	31 December 2015
Issued by:		
– Sovereigns	**123,117**	102,761
– Banks and other financial institutions	**166,061**	135,896
– Corporates	**50,749**	60,902
	339,927	299,559

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(b) Available-for-sale financial assets *(continued)*

Movements of allowances for impairment losses

	30 June 2016	31 December 2015
At 1 January	**667**	611
Charge for the period/year	**35**	35
Write-offs	**–**	(2)
Exchange difference	**12**	23
At 30 June/31 December	**714**	667

(c) Held-to-maturity investments

	30 June 2016	31 December 2015
Listed		
In Mainland		
– PRC government bonds	**220,038**	170,540
– Bonds issued by policy banks	**191,587**	165,890
– Bonds issued by commercial banks and other financial institutions	**19,574**	12,656
– Other debt securities	**1,522**	865
Outside Mainland		
– PRC government bonds	**392**	488
– Bonds issued by commercial banks and other financial institutions	**1,867**	1,542
– Other debt securities	**852**	729
	435,832	352,710
Less: impairment allowances	**(86)**	(95)
	435,746	352,615

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

	30 June 2016	31 December 2015
Unlisted		
In Mainland		
– Other debt securities	**–**	376
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**17**	16
– Other debt securities	**66**	130
	83	522
Less: impairment allowances	**–**	–
	83	522
	435,829	353,137

	30 June 2016	31 December 2015
Issued by:		
– Sovereigns	**220,430**	171,115
– Banks and other financial institutions	**212,959**	180,402
– Corporates	**2,440**	1,620
	435,829	353,137
Fair value of listed debt securities	**453,427**	372,158

For the six months ended 30 June 2016, the Group did not dispose of any debt securities classified as held-to-maturity prior to their maturity (2015: Nil).

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

Movements of allowances for impairment losses

	30 June 2016	31 December 2015
At 1 January	**95**	71
Charge for the period/year	**–**	20
Release for the period/year	**(10)**	–
Exchange difference	**1**	4
At 30 June/31 December	**86**	95

(d) Debt securities classified as receivables

	30 June 2016	31 December 2015
Unlisted		
In Mainland		
– PRC government bonds	**735**	747
– Bonds issued by commercial banks and other financial institutions	**10,585**	11,089
– Other debt securities	**19,702**	20,389
– Insurance asset management schemes	**11,632**	48,198
– Trust beneficiary rights	**76,763**	78,067
– Broker asset management schemes	**242,193**	245,053
– Fund asset management schemes and others	**198,123**	313,473
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**66**	65
	559,799	717,081
Less: impairment allowances	**(1,745)**	(1,017)
	558,054	716,064

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

17 Investments *(continued)*

(d) Debt securities classified as receivables *(continued)*

	30 June 2016	31 December 2015
Issued by:		
– Sovereigns	**735**	747
– Banks and other financial institutions	**537,617**	694,928
– Corporates	**19,702**	20,389
	558,054	716,064

Movements of allowances for impairment losses

	30 June 2016	31 December 2015
At 1 January	**1,017**	68
Charge for the period/year	**727**	947
Exchange difference	**1**	2
At 30 June/31 December	**1,745**	1,017

18 Interest in joint ventures

	30 June 2016	31 December 2015
Unlisted shares, at cost		
– Share of net assets	**2,840**	2,727
– Loans to joint ventures	**–**	5
	2,840	2,732
Share of profits for the period/year	**152**	134
Share of other comprehensive income for the period/year	**(65)**	64

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	RMB1,450,000	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	HKD10,024	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

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

18 Interest in joint ventures *(continued)*

Details of the Group's interest in major joint ventures are as follows: *(continued)*

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
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
Shenzhen Lianzhao Information Technology Co., Ltd.	Limited company	Shenzhen	RMB40,000	50.00%	–	50.00%	Computer network service
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%	Investment management and advisory

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 on the Bank's level. 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 control the entity with other shareholders and none of the shareholders could control the entity by its own.

19 Interest in associates

	30 June 2016	31 December 2015
Share of net assets	**52**	52
Goodwill	**2**	2
	54	54
Share of profits for the period/year	**–**	2

The following list contains the information of associates as of 30 June 2016:

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

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

20 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	15	263	203	115	1,328	96	2,020
Reclassification and transfers	(28)	(8)	7	(11)	–	3	(37)
Disposals/write-offs	(28)	–	(228)	(12)	–	(129)	(397)
Exchange difference	62	–	15	4	117	2	200
At 30 June 2016	21,645	4,389	8,251	5,704	7,197	6,251	53,437
Accumulated depreciation:							
At 1 January 2016	5,978	–	5,894	2,956	497	4,491	19,816
Depreciation	546	–	591	377	99	401	2,014
Reclassification and transfers	(19)	–	2	(2)	–	2	(17)
Disposals/write-offs	(15)	–	(117)	(3)	–	(82)	(217)
Exchange difference	9	–	6	–	42	1	58
At 30 June 2016	6,499	–	6,376	3,328	638	4,813	21,654
Net book value:							
At 30 June 2016	15,146	4,389	1,875	2,376	6,559	1,438	31,783
At 1 January 2016	15,646	4,134	2,360	2,652	5,255	1,788	31,835

(Expressed in millions of Renminbi unless otherwise stated)

20 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 30 June 2016, the Group considered that there is no impairment loss on property and equipment (31 December 2015: nil).

(b) As at 30 June 2016, the Group has no significant unused property and equipment (31 December 2015: nil).

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

21 Investment properties

	30 June 2016	31 December 2015
Cost:		
At 1 January	**2,694**	2,477
Transfers	**28**	140
Exchange difference	**37**	77
At 30 June/31 December	**2,759**	2,694
Accumulated depreciation:		
At 1 January	**986**	793
Depreciation	**69**	127
Transfers	**4**	41
Exchange difference	**14**	25
At 30 June/31 December	**1,073**	986
Net book value:		
At 30 June/31 December	**1,686**	1,708
At 1 January	**1,708**	1,684

Notes to the Unaudited Interim Financial Report
For the Six Months ended 30 June 2016
(Expressed in millions of Renminbi unless otherwise stated)

22 Intangible assets

	Land use rights	Software	Core deposits	Total
Cost/valuation:				
At 1 January 2016	**1,517**	**3,135**	**1,102**	**5,754**
Additions	**–**	**257**	**–**	**257**
Transfers	**(22)**	**–**	**–**	**(22)**
Exchange difference	**4**	**3**	**23**	**30**
At 30 June 2016	**1,499**	**3,395**	**1,125**	**6,019**
Amortisation:				
At 1 January 2016	**243**	**1,633**	**283**	**2,159**
Additions	**18**	**266**	**20**	**304**
Transfers	**(3)**	**–**	**–**	**(3)**
Exchange difference	**1**	**1**	**6**	**8**
At 30 June 2016	**259**	**1,900**	**309**	**2,468**
Net book value:				
At 30 June 2016	**1,240**	**1,495**	**816**	**3,551**
At 1 January 2016	**1,274**	**1,502**	**819**	**3,595**

	Land use rights	Software	Core deposits	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

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

23 Goodwill

	As at 1 January	Addition in the period	Release in the period	As at 30 June	Impairment loss	Net value at 30 June
WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
CMBICHC (note (iii))	1	–	–	1	–	1
	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 merger cost over the fair value of the identifiable net assets was recognised as goodwill.

