



招商銀行

CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

Stock Code : 3968

2009 Interim Report



WE ARE HERE JUST FOR YOU


招商銀行 因您而變



World famous pianist Lang Lang,
the brand ambassador of CMB

A white handwritten signature of Lang Lang on a black background.

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Important Notice

The Board of Directors, the Board of Supervisors, and directors, supervisors and senior management of the Company confirm that there are no false representations, misleading statements or material omissions contained herein, and individually and collectively accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

The 44th meeting of the Seventh Session of the Board of Directors of the Company was held at South Lake Hotel, Changchun City on 28 August 2009. The meeting was presided by Mr. Qin Xiao, Chairman of the Board. 15 out of 18 eligible Directors attended the meeting in person. Director Fu Yuning and independent Director Wu Jiesi attended the meeting by way of telephone. Director Wei Jiafu appointed Director Sun Yueying as proxy to vote on his behalf. 5 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

The Company's 2009 interim financial report is unaudited. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

Hereinafter the "Company", the "Bank", "CMB" and "China Merchants Bank" mentioned in this report are all referred to China Merchants Bank Co., Ltd.; and the "Group" is referred to China Merchants Bank Co., Ltd. and its subsidiaries.

Mr. Qin Xiao, Chairman of the Company, Mr. Ma Weihua, President and Chief Executive Officer, Mr. Li Hao, Executive Vice President and Chief Financial Officer, and Mr. Zhou Song, the person in charge of the Planning and Finance Department, hereby make representations in respect of the truthfulness and completeness of the financial statements in this report.

- 1.1 Registered Corporate Name in Chinese:** 招商銀行股份有限公司 (Chinese abbreviation: 招商銀行)
Registered Corporate Name in English: China Merchants Bank Co., Ltd.
- 1.2 Legal Representative:** Qin Xiao
Authorized Representatives: Ma Weihua, Li Hao
Secretary of the Board of Directors: Lan Qi
Joint Company Secretaries: Lan Qi, Seng Sze Ka Mee, Natalia (FCIS, FCS (PE), FHKIoD)
Qualified Accountant: Cheng Ting Nan (CPA, FCCA)
Securities Representative: Wu Jianbing
- 1.3 Registered and Office Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
- 1.4 Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
Email: cmb@cmbchina.com
Website: www.cmbchina.com
- 1.5 Principal Place of Business in Hong Kong:**
21st Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong
- 1.6 Share Listing:**
- | | |
|--------------------|---|
| A Share: | Shanghai Stock Exchange
Abbreviated Name of A Share: CMB
Stock Code: 600036 |
| H Share: | The Stock Exchange of Hong Kong Limited
("SEHK" or the "Hong Kong Stock Exchange")
Abbreviated Name of H Share: CM BANK
Stock Code: 3968 |
| Convertible Bonds: | Shanghai Stock Exchange
Abbreviation of Convertible Bonds: CMB Convertible Bonds
Code of Convertible Bonds: 110036 |
- 1.7 Domestic Auditor:** KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, PRC
International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong
- 1.8 Legal Advisor as to the PRC Law:** Jun He Law Office
Legal Advisor as to Hong Kong Law: Herbert Smith
- 1.9 Trustee for A Share:** China Securities Depository & Clearing Corporation Limited, Shanghai Branch
- 1.10 Share Registrar and Transfer Office as to H Share:** Computershare Hong Kong Investor Services Ltd.
Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

1.11 Websites and Newspapers Designated by the Company for Information Disclosure:

Mainland China: "China Securities Journal", "Securities Times", "Shanghai Securities News", website of the Shanghai Stock Exchange (www.sse.com.cn), the Company's website (www.cmbchina.com);

Hong Kong : website of The Stock Exchange of Hong Kong Ltd. (www.hkex.com.hk), the Company's website (www.cmbchina.com);

Periodical reports available at: the office of the Board of Directors

1.12 Other Information about the Company:

Initial registration date: 31 March 1987

Initial registration place: Administration for Industry and Commerce of Shenzhen, Shekou Branch

Registered No. of business licence for an enterprise as a legal person: 4403011228801

Taxation Registration No.: Guo Shui Shen Zi 44030010001686X

Shen Di Shui Zi 44030010001686X

Organization Code: 10001686-X

2.1 Key financial data and financial indicators

Operating Results

	January – June 2009	January – June 2008	Changes +/(-)%
	(in millions of RMB)		
Net operating income ⁽¹⁾	24,821	28,820	(13.88)
Profit before tax	10,178	17,122	(40.56)
Net profit attributable to the Bank's shareholders	8,262	13,245	(37.62)

Per Share

	January – June 2009	January – June 2008	Changes +/(-)%
	(in RMB)		
Basic earnings	0.56	0.90	(37.78)
Diluted earnings	0.56	0.90	(37.78)
Net cash flow from operating activities	1.56	(2.49)	–
Period-end net assets value	5.72	5.27	8.54

Financial Position

	As at 30 June 2009	As at 31 December 2008	Changes +/(-)%
	(in millions of RMB)		
Total assets	1,972,768	1,571,797	25.51
of which: total loans and advances to customers	1,152,167	874,362	31.77
Total liabilities	1,888,583	1,492,016	26.58
of which: total deposits from customers	1,540,682	1,250,648	23.19
Total equity attributable to the Bank's shareholders	84,185	79,515	5.87

Note: ⁽¹⁾ Net operating income is the sum of total operating income and share of profits of associates and joint ventures.