(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 merger cost over the fair value of the identifiable net assets was recognised as goodwill.

(iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in Shenzhen Rongbo Information and Technology Corporation Limited ("Rongbo"). On the acquisition date, the fair value of Rongbo's identifiable net assets was RMB2.60 million. A sum of RMB1 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Rongbo's principal activities include development and sale of computer software and hardware, sale of communication equipment and office automation equipment, advisory service of computer technology and information.

Impairment assessment for Cash Generating Unit (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.

The recoverable amount of the CGU is 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 accessing 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.

(Expressed in millions of Renminbi unless otherwise stated)

24 Deferred tax assets/liabilities

	30 June 2016	31 December 2015
Deferred tax assets	**24,504**	16,020
Deferred tax liabilities	**(854)**	(867)
Net amount	**23,650**	15,153

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	30 June 2016		31 December 2015	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances for loans and advances to customers and other assets	**94,195**	**23,547**	63,217	15,783
Investment revaluation reserve	**(6,718)**	**(1,680)**	(7,614)	(1,905)
Salary and welfare payable	**10,900**	**2,726**	9,669	2,418
Others	**(348)**	**(89)**	(1,087)	(276)
	98,029	**24,504**	64,185	16,020
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets	**203**	**34**	249	42
Investment revaluation reserve	**(173)**	**(41)**	(252)	(61)
Others	**(5,124)**	**(847)**	(5,304)	(848)
	(5,094)	**(854)**	(5,307)	(867)

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

24 Deferred tax assets/liabilities *(continued)*

(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	**7,754**	**–**	**308**	**172**	**8,234**
Recognised in other comprehensive Income	**–**	**245**	**–**	**34**	**279**
Exchange difference	**2**	**–**	**–**	**(18)**	**(16)**
At 30 June 2016	**23,581**	**(1,721)**	**2,726**	**(936)**	**23,650**
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

(Expressed in millions of Renminbi unless otherwise stated)

25 Deposits from banks and other financial institutions

	30 June 2016	31 December 2015
In Mainland		
– Banks	**93,305**	176,934
– Other financial institutions	**365,435**	527,101
	458,740	704,035
Outside Mainland		
– Banks	**12,739**	7,526
	12,739	7,526
	471,479	711,561

26 Placements from banks and other financial institutions

	30 June 2016	31 December 2015
In Mainland		
– Banks	**131,932**	165,471
– Other financial institutions	**2,504**	1,100
	134,436	166,571
Outside Mainland		
– Banks	**21,235**	12,200
	21,235	12,200
	155,671	178,771

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

27 Amounts sold under repurchase agreements

(a) Analysed by nature of counterparties

	30 June 2016	31 December 2015
In Mainland		
– Banks	**291,339**	173,439
– Other financial institutions	**1,570**	9,060
	292,909	182,499
Outside Mainland		
– Banks	**1,325**	3,153
	1,325	3,153
	294,234	185,652

(b) Analysed by assets type

	30 June 2016	31 December 2015
Securities		
– PRC government bonds	**86,279**	12,833
– Bonds issued by policy banks	**97,365**	67,336
– Bonds issued by commercial banks and other financial institutions	**1,061**	1,994
– Other debt securities	**264**	1,159
	184,969	83,322
Discounted bills	**109,188**	102,330
Loans and advances	**77**	–
	294,234	185,652

(Expressed in millions of Renminbi unless otherwise stated)

28 Deposits from customers

	30 June 2016	31 December 2015
Corporate customers		
– Demand deposits	**1,424,379**	1,167,467
– Time deposits	**1,067,371**	1,194,064
	2,491,750	2,361,531
Retail customers		
– Demand deposits	**875,340**	835,062
– Time deposits	**325,558**	375,105
	1,200,898	1,210,167
	3,692,648	3,571,698

29 Financial liabilities at fair value through profit or loss

	Note	30 June 2016	31 December 2015
Financial liabilities held for trading	(i)	**3,105**	3,348
Financial liabilities designated at fair value through profit or loss	(ii)	**18,079**	16,879
		21,184	20,227

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

29 Financial liabilities at fair value through profit or loss *(continued)*

(i) Financial liabilities held for trading

	30 June 2016	31 December 2015
Listed		
– Equity securities at fair value	**82**	18
– Precious metal relevant financial liabilities	**3,023**	3,330
	3,105	3,348

(ii) Financial liabilities designated at fair value through profit or loss

	30 June 2016	31 December 2015
In Mainland		
– Precious metal contracts with other banks	**3,233**	2,087
– Others	**3,938**	2,352
	7,171	4,439
Outside Mainland		
– Certificates of deposit issued	**2,222**	3,985
– Debt securities issued	**8,686**	8,455
	10,908	12,440
	18,079	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 period presented and cumulatively as at 30 June 2016 and 31 December 2015.

30 Debt securities issued

	Note	30 June 2016	31 December 2015
Subordinated notes issued	30(a)	**32,576**	32,519
Long-term debt securities issued	30(b)	**35,072**	27,995
Negotiable interbank certificates of deposit		**208,279**	176,245
Certificates of deposit issued		**8,955**	14,748
		284,882	251,507

(Expressed in millions of Renminbi unless otherwise stated)

30 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	Beginning balance	Issue in the period	Discount or premium amortisation	Repayment for the period	Ending balance
Fixed rate bond (notes(i))	180 months	Sep 4, 2008	5.90 (for the first ten years); 8.90 (from the 11th year onwards, if the notes are not called by the Bank)	RMB7,000	6,995	–	1	–	6,996
Fixed rate bond (notes(ii))	180 months	Dec 28, 2012	5.20	RMB11,700	11,688	–	–	–	11,688
Fixed rate bond (notes(iii))	120 months	Apr 18, 2014	6.40	RMB11,300	11,287	–	1	–	11,288
					29,970	–	2	–	29,972

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.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

30 Debt securities issued *(continued)*

(a) Subordinated notes issued *(continued)*

As at the end of the reporting period, subordinated notes issued by WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value	Beginning balance	Issue in the period	Discount or premium amortisation	Repayment for the period	Ending balance
Fixed rate bond	144 months	Dec 28, 2009	5.70	HKD1,500	1,258	–	26	–	1,284
Fixed to floating rate notes	120 months	Nov 6, 2012	3.50 (for the first 5 years); T*+2.80 (from the 6th year onwards, if the notes are not called by the Bank)	USD200	1,291	–	29	–	1,320
					2,549	–	55	–	2,604

* T represents the 5 years US Treasury rate.

(Expressed in millions of Renminbi unless otherwise stated)

30 Debt securities issued *(continued)*

(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 in the period	Discount or premium amortisation	Repayment for the period	Ending balance
12 CMB 01 (note (i))	60 months	Mar 14, 2012	4.15	RMB6,500	6,497	–	1	–	6,498
12 CMB 02 (note (i))	60 months	Mar 14, 2012	R*+0.95	RMB13,500	13,495	–	52	–	13,547
14 CMB 03 (note (ii))	36 months	Apr 10, 2014	4.10	RMB1,000	998	–	1	–	999
					20,990	–	54	–	21,044

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%.

Notes:

(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.

(Expressed in millions of Renminbi unless otherwise stated)

30 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	Beginning balance	Issue in the period	Discount or premium amortisation	Repayment for the period	Ending balance
Fixed rate bond (note (iii))	36 months	Jun 26, 2013	4.99	RMB1,000	1,000	–	–	(1,000)	–
Fixed rate bond (note (iii))	60 months	Jun 26, 2013	5.08	RMB1,000	1,000	–	–	–	1,000
Fixed rate bond (note (iii))	36 months	Jul 24, 2013	4.87	RMB1,000	1,000	–	–	–	1,000
Fixed rate bond (note (iii))	60 months	Jul 24, 2013	4.98	RMB1,000	1,000	–	–	–	1,000
Fixed rate bond (note (iv))	36 months	Dec 07, 2015	3.75	RMB200	200	–	–	–	200
Fixed rate bond (note (v))	36 months	Mar 11, 2016	3.27	RMB3,800	–	3,800	–	–	3,800
Leased asset backed securities (note (vi))	74.5 months	May 05, 2016	2.98/3.09/R-1.35**	RMB4,110	–	4,110	–	–	4,110
					4,200	7,910	–	(1,000)	11,110

** 900 million of these securities bears a fixed interest rate of 2.98% per annum. 600 million of these securities bears a fixed interest rate of 3.09% per annum. The remaining 2,610 million of these securities bears an interest rate based on the benchmark lending rate (R) for one to five years published by PBOC plus (R) a spread of 1.35%. The benchmark interest rate published by PBOC is 4.75% for the first interest period.

Notes:

(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 of 2013 of RMB2,000 million financial bonds on 26 June 2013 and the second tranche of 2013 of RMB2,000 million financial bonds on 24 July 2013. The Company holds Financial Bonds issued by CMBFLC amounted to RMB400 million as of 30 June 2016.

(Expressed in millions of Renminbi unless otherwise stated)

30 Debt securities issued *(continued)*

(b) Long-term debt securities *(continued)*

Notes: *(continued)*

(iv) 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.

(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 2016 of RMB3,800 million financial bonds. This 3- year fixed rate bond pays principal on maturity date.

(vi) 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 RMB4,856 million finance leases receivable backed securities on 5 May 2016 in the National Interbank Bond Market. Since the transferred finance leases receivable did not meet the criteria of derecognition, the consideration received from investors other than the Group amounting to RMB4,110 million was recognized as long-term debt securities issued.

As at the end of the reporting period, long-term debt securities issued by CMB International Leasing Management Limited ("CMBIL"), CMBICHC's subsidiary, were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value	Beginning balance	Issue in the period	Discount or premium amortisation	Repayment for the period	Ending balance
Fixed rate notes (note (vii))	60 months	Aug 11, 2014	3.25	USD500	3,245	–	73	–	3,318

Note:

(vii) On 11 Aug 2014, CMBIL issued USD500 million with annual interest rate of 3.25% guaranteed notes due 2019 on the HKEx.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

31 Share capital

By type of share:

	30 June 2016	31 December 2015
Listed shares		
– A-Shares	**20,629**	20,629
– H-Shares	**4,591**	4,591
	25,220	25,220

All H-Shares are ordinary shares and rank pari passu with the A-Shares. There is no restriction condition on these shares.

	Shared Capital	
	No. of shares (in million)	**Amount**
At 1 January 2016 and at 30 June 2016	**25,220**	**25,220**

32 Profit appropriations

(a) Dividends approved/declared by shareholders

	Six months ended 30 June 2016	Year ended 31 December 2015
Dividends in 2015, approved and being declared RMB6.90 per every 10 shares	**17,402**	–
Dividends in 2014, approved and being declared RMB6.70 per every 10 shares	**–**	16,897

(Expressed in millions of Renminbi unless otherwise stated)

32 Profit appropriations *(continued)*

(b) Proposed profit appropriations

	Six months ended 30 June 2016	Year ended 31 December 2015
Statutory surplus reserve	–	5,319
Regulatory general reserve	–	10,700
Dividends		
– cash dividend: Nil (2015: RMB6.90 per every 10 shares)	–	17,402
	–	33,421

The 2015 profit appropriation was approved in the 2015 annual general meeting of the Bank's shareholders held on 28 June 2016.

33 Notes to consolidated statement of cash flows

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	30 June 2016	30 June 2015
Cash and balances with central bank	**80,758**	120,606
Balance with banks and other financial institutions	**118,600**	46,683
Placements with banks and other financial institutions	**76,679**	78,199
Amounts held under resale agreements	**134,222**	307,307
Debt securities investments	**7,673**	2,902
	417,932	555,697

(b) Significant non-cash transactions

There are no significant non-cash transactions during the six months period ended 30 June 2016 (for the six months ended 30 June 2015: nil).

34 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 service for the corporate clients and financial institutions includes: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business comprised of lending and buy-back, asset custody business, financial market business, and other services.

– Retail finance business

The provision of financial services to retail customers includes lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

– Other business

Other business covers investment properties, businesses in subsidiaries (except for WLB), associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

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 to the relevant factors.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

34 Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale finance business		Retail finance business		Other business		Total	
	Six months ended 30 June							
	2016	2015 (Restated)	**2016**	2015 (Restated)	**2016**	2015 (Restated)	**2016**	2015 (Restated)
External net interest income	**21,505**	25,546	**36,248**	32,141	**9,724**	8,863	**67,477**	66,550
Internal net interest income/ (expense)	**11,516**	9,560	**(2,990)**	(3,222)	**(8,526)**	(6,338)	**–**	–
Net interest income	**33,021**	35,106	**33,258**	28,919	**1,198**	2,525	**67,477**	66,550
Net fee and commission income	**16,580**	12,527	**19,614**	15,734	**1,585**	2,486	**37,779**	30,747
Other net income	**6,158**	5,883	**347**	368	**1,481**	699	**7,986**	6,950
Operating income	**55,759**	53,516	**53,219**	45,021	**4,264**	5,710	**113,242**	104,247
Operating expenses								
– Depreciation	**(684)**	(679)	**(1,095)**	(978)	**(304)**	(286)	**(2,083)**	(1,943)
– Others	**(11,386)**	(11,532)	**(17,457)**	(16,606)	**(670)**	(1,599)	**(29,513)**	(29,737)
Charge for insurance claims	**–**	–	**–**	–	**(133)**	(146)	**(133)**	(146)
	(12,070)	(12,211)	**(18,552)**	(17,584)	**(1,107)**	(2,031)	**(31,729)**	(31,826)
Reportable segment profit before impairment losses	**43,689**	41,305	**34,667**	27,437	**3,157**	3,679	**81,513**	72,421
Impairment losses	**(14,951)**	(15,771)	**(7,251)**	(7,715)	**(13,968)**	(5,685)	**(36,170)**	(29,171)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**152**	134	**152**	134
Reportable segment profit/ (loss) before tax	**28,738**	25,534	**27,416**	19,722	**(10,659)**	(1,872)	**45,495**	43,384
Capital expenditure (note)	**366**	1,494	**585**	2,153	**1,326**	630	**2,277**	4,277

(Expressed in millions of Renminbi unless otherwise stated)

34 Operating segments *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	Wholesale finance business		Retail finance business		Other business		Total	
	30 June 2016	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015
Reportable segment assets	**2,627,632**	2,645,274	**1,390,686**	1,265,735	**1,473,833**	1,527,731	**5,492,151**	5,438,740
Reportable segment liabilities	**3,201,969**	3,234,821	**1,209,257**	1,147,024	**662,333**	678,269	**5,073,559**	5,060,114
Interest in associates and joint ventures	**–**	–	**–**	–	**2,894**	2,786	**2,894**	2,786

Note: Capital expenditure represents total amount incurred for acquiring long-term segment assets.