II Financial Highlights

2.2 Financial Ratios

	January – June 2009 (%)	January – December 2008 (%)	January – June 2008 (%)	Changes +/(–)
Profitability ratios⁽¹⁾				
Return on average assets (after tax) attributable to the Bank's shareholders	0.93	1.46	1.96	(1.03)
Return on average equity (after tax) attributable to the Bank's shareholders	20.19	28.58	36.42	(16.23)
Net interest spread	2.14	3.24	3.51	(1.37)
Net interest margin	2.24	3.42	3.66	(1.42)
As percentage of net operating income				
–Net interest income	75.03	84.24	83.71	(8.68)
–Net non-interest income	24.97	15.76	16.29	8.68
Cost-to-income ratio ⁽²⁾	41.99	36.55	30.14	11.85
	As at 30 June 2009 (%)	As at 31 December 2008 (%)	As at 30 June 2008 (%)	Changes +/(–)
Asset quality ratios				
Non-performing loan ratio	0.86	1.11	1.25	(0.25)
Allowances for impairment losses to non-performing loans	241.39	223.29	216.13	18.10
Allowances for impairment losses to total loans and advances to customers	2.08	2.47	2.70	(0.39)
Capital adequacy ratios				
Core capital adequacy ratio	6.50	6.56	8.83	(0.06)
Capital adequacy ratio	10.63	11.34	10.41	(0.71)
Total equity to total assets	4.27	5.08	5.55	(0.81)

Notes: ⁽¹⁾ The ratios are annualized.

⁽²⁾ Cost-to-income ratio is the current operating expenses minus business tax and surcharges, and then divided by the operating income.

3.1 Analysis of general operating status

In the first half of 2009, the Group was confronted with a severe external operating environment. Although our profit suffered a significant decline as compared to the corresponding period of the previous year, the Group experienced steady development in the scale of assets and liabilities and continuous improvement in asset quality, which were specifically reflected in the following aspects:

The profit of the Group suffered a significant decline as compared to the corresponding period of the previous year. In the first half of 2009, the Group realized a net profit of RMB8.262 billion, representing a decrease of RMB4.983 billion or 37.62% as compared to the corresponding period of the previous year; a net interest income of RMB18.623 billion, representing a decrease of RMB5.502 billion or 22.81% as compared to the corresponding period of the previous year; a net non-interest income of RMB6.198 billion, representing an increase of RMB1.503 billion or 32.01% as compared to the corresponding period of the previous year. The decline in profit was mainly attributable to the following factors: firstly, interest spread was further compressed under the moderately loose monetary policy, and net interest income decreased relatively rapidly; secondly, the volume of loans grew at a faster pace, resulting in a relatively substantial increase in allowances for impairment losses.

The assets and liabilities have been expanding steadily and the balances of both deposits and loans have been growing rapidly. As at the end of June 2009, the Group's total assets amounted to RMB1,972.768 billion, representing an increase of RMB400.971 billion or 25.51% as compared with the beginning of the year; loans and advances amounted to RMB1,152.167 billion, representing an increase of RMB277.805 billion or 31.77% as compared with the beginning of the year; deposits from customers amounted to RMB1,540.682 billion, representing an increase of RMB290.034 billion or 23.19% as compared with the beginning of the year. Excluding the impact brought about by the merger with WLB and other subsidiaries, the Company had total loans and advances of RMB1,106.181 billion as at the end of June 2009, representing an increase of RMB272.633 billion or 32.71% as compared with the beginning of the year; and total deposits from customers amounted to RMB1,460.690 billion, representing an increase of RMB282.450 billion or 23.97% as compared with the beginning of the year.

The quality of assets remained at high level. As at the end of June 2009, the Group had non-performing loans of RMB9.924 billion, an increase of RMB247 million as compared with the beginning of the year. The non-performing loan ratio was 0.86%, a decrease of 0.25 percentage point as compared with the beginning of the year. The allowance coverage ratio was 241.39%, an increase of 18.10 percentage points as compared with the beginning of the year.