(b) Reconciliations of reportable segments operating income, profit or loss, assets, liabilities and other material items

	Six months ended 30 June	
	2016	2015
Revenue		
Total operating income for reportable segments	**113,242**	104,247
Other operating income	**–**	–
Consolidated operating income	**113,242**	104,247
Profit		
Total profit or loss for reportable segments	**45,495**	43,384
Other profit	**–**	–
Consolidated profit before income tax	**45,495**	43,384

(Expressed in millions of Renminbi unless otherwise stated)

34 Operating segments *(continued)*

(b) Reconciliations of reportable segments operating income, profit or loss, assets, liabilities and other material items *(continued)*

	30 June 2016	31 December 2015
Assets		
Total assets for reportable segments	**5,492,151**	5,438,740
Goodwill	**9,954**	9,954
Intangible assets	**816**	819
Deferred tax assets	**24,080**	15,538
Other unallocated assets	**10,297**	9,927
Consolidated total assets	**5,537,298**	5,474,978
Liabilities		
Total liabilities for reportable segments	**5,073,559**	5,060,114
Tax payable	**14,352**	11,874
Other unallocated liabilities	**70,199**	41,232
Consolidated total liabilities	**5,158,110**	5,113,220

(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 operating in Hong Kong, New York, Singapore, London and Luxembourg, subsidiaries operating in Hong Kong and Shanghai and representative offices in Beijing, New York, London and Taipei.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generate the revenue. Segment assets and non-current assets are allocated based on the geographical location of the underlying assets.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

34 Operating segments *(continued)*

(c) Geographical segments *(continued)*

To support the Group's operations and management's assessments, the geographical segments are defined as follows:

– "Headquarters" 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, London, New York, Singapore, Luxembourg and representative offices in New York, London and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including WLB, CMBICHC, CMBFLC and CMFM.

(Expressed in millions of Renminbi unless otherwise stated)

34 Operating segments *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Total assets		Total liabilities		Non-current assets		Operating income		Profit before tax	
	30 June 2016	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	**Six months ended 30 June 2016**	Six months ended 30 June 2015	**Six months ended 30 June 2016**	Six months ended 30 June 2015
Headquarters	**2,258,987**	2,105,486	**1,972,531**	1,808,257	**23,870**	24,225	**41,132**	28,826	**14,933**	11,166
Yangtze River Delta region	**758,281**	762,902	**751,925**	761,795	**2,729**	2,914	**17,212**	17,033	**8,402**	5,827
Bohai Rim region	**540,351**	511,402	**536,082**	503,469	**2,329**	2,529	**12,671**	13,373	**5,770**	6,986
Pearl River Delta and West Coast region	**599,426**	607,634	**594,147**	597,665	**1,707**	1,819	**14,594**	15,399	**7,207**	7,755
Northeast region	**170,909**	201,537	**169,698**	199,294	**1,312**	1,420	**3,676**	4,137	**1,628**	1,901
Central region	**352,283**	385,401	**351,291**	382,889	**2,588**	2,736	**7,916**	8,940	**1,756**	2,704
Western region	**376,332**	421,469	**375,759**	422,455	**2,682**	2,832	**8,866**	10,215	**1,261**	2,729
Overseas	**142,372**	142,219	**139,802**	140,900	**105**	91	**1,185**	1,047	**929**	977
Subsidiaries	**338,357**	336,928	**266,875**	296,496	**12,545**	11,312	**5,990**	5,277	**3,609**	3,339
Total	**5,537,298**	5,474,978	**5,158,110**	5,113,220	**49,867**	49,878	**113,242**	104,247	**45,495**	43,384

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

35 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 L/G and letters of credit represents the maximum potential loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted.

	30 June 2016	31 December 2015
Contractual amount		
Irrevocable guarantees	**219,339**	235,692
Of which: Finance guarantees	**123,260**	137,665
Non finance guarantees	**96,079**	98,027
Irrevocable letters of credit	**125,339**	188,469
Of which: Open sight letters of credit	**33,651**	49,907
Open usance letters of credit	**4,002**	9,430
Other payment commitments (note)	**87,686**	129,132
Bills of acceptances	**298,352**	363,035
Irrevocable loan commitments		
– with an original maturity within 1 year (inclusive)	**9,071**	5,979
– with an original maturity over 1 year	**32,380**	33,029
Credit card commitments	**399,311**	338,012
Others	**10,657**	5,884
	1,094,449	1,170,100

Note: Other payment commitments refers to the group as the acceptor of letters of credit payment commitments.

Irrevocable loan commitments only include credit limits granted to offshore customers by overseas branches, and onshore and offshore syndicated loans.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,485,413 million at 30 June 2016 (31 December 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.

(Expressed in millions of Renminbi unless otherwise stated)

35 Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

These commitments and contingent liabilities 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.

	30 June 2016	31 December 2015
Credit risk weighted amounts of contingent liabilities and commitments	**325,155**	349,816

The Group calculated the credit risk weighted amount of its contingent liabilities and commitment in accordance with the requirements of the *The Regulatory Requirements on Commercial Bank Information Disclosure Capital Formation* 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

	30 June 2016	31 December 2015
For purchase of property and equipment:		
– Contracted for	**4,606**	4,380
– Authorised but not contracted for	**203**	251
	4,809	4,631

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

35 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:

	30 June 2016	31 December 2015
Within 1 year (inclusive)	**3,425**	2,613
1 year to 5 years (inclusive)	**8,651**	8,117
Over 5 years	**2,390**	2,293
	14,466	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 lease include contingent rental.

(d) Outstanding litigations

At 30 June 2016, the Group was a defendant in certain outstanding litigations with gross claims of RMB1,200 million (31 December 2015: RMB1,100 million) arising from its banking activities. The Board of Directors consider 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 interim financial report.

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should 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 Ministry of Finance 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:

	30 June 2016	31 December 2015
Redemption obligations	**25,080**	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.

(Expressed in millions of Renminbi unless otherwise stated)

36 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:

	30 June 2016	31 December 2015
Entrusted loans	**330,886**	320,110
Entrusted funds	**(330,886)**	(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, PBOC bills, 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:

	30 June 2016	31 December 2015
Funds received from customers under wealth management services	**2,044,857**	1,820,694

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 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 participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group 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 financial business, the Group relies on credit assessment of applicants as the basis for loan approval. 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.

37 Risk management *(continued)*

(a) Credit risk *(continued)*

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 of 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.

Analysis of loans and advances by industry and loan portfolio are stated in Note 16.

The Group's credit risk management policy for financial derivatives 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.

(i) Maximum Risk

Without consideration of collateral or other credit enhancement, the total amount of financial assets' book value (including financial derivatives) and credit commitment disclosed in Note 35(a) is the maximum exposure of credit risk that the Group has. On 30 June 2016, the amount of the Group's maximum credit risk exposure is RMB8,017,435 (unaudited) (31 December 2015: RMB8,043,986).

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(a) Credit risk *(continued)*

(ii) The following table sets out an analysis of the amounts of loans and advances to customers by credit quality:

	30 June 2016	31 December 2015
Impairment loans and advances to customers		
Individually assessed		
Total	**41,136**	34,326
Less: Impairment allowances	**(19,106)**	(14,624)
Carrying amount	**22,030**	19,702
Collectively assessed		
Total	**13,793**	13,070
Less: Impairment allowances	**(8,052)**	(7,806)
Carrying amount	**5,741**	5,264
Overdue but not impaired loans and advances to customers		
– Within 3 month (inclusive)	**27,828**	31,689
– Between 3 month and 6 month (inclusive)	**1,048**	2,217
– Between 6 month and 1 year (inclusive)	**451**	254
– Over 1 year	**334**	282
Total	**29,661**	34,442
Less: Collectively assessed impairment allowances	**(3,764)**	(3,600)
Carrying amount	**25,897**	30,842
Neither overdue nor impaired		
Total	**2,941,942**	2,742,448
Less: Collectively assessed impairment allowances	**(73,574)**	(58,812)
Carrying amount	**2,868,368**	2,683,636
Total net loans and advances to customers	**2,922,036**	2,739,444

On 30 June 2016, the Group's loans and advances that were overdue or impaired had the terms re-modified amounted to RMB6,747 million (31 December 2015: RMB4,531 million).

37 Risk management *(continued)*

(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 interest rate, foreign exchange 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 markets. 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.

(i) 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 pipeline 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 Bank'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.

In the first half of 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.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(b) Market risk *(continued)*

(i) 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.

In the first half of 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.

(ii) 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, Supervisors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group takes a prudent strategy in the management of foreign exchange risk, and would not voluntarily take foreign exchange risk, which suits the current development of the Group. The current foreign exchange risk management policies and procedures of the Group fulfil the regulatory requirements and the requirements of the Group in the management of foreign exchange risk.

37 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Foreign exchange risk (continued)

(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.

In the first half of 2016, with increasing volatility of RMB exchange rate. In order to control foreign exchange risk, the Group strengthened the tracking of foreign exchange market trend, enhanced risk monitoring, thus making the foreign exchange risk exposure effectively controlled. 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.

In the first half of 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.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(c) Liquidity risk

Liquidity risk arises when the Group fails to satisfy customers' demand for drawing down on maturing liabilities, new loans and reasonable finances, or when it fails to meet their needs at a normal cost.

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, Supervisors, 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 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.

In the first half of 2016, the overall market liquidity was more relaxed, the liquidity situation of the Group is in line with the market. The Group's liquidity risk is low.

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by residual maturity is as follows:

	30 June 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))	80,758	–	–	–	–	–	488,886	569,644
Amounts due from banks and other financial institutions	85,260	273,372	34,955	87,210	6,565	–	2,463	489,825
Loans and advances to customers (note (ii))	21,426	156,447	479,765	869,885	684,767	672,480	37,266	2,922,036
Investments (note (iii))								
– Financial assets at fair value through profit or loss (including derivatives)	–	3,476	1,850	10,170	31,631	4,951	18,825	70,903
– Available-for-sale financial assets	699	14,025	19,960	47,512	167,576	87,166	2,989	339,927
– Held-to-maturity investments	–	3,508	7,767	16,028	156,160	252,354	12	435,829
– Debt securities classified as receivables	–	249,318	77,818	121,272	87,381	19,736	2,529	558,054
Other assets	47,692	9,015	5,242	13,047	1,693	40	74,351	151,080
Total assets	235,835	709,161	627,357	1,165,124	1,135,773	1,036,727	627,321	5,537,298
Amounts due to banks and other financial Institutions	311,284	309,876	227,167	125,473	13,105	4,979	–	991,884
Deposits from customers (note (iv))	2,360,800	195,926	364,889	547,033	223,477	523	–	3,692,648
Financial liabilities at fair value through profit or loss (including derivatives)	3,023	250	66	3,636	6,602	420	23,861	37,858
Debt securities issued	–	2,340	1,607	214,189	14,541	52,205	–	284,882
Other liabilities	35,816	32,604	7,494	36,939	35,083	2,030	872	150,838
Total liabilities	2,710,923	540,996	601,223	927,270	292,808	60,157	24,733	5,158,110
(Short)/long position	(2,475,088)	168,165	26,134	237,854	842,965	976,570	602,588	379,188

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by residual maturity is as follows: *(continued)*

	31 December 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 time deposits matured and awaiting for customers' instructions.

37 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 level, 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 30 June 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.

37 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 interest rate and foreign exchange 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 financial market 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 analysis and judgement regarding future interest/exchange rate movements.

The Group is exposed to 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 cash flows arising from the interest risk of RMB loans.

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.

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(f) Use of derivatives *(continued)*

	30 June 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	395,826	535,795	73,720	607	1,005,948	304	(399)
Currency derivatives							
Forwards	69,986	68,689	2,596	–	141,271	2,519	(3,400)
Foreign exchange swaps	571,523	303,041	21,297	43	895,904	14,037	(11,469)
Options purchased	54,593	34,166	739	–	89,498	855	–
Options written	59,719	32,885	891	–	93,495	–	(1,224)
	755,821	438,781	25,523	43	1,220,168	17,411	(16,093)
Other derivatives							
Others	46	–	–	–	46	4	(4)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,700	2,860	17,200	–	21,760	192	(5)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	226	6,078	7,768	689	14,761	94	(173)
Currency derivatives							
Foreign exchange swaps	661	2,123	2,885	–	5,669	46	–
	887	8,201	10,653	689	20,430	140	(173)
Total						18,051	(16,674)

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(f) Use of derivatives *(continued)*

	31 December 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 purchased	27,528	18,238	716	–	46,482	634	–
Options written	33,865	20,185	588	–	54,638	–	(876)
	480,034	632,339	23,876	–	1,136,249	9,323	(6,975)
Other derivatives							
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)
	2,362	2,276	16,089	395	21,122	47	(92)
Total						10,176	(7,575)

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(f) Use of derivatives *(continued)*

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.

	30 June 2016	31 December 2015
Credit risk weighted assets of counterparties		
Interest rate derivatives	**330**	442
Currency derivatives	**5,033**	4,205
Other derivatives	**–**	3
Credit valuation adjustment risk weighted assets	**12,230**	10,518
Total	**17,593**	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.

(g) Fair value information

(i) Financial instruments at fair value

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.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(g) Fair value information *(continued)*

(i) Financial instruments at fair value (continued)

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 date of financial position 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.