3.2 Analysis of Income Statement

3.2.1 Financial results highlights

	January – June 2009	January – June 2008
	(In millions of RMB)	
Net interest income	18,623	24,125
Net fee and commission income	4,042	4,094
Other net income	1,939	568
Insurance operating income	187	–
Operating expenses	(11,880)	(10,306)
Provision for insurance claims	(160)	–
Share of profits of associates and joint ventures	30	33
Provision for impairment losses	(2,603)	(1,392)
Profit before tax	10,178	17,122
Income tax	(1,916)	(3,877)
Net profit attributable to the Bank's shareholders	8,262	13,245

From January to June 2009, the Group realized a profit before tax of RMB10.178 billion, a decrease of 40.56% as compared to the corresponding period of 2008, and its effective income tax rate was 18.82%, a decrease of 3.82 percentage points as compared to the corresponding period of 2008.

3.2.2 Net operating income

From January to June 2009, the net operating income of the Group was RMB24.821 billion, of which, net interest income accounted for 75.03%, a decrease of 8.68 percentage points as compared to the corresponding period of 2008; net non-interest income accounted for 24.97%, an increase of 8.68 percentage points as compared to the corresponding period of 2008. The net operating income decreased by 13.88% as compared to the corresponding period of 2008, which was mainly attributable to the substantial decrease in interest income from loans and advances and interest income from placements with banks and other financial institutions, as well as the substantial increase in bonds interest payable.

The following table sets out the net operating income composition of the Company in the past three years.

	January – June 2009	January – June 2008	January – June 2007
Net interest income	75.03%	83.71%	83.72%
Net fee and commission income	16.28%	14.21%	15.18%
Other net income	7.81%	1.97%	1.10%
Insurance operating income	0.76%	–	–
Share of profits of associates and joint ventures	0.12%	0.11%	–
Net operating income	100.00%	100.00%	100.00%

3.2.3 Net interest income

From January to June 2009, the net interest income of the Group was RMB18.623 billion, a decrease of 22.81% as compared to the corresponding period of 2008, which was primarily attributable to the decline in average return on interest-earning assets.

The following tables set out, for the periods indicated, the average balances of assets and liabilities, interest income/interest expense and average yield/cost ratio of the Group. The average balance of interest-earning assets and interest-bearing liabilities is the average daily balance.

	Jan-Jun 2009			Jan-Dec 2008			Jan-Jun 2008		
	Average balance	Interest income	Average annualized yield %	Average balance	Interest income	Average yield %	Average balance	Interest income	Average annualized yield %
(in millions of RMB, excluding percentages)									
Assets									
Loans and advances	1,067,187	24,394	4.61	829,814	56,097	6.76	802,602	27,523	6.90
Debt investments	250,915	4,407	3.54	225,792	8,820	3.91	220,326	4,261	3.89
Balances with central bank	188,655	1,356	1.45	169,684	2,827	1.67	159,638	1,313	1.65
Placements with banks and other financial institutions	172,069	1,345	1.58	147,367	4,891	3.32	142,674	2,681	3.78
Total interest-earning assets and interest income	1,678,826	31,502	3.78	1,372,657	72,635	5.29	1,325,240	35,778	5.43
				Average balance	Interest expense	Average cost %	Average balance	Interest expense	Average annualized cost %
(in millions of RMB, excluding percentages)									
Liabilities									
Deposits from customers	1,341,797	10,096	1.52	982,312	19,924	2.03	906,740	8,742	1.94
Placements from banks and other financial institutions	203,541	1,777	1.76	250,423	4,825	1.93	296,092	2,682	1.82
Issued debts	39,365	1,006	5.15	24,448	1,001	4.09	15,012	229	3.07
Total interest-bearing liabilities and interest expenses	1,584,703	12,879	1.64	1,257,183	25,750	2.05	1,217,844	11,653	1.92
Net interest income	-	18,623	-	-	46,885	-	-	24,125	-
Net interest spread⁽¹⁾	-	-	2.14	-	-	3.24	-	-	3.51
Net interest margin⁽²⁾	-	-	2.24	-	-	3.42	-	-	3.66

Note: ⁽¹⁾ Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

⁽²⁾ Net interest margin is net interest income divided by the average balance of total interest-earning assets.

III Management's Analysis and Discussion

The following table sets out, for the periods indicated, the allocation of changes in interest income and interest expenses of the Group 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 the average interest rates; the changes in interest income and interest expenses due to changes in volume and interest rate have been included in the amount of changes in interest income and interest expenses due to changes in volume.

	January – June 2009 compared with January – June 2008		Net
	Increase/(decrease) due to Volume	Interest rate (In millions of RMB)	
Assets			
Loans and advances	6,062	(9,191)	(3,129)
Debt investments	540	(394)	146
Balances with central bank	205	(162)	43
Placements with banks and other financial institutions	228	(1,564)	(1,336)
Changes in interest income	7,035	(11,311)	(4,276)
Liabilities			
Deposits from customers	3,267	(1,913)	1,354
Placements from banks and other financial institutions	(809)	(96)	(905)
Issued debts	623	154	777
Changes in interest expense	3,081	(1,855)	1,226
Changes in net interest income	3,954	(9,456)	(5,502)

3.2.4 Interest income

From January to June 2009, the interest income of the Group decreased by 11.95% as compared to the corresponding period of 2008, which was primarily attributable to the decline in average yield of interest-earning assets including loans and advances, placements with banks and other financial institutions. Interest income from loans and advances still accounted for the majority of the interest income of the Group.