(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:

	30 June 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
– Debt securities	6,072	33,969	–	40,041
– Long position in precious metal contracts	–	1,418	–	1,418
– Equity investments	769	–	–	769
– Investments in funds	1	536	–	537
	6,842	35,923	–	42,765
Financial assets designated at fair value through profit or loss				
– Debt securities	4,150	5,937	–	10,087
Derivative financial assets	–	18,051	–	18,051
Available-for-sale financial assets				
– Debt securities	71,846	242,570	–	314,416
– Equity investments	1,425	129	1,194	2,748
– Investments in funds	21,643	974	146	22,763
	94,914	243,673	1,340	339,927
	105,906	303,584	1,340	410,830

(Expressed in millions of Renminbi unless otherwise stated)

37 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)*

	30 June 2016			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	3,023	–	3,023
– Short position in equity securities	67	15	–	82
	67	3,038	–	3,105
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	3,233	–	3,233
– Certificates of deposit issued	–	618	1,604	2,222
– Debt securities issued	–	8,686	–	8,686
– Others	–	3,938	–	3,938
	–	16,475	1,604	18,079
Derivative financial liabilities	–	16,674	–	16,674
	67	36,187	1,604	37,858

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 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)*

	31 December 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
	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
	35,242	263,075	1,242	299,559
	45,484	322,086	1,246	368,816

(Expressed in millions of Renminbi unless otherwise stated)

37 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)

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	3,330	–	3,330
– Short position in equity securities	18	–	–	18
	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
	–	14,577	2,302	16,879
Derivative financial liabilities	–	7,575	–	7,575
	18	25,482	2,302	27,802

During the period there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

37 Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis (continued)

1) Basis of determining the market price for recurring fair value measurements categorised within Level 1

Bloomberg's quoted prices are used for financial instruments with quoted prices in an active market.

2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised within Level 2

Fair value of RMB denominated bonds whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg.

Fair value of foreign exchange forwards contracts 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 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.

(Expressed in millions of Renminbi unless otherwise stated)

37 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 information of key parameters for recurring fair value measurements categorised within Level 3

Qualitative information of Level 3 fair value measurement is as below:

	Fair value as at 30 June 2016	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	**346**	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	**848**	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	**146**	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial liabilities designated at fair value through profit or loss – Certificates of deposit issued	**1,604**	Discounted cash flow	Risk-adjusted discount rate

	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

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 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 (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:

	Financial assets designated at fair value through profit or loss-debt securities	Derivative financial assets	Available-for-sale financial assets	Total
Assets				
At 1 January 2016	–	4	1,242	1,246
Profit or loss				
– In profit or loss	–	–	–	–
– In other comprehensive income	–	–	(1)	(1)
Purchases	–	–	100	100
Disposals or settlement on maturity	–	(4)	(1)	(5)
At 30 June 2016	–	–	1,340	1,340
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	–	–	–

(Expressed in millions of Renminbi unless otherwise stated)

37 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* *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs *(continued)*

	Financial assets designated at fair value through profit or loss-debt securities	Derivative financial assets	Available-for-sale financial assets	Total
Assets				
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 or 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

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

37 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* *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs *(continued)*

	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued
Liabilities	
At 1 January 2016	**2,302**
In profit or loss	**62**
Issues	**–**
Disposals or settlement on maturity	**(760)**
At 30 June 2016	**1,604**
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**62**

	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued
Liabilities	
At 1 January 2015	2,610
In profit or loss	122
Issues	–
Disposals or 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	122

(Expressed in millions of Renminbi unless otherwise stated)

37 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 (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.

	30 June 2016	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Available-for-sale financial assets		
– Equity investments	**119**	**(119)**
– Investments in funds	**15**	**(15)**
Financial liabilities designated at fair value through profit or loss		
– Certificates of deposit issued	**160**	**(160)**

	31 December 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)
Financial liabilities designated at fair value through profit or loss		
– Certificates of deposit issued	230	(230)

(3) Changes in valuation technique and the reasons for making the changes

During the period ended 30 June 2016, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on a recurring basis.

(Expressed in millions of Renminbi unless otherwise stated)

37 Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) Financial assets and liabilities not measured at fair value

The Group's financial assets 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, held-to-maturity investments and debt securities classified as receivables.

Except for loans and advances and held-to-maturity investments, most of the financial assets will mature within 1 year or have already been 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 16). 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.

The carrying value, fair value of held-to-maturity investments not measured or disclosed at fair value are listed as below:

	30 June 2016		31 December 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Held-to-maturity investments	**435,829**	**453,522**	353,137	372,697

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 for the subordinated notes issued and long-term debt securities issued.

The carrying value, fair value of subordinated notes issued and long-term debt securities issued are listed as below:

	30 June 2016		31 December 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Subordinated notes issued	**32,576**	**34,598**	32,519	34,680
Long-term debt securities issued	**35,072**	**35,550**	27,995	28,146
	67,648	**70,148**	60,514	62,826

(Expressed in millions of Renminbi unless otherwise stated)

38 Material related party transactions

(a) Transaction terms and conditions

In each period, 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 on 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:

	30 June 2016	31 December 2015
Short-term loans	**4.35%**	4.35%
Medium to long-term loans	**4.75% to 4.90%**	4.75% to 4.90%
Demand deposits	**0.35%**	0.35%
Time deposits	**1.10% to 2.75%**	1.10% to 2.75%

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the reporting period.

(b) Shareholders and their related companies

China Merchants Group ("CMG") holds 29.97% of the Bank (31 December 2015: 29.97%) through its subsidiaries. As the largest shareholder, China Merchants Steam Navigation Company Limited ("CMSNCL") who is the subsidiary of CMG, holds 13.04% of the Bank as at 30 June 2016 (31 December 2015: 13.04%).

On 28 December 2015, the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC of the State Council") issued an approval letter approving that Sinotrans & CSC Holdings Co., Ltd. ("Sinotrans & CSC") to be allocated into CMG at nil consideration. On 24 February 2016, the Enterprise Property Right Registration form of Sinotrans & CSC was confirmed by the SASAC of the State Council, confirmed that CMG is registered as the promoter of Sinotrans & CSC. The shares of the Bank held by Sinotrans & CSC and its subsidiary Wuhan Changjiang Shipping Company ("Wuhan Changjiang Shipping") are indirectly held by CMG (the "Change in Shareholding"), which lead to an aggregate of over 30.00% of the total share capital of the Bank are hold by CMG, with the completion of changes in equity, CMG (including Sinotrans & CSC and Wuhan Changjiang Shipping) can control the actual shares of a total of 30.06%. In accordance with the "Administrative Rules on Acquisition of Listed Company", investor can actually control over 30% of the voting rights of the listed entity, will have the control of the listed entity. Unfulfilled administrative procedures of the acquisition: (a) Matters related to the change of major shareholders' holding proportion caused by the acquisition are subject to the review of CBRC. (b) CMG should apply to the China Securities Regulatory Commission for an exemption from the obligation to make a general offer.