Interest income from loans and advances

The following table sets forth, for the period indicated, the average balance, interest income, and average yield of respective types of loans and advances of the Group.

	Jan-Jun 2009			Jan-Jun 2008		
	Average balance	Interest income	Average annualized yield %	Average balance	Interest income	Average annualized yield %
	(in millions of RMB, excluding percentages)					
Corporate loans and advances	563,901	14,960	5.35	473,958	16,114	6.84
Personal loans and advances	250,405	6,414	5.17	179,176	6,411	7.20
Discounted bills	252,881	3,020	2.41	149,468	4,998	6.72
Loans and advances	1,067,187	24,394	4.61	802,602	27,523	6.90

Note: The above average balance is the average daily balance.

For the six-month period ended 30 June 2009, the interest income from loans and advances of the Group decreased by RMB3.129 billion or 11.37% as compared to the corresponding period of 2008, which was primarily affected by the nation's macroeconomic control policies and the decrease in the interest rates of loans. The average yield of loans and advances for the current period decreased by 2.29 percentage points as compared to the corresponding period of last year.

Interest income from debt investments

For the six-month period ended 30 June 2009, the interest income from debt investments of the Group increased by RMB146 million or 3.43% as compared to the corresponding period of 2008. It was primarily attributable to the increase in the average balance of the debt investment of 13.88% as compared to the corresponding period of 2008.

Interest income from balances with central bank

During the six-month period ended 30 June 2009, the interest income from balances of the Group with central bank increased by RMB43 million or 3.27% as compared to the corresponding period of 2008.

Interest income from placements with banks and other financial institutions

During the six-month period ended 30 June 2009, the interest income from balances and placements with banks and other financial institutions of the Group decreased by RMB1.336 billion or 49.83% as compared to the corresponding period of 2008. It was primarily attributable to the decrease in the average yield of the placements with banks and other financial institutions by 2.20 percentage points as compared to the corresponding period of last year.

3.2.5 Interest expense

During the six-month period ended 30 June 2009, the interest expense of the Group increased by 10.52% as compared to the corresponding period of 2008. It was primarily attributable to the increase in average balance of deposits from customers and issued debts and the increase in average cost of issued debts.

Interest expense on deposits from customers

Deposits from customers are the major funding source of the Group. During the six-month period ended 30 June 2009, the Group's interest expense on deposits from customers increased by RMB1.354 billion or 15.49% as compared to the corresponding period of 2008. It was primarily attributable to a relatively rapid growth in the deposits from customers, of which the average balance amounted to RMB1,341.797 billion, representing an increase of 47.98% as compared to the corresponding period of last year.

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

	Jan-Jun 2009			Jan-Jun 2008		
	Average balance	Interest expense	Average annualized yield %	Average balance	Interest expense	Average annualized yield %
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	375,161	1,129	0.61	334,739	1,658	1.00
Time	418,400	4,635	2.23	264,706	4,208	3.20
Subtotal	793,561	5,764	1.46	599,445	5,866	1.97
Deposits from retail customers						
Demand	269,306	614	0.46	174,873	648	0.75
Time	278,930	3,718	2.69	132,422	2,228	3.38
Subtotal	548,236	4,332	1.59	307,295	2,876	1.88
Total deposits from customers	1,341,797	10,096	1.52	906,740	8,742	1.94

Note: The above average balance is the average daily balance.

Interest expense on placement from banks and other financial institutions

During the six-month period ended 30 June 2009, interest expense on placements from banks and other financial institutions decreased by RMB905 million or 33.74% as compared to the corresponding period of 2008. It was primarily attributable to the decrease in the average balance of placements from banks and other financial institutions.

Interest expense on issued debts

During the six-month period ended 30 June 2009, the interest expenses on issued debts increased by 339.30% as compared to the corresponding period of 2008. It was primarily due to the new issuance of subordinated debts in the second half of 2008.

3.2.6 Net interest spread and net interest margin

In the first half of 2009, the net interest spread of the Group was 2.14%, down by 137 basis points as compared to the corresponding period of 2008. The decrease was primarily due to the average interest margin of the interest-earning assets of the Group decreased to 3.78% in the first half of 2009 from 5.43% in the first half of 2008, down by 165 basis points, and the average cost of the interest-bearing liabilities decreased to 1.64% in the first half of 2009 from 1.92% in the first half of 2008, down by 28 basis points.

In the first half of 2009, the net interest margin of the Group was 2.24%, down by 142 basis points as compared to the corresponding period of 2008. Such decrease was due to, on one hand, the shrinkage of interest spread and rapid decrease in net interest income as a result of interest rate cuts by central bank last year; and on the other hand, the rapid growth in the average balance of the interest-earning assets.

3.2.7 Net fee and commission income

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

	Jan-Jun 2009	Jan-Jun 2008
	(in millions of RMB)	
Fee and commission income	4,588	4,534
Bank card fees	1,385	1,277
Remittance and settlement fees	508	487
Agency service fees	1,109	916
Commissions from credit commitment and loan business	364	295
Commissions from custody and other trustee businesses	735	1,099
Others	487	460
Fee and commission expense	(546)	(440)
Net fee and commission income	4,042	4,094

During the six-month period ended 30 June 2009, net fee and commission income of the Group decreased by 1.27% as compared to the corresponding period of 2008. Such decrease was primarily attributable to decrease in commissions from custody and other trustee businesses.

During the six-month period ended 30 June 2009, bank card fee income increased by 8.46% as compared to the previous year. It was primarily due to the increased transaction volumes of bank cards of the Group.

During the six-month period ended 30 June 2009, income from remittance and settlement fees increased by 4.31% as compared to the corresponding period of 2008. Such increase was primarily attributable to the increase in remittance and settlement transaction volumes due to the gradual expansion of our business scale and customer base, and the increase of income from personal account management fees.

During the six-month period ended 30 June 2009, the fee income from agency services of the Group increased by 21.07% as compared to the corresponding period of 2008. The increase was primarily attributable to the increase in the income from agency sale of insurance and underwriting fee of mid-term bills and short-term commercial papers.

III Management's Analysis and Discussion

During the six-month period ended 30 June 2009, commissions from credit commitment and loan business increased by 23.39% as compared to the corresponding period of 2008, which was primarily attributable to the expanded customer base and enlarged business volume.

During the six-month period ended 30 June 2009, commissions from custody and other trustee business decreased by 33.12% as compared to the corresponding period of 2008, which was primarily attributable to the decrease in income from wealth management, asset custody and third party custody services.

During the six-month period ended 30 June 2009, fee and commission expense increased by 24.09% as compared to the corresponding period of 2008. The increase was primarily attributable to higher expense on credit card service in line with rapid growth of credit card issuance.

3.2.8 Other net income

During the six-month period ended 30 June 2009, other net income of the Group increased by 241.37% as compared to the corresponding period of 2008. It was primarily due to the increase in net foreign exchange gain, net investment gain and net gain arising from change in fair value. Other net income accounted for 7.81% of the net operating income.

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

	Jan-Jun 2009	Jan-Jun 2008
	(in millions of RMB)	
Net trading profit arising from:		
– Foreign exchange	534	287
– Securities, derivatives and other trading activities	188	167
Net gain on financial instruments designated at fair value through profit or loss	296	11
Net gain on disposal of available-for-sale financial assets	704	32
Rental income	74	26
Others	143	45
Total other net income	1,939	568

During the six-month period ended 30 June 2009, net trading profits arising from foreign exchange of the Group increased by 86.06% as compared to the corresponding period of 2008. It was primarily due to the relatively stable RMB exchange rate in the first half of this year, resulting in a significant decrease in foreign exchange losses as compared to the corresponding period of last year.

During the six-month period ended 30 June 2009, net gain on financial instruments designated at fair value through profit or loss of the Group increased by 2,590.91% as compared to the corresponding period of 2008, which was primarily due to the increase in the total amount of financial instruments designated at fair value through profit or loss.

During the six-month period ended 30 June 2009, net gain on disposal of available-for-sale financial assets of the Group increased by 2,100.00% as compared to the corresponding period of 2008, which was primarily due to the Group seizing the opportunity of low interest rate to sell the available-for-sale financial assets and reaping an price spread gain.

3.2.9 Operating expenses

During the six-month period ended 30 June 2009, operating expenses of the Group were RMB11.880 billion, representing an increase of 15.27% as compared to the corresponding period of 2008. In the first half of 2009, cost-to-income ratio was 41.99%, representing an increase of 11.85 percentage points as compared to the corresponding period of last year, which was primarily due to a significant decrease in operating income of the Group.

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

	Jan-Jun 2009	Jan-Jun 2008
	(in millions of RMB)	
Staff costs	5,860	5,555
Business tax and surcharges	1,457	1,619
Depreciation and rental expenses	1,976	1,243
Other general and administrative expenses	2,587	1,889
Total operating expenses	11,880	10,306

Staff costs constituted the majority of the operating expenses of the Group. During the six-month period ended 30 June 2009, staff costs increased by 5.49% as compared to the corresponding period of last year. Depreciation and rental expenses increased by 58.97%, which was primarily due to the Group shortening the depreciable life of fixed assets since the second half of 2008 and setting up new branches and offices during the reporting period. Other general and administrative expenses increased by 36.95%, which were in line with the overall business development of the Group.