(Expressed in millions of Renminbi unless otherwise stated)

38 Material related party transactions *(continued)*

(b) Shareholders and their related companies *(continued)*

The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	30 June 2016	31 December 2015
On-balance sheet:		
– Loans and advances to customers	**8,161**	5,124
– Investments	**2,769**	12,346
– Deposits from customers	**81,600**	119,679
	92,530	137,149
Off-balance sheet:		
– Irrevocable guarantees	**2,168**	1,849
– Irrevocable letters of credit	**326**	93
– Bills of acceptances	**161**	58
	2,655	2,000

	Six months ended 30 June	
	2016	2015
Interest income	**296**	247
Interest expense	**573**	503
Net fee and commission income	**364**	352
Other net income	**(1)**	10

(Expressed in millions of Renminbi unless otherwise stated)

38 Material related party transactions *(continued)*

(c) Companies controlled by directors and supervisors

	30 June 2016	31 December 2015
On-balance sheet:		
– Loans and advances to customers	**8,195**	6,110
– Investments	**1,193**	1,425
– Deposits from customers	**24,316**	30,929
	33,704	38,464
Off-balance sheet:		
– Irrevocable guarantees	**1,443**	1,076
– Bills of acceptances	**165**	–
	1,608	1,076

	Six months ended 30 June	
	2016	2015
Interest income	**146**	165
Interest expense	**306**	366
Net fee and commission income	**68**	155
Other net income	**(13)**	1

(d) Associates and joint ventures

	30 June 2016	31 December 2015
On-balance sheet:		
– Placement with banks and other financial institutions	**1,000**	–
– Loans and advances to customers	**–**	5
– Deposits from customers	**456**	442
Off-balance sheet:		
– Irrevocable guarantees	**1**	–

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2016

(Expressed in millions of Renminbi unless otherwise stated)

38 Material related party transactions *(continued)*

(d) Associates and joint ventures *(continued)*

	Six months ended 30 June	
	2016	2015
Interest income	**6**	–
Interest expense	**3**	26
Net Fee and commission income	**531**	261
Other net income	**4**	–

(e) Other shareholders holding more than 5% shares

	30 June 2016	31 December 2015
On-balance sheet:		
– Investments	**200**	1,700
– Deposits from customers	**10,021**	10,287
	10,221	11,987
Off-balance sheet:		
– Irrevocable guarantees	**6,047**	6,000

	Six months ended 30 June	
	2016	2015
Interest income	**8**	2
Interest expense	**120**	14
Net fee and commission income	**1,032**	585

(Expressed in millions of Renminbi unless otherwise stated)

38 Material related party transactions *(continued)*

(f) Subsidiaries

	30 June 2016	31 December 2015
On-balance sheet:		
– Balances with banks and other financial institutions	**1,869**	5,588
– Placements with banks and other financial institutions	**26,244**	28,102
– Loans and advances to customers	**332**	325
– Investments	**3,327**	440
– Deposits from banks and other financial institutions	**12,081**	13,497
– Placements from banks and other financial institutions	**–**	93
– Deposits from customers	**391**	1,657
	44,244	49,702
Off-balance sheet:		
– Irrevocable guarantees	**3,341**	3,269
– Bills of acceptances	**–**	–
	3,341	3,269

	Six months ended 30 June	
	2016	2015
Interest income	**206**	438
Interest expense	**174**	365
Net fee and commission	**1,021**	843
Other net income	**5**	–

Any significant balances and transactions between the Bank and its subsidiaries have been offset in the interim financial report.

39 Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the non-wholly owned subsidiaries. As CMBI'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.

40 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. Except for those finance leases receivable mentioned below, as the Group has transferred the ownership of the securitised loans, substantially all the risks and rewards of the loans have been transferred as well, 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 30 June 2016, the carrying amount of such transferred but not recognised finance leases receivable amounted to RMB4,856 million (31 December 2015: Nil) and correspondently the carrying amount of recognised financial liabilities is RMB4,110 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.

41 Interests in unconsolidated structured entities

(a) Interests in the structured entities sponsored by third party institutions

The Group holds interests in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include wealth management products, asset management schemes, trust beneficiary rights, assets backed securities, investments in funds and debtor beneficiary rights, 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.

(Expressed in millions of Renminbi unless otherwise stated)

41 Interests in unconsolidated structured entities *(continued)*

(a) Interests in the structured entities sponsored by third party institutions *(continued)*

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 30 June 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 30 June 2016 and 31 December 2015 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 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	–	–	–	–	1,000	1,000	1,000
Asset management schemes	5,393	–	–	–	450,948	456,341	456,341
Trust beneficiary rights	4,613	–	–	–	76,763	81,376	81,376
Asset backed securities	–	–	1,564	1,377	–	2,941	2,941
Investment in funds	–	537	22,763	–	–	23,300	23,300
Debtor beneficiary rights	498	–	–	–	–	498	498
	10,504	537	24,327	1,377	528,711	565,456	565,456

	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	992	–	–	998	998
Debtor beneficiary rights	4,640	–	–	–	–	4,640	4,640
	26,714	6	3,765	2,672	684,909	718,066	718,066

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 consolidated statement of financial position.

41 Interests in unconsolidated structured entities *(continued)*

(b) Interests 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 custodian plan. 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 30 June 2016, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,044,857 million (31 December 2015: RMB1,820,694 million).

As at 30 June 2016, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB240,900 million (31 December 2015: RMB250,207 million).

As at 30 June 2016, the balance of reverse repurchase transactions and money market placement between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB119,677 million (31 December 2015: RMB208,150 million) and RMB86,358 million (31 December 2015: RMB5,723 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During the six months ended 30 June of 2016, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB9,517 million (for the six months ended 30 June of 2015: RMB4,040 million).

During the six months ended 30 June of 2016, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB519 million (for the six months ended 30 June of 2015: RMB508 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2016 with a maturity date before 30 June 2016 was RMB1,179,554 million (for the six months ended 30 June of 2015: RMB889,592 million).

42 Subsequent event

Up to the date of approval to the interim financial report, the Group has no material events that require disclosure in or adjustments of the consolidated financial statements after the reporting date.

43 Comparative figures

Since 1 January 2016, the Group has reclassified income from precious metals borrowing and lending activities, from other net income to net interest income, 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:

	30 June 2016	31 December 2015
Core tier-1 capital adequacy ratio	**12.09%**	10.83%
Tie-1 capital adequacy ratio	**12.09%**	10.83%
Capital adequacy ratio	**13.90%**	12.57%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**72,744**	73,889
Surplus reserves	**33,980**	33,981
Regulatory general reserve	**64,607**	64,680
Retained profits	**180,107**	162,405
Qualifying portion of non-controlling interests	**251**	329
Others (note (i))	**277**	(304)
Total core tier-1 capital	**377,186**	360,200
Regulatory deductions from core tier-1 capital	**12,243**	12,766
Net core tier-1 capital	**364,943**	347,434
Other tier-1 capital (note (ii))	**13**	10
Net tier-1 capital	**364,956**	347,444
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**30,000**	30,000
Surplus provision for loans impairment	**22,810**	24,006
Qualifying portion of non-controlling interests	**1,627**	1,959
Total tier-2 capital	**54,437**	55,965
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**54,437**	55,965
Net capital	**419,393**	403,409
Total risk-weighted assets	**3,018,072**	3,208,152

Notes:

(i) Others represent exchange reserve of foreign currency 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.