3.2.10 Provision for impairment losses

During the six-month period ended 30 June 2009, provision for impairment losses of the Group was RMB2.603 billion, an increase of 87.00% as compared to the corresponding period of 2008. The following table sets forth, for the periods indicated, the principal components of provision for impairment losses of the Group.

	Jan-Jun 2009	Jan-Jun 2008
	(in millions of RMB)	
Impairment losses charged/(released) on:		
– Loans and advances to customers	2,650	1,571
– Deposits and placements with banks and other financial institutions	–	(274)
– Investments	(44)	–
– Other assets	(3)	95
Total provision for impairment losses	2,603	1,392

Impairment losses on loans and advances constituted the largest component of the impairment losses. During the six-month period ended 30 June 2009, impairment losses on loans and advances was RMB2.650 billion, representing an increase of 68.68% as compared to the corresponding period of 2008. For details of specific changes and reasons for the impairment losses on loans and advances, please refer to the paragraph headed "Loan quality analysis" of this section.

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During the six-month period ended 30 June 2009, improvement of overall situation in financial market helped restoring the investment value of some debts for which impairment loss had been provided previously, and credit exposure to the issuers was partially mitigated, therefore the impairment loss previously recognized on debts investments was appropriately reversed, with a total released amount of RMB44 million.

Provision for impairment losses on other assets consisted primarily of provision for impairment losses on repossessed assets, which represented the difference between the estimated realizable value and the carrying value of our repossessed assets. During the six-month period ended 30 June 2009, the provision for impairment losses on other assets of the Group was RMB3 million.

3.3 Analysis of balance sheet

3.3.1 Assets

As at 30 June 2009, the total assets of the Group were RMB1,972.768 billion, representing an increase of 25.51% as compared to the end of 2008. The increase in total assets was primarily due to the increase in loans and advances to customers, investments, and balances and placements with banks.

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

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	(in millions of RMB, except percentages)			
Total loans and advances to customers	1,152,167	58.40	874,362	55.63
Allowance for impairment losses on loans and advances to customers	(23,956)	(1.21)	(21,608)	(1.37)
Net loans and advances to customers	1,128,211	57.19	852,754	54.26
Investments	346,540	17.57	310,446	19.75
Investment in associates and joint ventures	431	0.02	402	0.03
Balances with the central bank	198,303	10.05	174,673	11.11
Cash and balances with banks and other financial institutions	70,694	3.58	37,016	2.35
Placement with banks and other financial institutions	182,811	9.27	156,378	9.95
Fixed assets	15,038	0.76	15,062	0.96
Intangible assets	2,388	0.12	2,381	0.15
Deferred tax assets	2,480	0.13	2,521	0.16
Goodwill	9,598	0.49	9,598	0.61
Other assets	16,274	0.82	10,566	0.67
Total assets	1,972,768	100.00	1,571,797	100.00

3.3.1.1 Loans and advances to customers

As at 30 June 2009, total loans and advances to customers of the Group amounted to RMB1,152.167 billion, representing an increase of 31.77% as compared to the end of previous year; the percentage of total loans and advances to customers to the total assets was 58.40%, representing an increase of 2.77 percentage points as compared to the end of the previous year.

Distribution of loans to customers 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.

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	(in millions of RMB, except percentages)			
Corporate loans and advances	654,536	56.81	545,961	62.44
Discounted bills	207,881	18.04	95,766	10.95
Retail loans and advances	289,750	25.15	232,635	26.61
Total loans and advances to customers	1,152,167	100.00	874,362	100.00

In recent years, the Group continued to step up efforts to expand the business of retail loans and advances. As at the end of the reporting period, retail loans and advances grew by 24.55% compared to the end of 2008. The increase was 4.66 percentage points larger than that of corporate loans and advances during the same period.

Corporate loans and advances

As at 30 June 2009, the Group's total corporate loans and advances amounted to RMB654.536 billion with an increase of RMB108.575 billion as compared to the beginning of the year, accounting for 56.81% of total loans and advances to customers, a decrease of 5.63 percentage points as compared to the beginning of the year. In the first half of 2009, the Group consistently followed the nation's macroeconomic control policy enhanced the management of credit approval policy and rationalized the size and speed of granting corporate loans, thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 30 June 2009, discounted bills amounted to RMB207.881 billion, an increase of 117.07% as compared to the end of previous year. In the first half of 2009, with low interest rate and interest spread, the Group expanded the channel of bill re-discounting with lower costs through magnifying the effects of the concentrated operation and large-sized transactions of bills. Without compromising the control of its capital use and risks, the Group improved its overall yield of discounted bills by appropriately speeding up turnover of bills discounting.

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Retail loans and advances

As at 30 June 2009, retail loans and advances amounted to RMB289.750 billion, representing an increase of 24.55% as compared to the end of previous year. The increase was primarily due to rapid expansion of residential mortgage loans. The following table sets forth, as at the dates indicated, the retail loans and advances by product type.

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	(in millions of RMB, except percentages)			
Residential mortgage loans	204,208	70.48	158,512	68.14
Credit card receivables	33,433	11.54	32,019	13.76
Others ⁽¹⁾	52,109	17.98	42,104	18.10
Total retail loans and advances	289,750	100.00	232,635	100.00

Note: (1) Consists primarily of retail loans secured by monetary assets, home improvement loans, education loans and general consumption loans.

In the first half of 2009, the Group adhered to the development strategy for its retail loan business and concentrated on the expansion of its residential mortgage loan business, the residential mortgage loans kept growing steadily. As at 30 June 2009, residential mortgage loans increased by 28.83% as compared to the end of previous year.

Affected by economic downturn and decrease in income expectation, the growth of the Group's credit card business slowed down in the first half of 2009. Credit card receivables increased by 4.42% as compared to the end of previous year.

3.3.1.2 Investment securities and other financial assets

Analysis on investments in foreign currency debts

As at 30 June 2009, the Group had a balance of investments in foreign currency debts of US\$6.560 billion, among which US\$3.596 billion was held by the Company and US\$2.964 billion was held by WLB and its subsidiaries ("WL Group").

The investments in foreign currency debts held by the Company are categorized as follows: 54.3% of the foreign currency bonds are issued by the PRC government and Chinese companies; 9.5% by G7 governments and institutions; 30.8% by overseas banks and 5.4% by overseas companies. As at the end of June 2009, the Company has made an allowance for impairment of US\$102 million for its investments in foreign currency debts, with an evaluated unrealized loss of US\$114 million (an unrealized loss of US\$11.56 million if excluding debts provided for impairment), accounting for 3.2% of the total investments in foreign currency debts of the Company. As at the end of June 2009, the Company did not have any securities products in relation to subprime mortgage loans.

For details of debt investments by WL Group, please refer to the section headed "Business of Wing Lung Group".

Investments

Investments of the Group comprise listed and non-listed securities denominated in Renminbi and in foreign currencies, including financial assets at fair value through profit or loss, available-for-sale investments, held-to-maturity securities and investment receivables.

The following table sets forth the components of the investment portfolio of the Group:

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
(in millions of RMB, except percentages)				
Financial assets at fair value through profit or loss	19,704	5.69	17,699	5.70
Available-for-sale financial assets	232,642	67.13	206,959	66.66
Held-to-maturity investments	79,733	23.01	70,373	22.67
Investment receivables	14,461	4.17	15,415	4.97
Total investments	346,540	100.00	310,446	100.00

Financial assets at fair value through profit or loss

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

	As at 30 June 2009	As at 31 December 2008
(in millions of RMB)		
Financial assets at fair value through profit or loss		
PRC government bonds	677	660
Debts issued by the People's Bank of China (the "PBOC")	4,534	2,873
Debts issued by policy banks	1,406	1,749
Debts issued by commercial banks and other financial institutions	4,843	3,372
Others	8,244	9,045
Total financial assets at fair value through profit or loss	19,704	17,699

Available-for-sale investments

As at 30 June 2009, the available-for-sale investments of the Group increased by RMB25.683 billion or 12.41% as compared to the end of 2008, representing 67.13% of the investments of the Group, which was the largest investment category of the Group. The increase in this category was mainly due to the need to manage assets and liabilities and to improve operation efficiency.

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In the first half of 2009, the active fiscal policy and moderately loose monetary policy adopted by China helped keep the macro-economy stable and resilient. However, the anticipated economic recovery and loose monetary policy gave rise to a high inflation expectation, which caused the yield curve for bonds to go steeper. The Company timely and accurately grasped the market movement and its fluctuating rhythm. By making use of substantial growth in liabilities and continuous improvement in capital strength, it reinforced the adjustment to the structure of its bond portfolio on one hand and enlarged the scale of its investments on the other hand, among which:

- (1) As the PBOC adopted a moderately loose monetary policy, issuance of PBOC bond was significantly reduced, interest rate went lower and a large number of bonds reached maturity, all these resulted in a sharp decline in total volume of such bonds held by the Company as compared to the end of previous year.
- (2) Following the decrease of bond issuance by the PBOC, the Company appropriately raised its investment in the PRC government bonds (especially those enjoying preferential tax treatment) and debts issued by policy banks.
- (3) Debts issued by commercial banks and other financial institutions increased considerably. This was mainly because debts issued by China Development Bank carried zero risk weight and had a certain institutional premium within a specified period upon its transformation into a commercial bank. As a result, the Company increased substantially its holding in such debts. Meanwhile, the Company also increased appropriately its holding in debts issued by domestic commercial banks.
- (4) Guided by the macroeconomic policy of "maintaining growth", credit market in China continued to develop rapidly. Adapting to the changes in market structure and in order to get higher investment returns, the Group, while maintaining strict risk control, increased investments in debt instruments issued by non-financial enterprises. As a result, more investments were made in short-term commercial papers, mid-term bills and corporate bonds, which were classified as other debts.