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio *(continued)*

On 30,June 2016, the Group calculates 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 10.44%, tier-1 capital adequacy ratio is 10.44%, capital adequacy ratio is 12.46%, net capital is RMB435,487 million and total risk-weighted assets is RMB3,495,509 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 30 June 2016 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:

	30 June 2016	31 December 2015
Total consolidated assets as per published financial statements	**5,537,298**	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	**(3,143)**	(2,717)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**6,600**	10,813
Adjustment for securities financing transactions	**16,673**	13,508
Adjustment for off-balance sheet items	**747,925**	791,776
Other adjustments	**(12,243)**	(12,766)
Balance of adjusted on-balance sheet and off-balance sheet assets	**6,293,110**	6,275,592

(Expressed in millions of Renminbi unless otherwise stated)

(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))	**5,372,282**	5,251,604
Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(12,243)**	(12,766)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**5,360,039**	5,238,838
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**12,931**	9,780
Add-on amounts for potential future exposure associated with all derivatives transactions	**11,719**	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	**–**	46
Less: Adjusted effective notional deductions for written credit derivatives	**–**	–
Total derivative exposures	**24,650**	20,989
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**143,822**	210,481
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
Counterparty credit risk exposure for SFT assets	**16,673**	13,508
Agent transaction exposures	**–**	–
Total securities financing transaction exposures	**160,495**	223,989
Off-balance sheet exposure at gross notional amount	**1,265,193**	1,302,755
Less: Adjustments for conversion to credit equivalent amounts	**(517,268)**	(510,979)
Balance of adjusted off-balance sheet assets	**747,925**	791,776
Net tier 1 capital	**364,956**	347,444
Balance of adjusted on-balance sheet and off-balance sheet assets	**6,293,110**	6,275,592
Leverage ratio	**5.80%**	5.54%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(C) Liquidity coverage ratio

In accordance with CBRC's Administrative Measures on Liquidity Coverage Ratio of Commercial Banks effective on 31 December 2015, the Group's liquidity coverage ratio and relevant components as at 30 June 2016 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries. For the quarter ended 30 June 2016, the Group's liquidity coverage ratio was as follows:

	Quarter ended 30 June 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)		**677,617**		655,927
Cash outflows				
Retail deposits and small business funding, of which:				
Stable deposits	**1,916**	**96**	1,616	81
Less stable deposits	**1,420,122**	**142,012**	1,370,543	137,054
Unsecured wholesale funding, of which:				
Business relations deposits (excluding correspondent banks operations)	**1,050,203**	**260,939**	1,037,960	257,764
Non-business relations deposits (including all the counterparties)	**1,399,110**	**827,480**	1,448,892	920,230
Liabilities and obligations arising from unsecured funding	**1,309**	**1,309**	1,548	1,548
Secured funding		**36,256**		25,408
Additional requirements, of which:				
Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	**34,481**	**34,290**	23,219	22,975
Cash outflows arising from secured debt instruments funding	**–**	**–**	108	108
Committed credit facilities and committed liquidity facilities	**473,048**	**26,577**	430,248	24,691
Other contractual lending obligations	**45,607**	**45,568**	42,267	42,267
Other contingent funding obligations	**871,369**	**17,116**	912,536	18,453
Total cash outflows		**1,391,643**		1,450,579

(Expressed in millions of Renminbi unless otherwise stated)

(C) Liquidity coverage ratio *(continued)*

	Quarter ended 30 June 2016		Quarter ended 31 December 2015	
	Unweighted amount (Average value)	**Weighted amount (Average value)**	Unweighted amount (Average value)	Weighted amount (Average value)
Cash inflows				
Secured lending transactions (including reverse repurchase agreements and securities borrowed)	**194,905**	**194,905**	274,089	274,089
Cash inflows from fully honoured payments	**966,805**	**536,434**	1,151,766	530,114
Other cash inflows	**35,179**	**34,311**	112,525	68,016
Total cash inflows	**1,196,889**	**765,650**		872,219
		Adjusted value		Adjusted value
TOTAL HQLA		**677,617**		655,927
TOTAL NET CASH OUTFLOWS		**625,993**		578,360
LCR (%)[i]		**108.49%**		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.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(D) 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.

	30 June 2016			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Foreign currencies transactions in Mainland China	**52,862**	**683**	**92,375**	**145,920**
Asia Pacific excluding Mainland China	**57,333**	**20,752**	**125,369**	**203,454**
– of which attributed to Hong Kong	**17,367**	**20,424**	**118,611**	**156,402**
Europe	**18,720**	**726**	**9,796**	**29,242**
North and South America	**12,081**	**2,820**	**25,542**	**40,443**
	140,996	**24,981**	**253,082**	**419,059**

	31 December 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

(Expressed in millions of Renminbi unless otherwise stated)

(E) Overdue loans and advances to customers

(i) By geographical segments

	30 June 2016	31 December 2015
Headquarters	**4,529**	4,525
Yangtze River Delta region	**9,428**	9,430
Bohai Rim region	**5,324**	3,471
Pearl River Delta and West Coast region	**6,133**	5,841
Northeast region	**3,097**	2,963
Central region	**8,662**	9,041
Western region	**12,296**	8,196
Subsidiaries	**2,320**	1,505
	51,789	44,972

(ii) By overdue period

	30 June 2016	31 December 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)	**14,425**	13,798
– between 6 and 12 months (inclusive)	**17,091**	18,449
– over 12 months	**20,273**	12,725
Total	**51,789**	44,972
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	**0.48%**	0.49%
– between 6 and 12 months (inclusive)	**0.56%**	0.65%
– over 12 months	**0.67%**	0.45%
	1.71%	1.59%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(E) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	30 June 2016	31 December 2015
Secured portion of overdue loans and advances	**16,577**	16,817
Unsecured portion of overdue loans and advances	**35,212**	28,155
Value of collateral held against overdue loans and advances	**17,051**	18,790
Provision of overdue loans and advances for which impairment losses are individually assessed	**17,665**	13,217

The amount of the Group's overdue loans and advances to financial institutions as at 30 June 2016 was RMB24 million (31 December 2015: RMB11 million).

Note:

The above analysis represents loans and advances overdue for more than 90 days as required and defined by the Hong Kong Monetary Authority (the "HKMA").

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(F) Rescheduled loans and advances to customers

	30 June 2016		31 December 2015	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**6,747**	**0.22%**	4,531	0.16%
Less:				
– rescheduled loans and advances overdue more than 90 days	**4,539**	**0.15%**	2,506	0.09%
Rescheduled loans and advances overdue less than 90 days	**2,208**	**0.07%**	2,025	0.07%

The amount of the Group's rescheduled loans and advances to financial institutions as at 30 June 2016 was RMB 1 million (31 December 2015: RMB1 million).

(G) Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 2016 and 31 December 2015, most of the Bank's exposures arose from businesses with Mainland non-bank institutions or individuals. Analysis of various types of exposure by counterparty have been disclosed in the notes to the interim financial report.

(H) Currency concentrations other than RMB

	30 June 2016			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	**383,280**	**160,670**	**84,692**	**628,642**
Spot liabilities	**(437,136)**	**(149,042)**	**(82,522)**	**(668,700)**
Forward purchased	**754,992**	**61,884**	**105,173**	**922,049**
Forward written	**(687,227)**	**(38,476)**	**(109,373)**	**(835,076)**
Net option position	**(5,649)**	**(9,552)**	**(139)**	**(15,340)**
Net long position	**8,260**	**25,484**	**(2,169)**	**31,575**
Net structural position	**5,219**	**(9,031)**	**619**	**(3,193)**

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(H) Currency concentrations other than RMB *(continued)*

	31 December 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 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.