The following table sets forth the components of the available-for-sale investment portfolio of the Company.

	As at 30 June 2009	As at 31 December 2008
	(in millions of RMB)	
Available-for-sale investments		
PRC government bonds	13,802	9,734
Debts issued by the PBOC	7,814	52,661
Debts issued by policy banks	43,654	34,762
Debts issued by commercial banks and financial institutions	85,261	58,264
Other debts	81,046	50,550
Equity investments	1,051	964
Fund investments	14	24
Total available-for-sale investments	232,642	206,959

Held-to-maturity securities

As at 30 June 2009, the net amount of held-to-maturity securities of the Group increased by RMB9.360 billion or 13.30% as compared to the end of previous year. Held-to-maturity investments are primarily long-term fixed rate debts and floating rate debts with higher coupon rates. The long-term fixed rate debts are held for the Company's strategic purpose on a long-term basis, while the floating rate debts are subject to adjustment according to the interest rate cycle which is in line with the change of direction in cost of debt, and enjoys a stable gain on interest spread. Held-to-maturity investment is not a primary item held by the Company, however, based on consideration of certainty in investment objectives and for strategic holding purpose, the Company will continue to increase such investment to a suitable level.

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

	As at 30 June 2009	As at 31 December 2008
	(in millions of RMB)	
Held-to-maturity securities		
PRC government bonds	20,386	15,548
Debts issued by the PBOC	12,210	13,588
Debts issued by policy banks	8,276	8,420
Debts issued by commercial banks and other financial institutions	36,601	31,113
Other debts	2,445	1,919
Total amount of held-to-maturity securities	79,918	70,588
Less: allowance for impairment losses	(185)	(215)
Total amount of held-to-maturity securities	79,733	70,373

Investment receivables

Investment receivables are unlisted PRC evidence Treasury Bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 30 June 2009, the Group's balance of investment receivables amounted to RMB14.461 billion, representing a decrease of RMB954 million as compared to the end of 2008.

Carrying value and market value

All bond investments classified as financial assets at fair value through profit or loss and available-for-sale investments were stated at market value or at fair value. Due to the lack of a mature market for the investment receivables in the Group's investment portfolio and the Group's expectation of being able to fully recover their carrying values upon maturity, the Group has not made any assessment of their market value or fair value.

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

	As at 30 June 2009		As at 31 December 2008	
	Carrying value	Market/fair value	Carrying value	Market/fair value
	(in millions of RMB)			
Held-to-maturity listed investment	71,805	73,169	66,726	68,831

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Investment concentration

The following table sets forth, as at 30 June 2009, our investment securities and other finance assets with carrying value exceeding 10% of our shareholders' equity.

	As at 30 June 2009			
	Carrying value	Percentage to the investments (%)	Percentage to total shareholders' equity (%)	Market/fair value
	(In millions of RMB, excluding percentages)			
The PBOC	32,558	9.39	38.67	32,911
The Ministry of Finance	38,938	11.24	46.25	39,611
China Development Bank	91,764	26.48	109.00	92,110
The Export-Import Bank of China	21,379	6.17	25.40	21,449
Agricultural Development Bank of China	31,957	9.22	37.96	31,991
Total	216,596	62.50	257.28	218,072

3.3.1.3 Goodwill

On 15 January 2009, the Group completed the acquisition of 100% equity interest of WLB. As at 30 June 2009, the Group had balance of provision for impairment losses on goodwill of RMB579 million and carrying value of goodwill of RMB9.598 billion.

3.3.2 Liabilities

As at 30 June 2009, the total liabilities of the Group amounted to RMB1,888.583 billion, representing an increase of 26.58% as compared to the end of 2008, which was primarily due to a rapid growth in deposits from customers. As at the end of this period, total deposits from customers amounted to RMB1,540.682 billion, representing an increase of 23.19% as compared to the end of 2008. Deposits accounted for 81.58% of the total liabilities of the Group and were the major source of fund of the Group.

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

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Deposits from customers	1,540,682	81.58	1,250,648	83.82
Deposits from banks and other financial institutions	185,309	9.81	115,792	7.76
Placements from banks and other financial institutions	67,104	3.55	50,124	3.36
Certificates of deposit issued	1,900	0.10	1,840	0.12
Convertible bonds issued	2	0.00	2	0.00
Subordinated debts issued	30,945	1.64	33,440	2.24
Other debts issued	4,997	0.27	4,996	0.34
Other liabilities	57,644	3.05	35,174	2.36
Total Liabilities	1,888,583	100.00	1,492,016	100.00

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Deposits from customers

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

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%) (in millions of RMB, excluding percentages)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	454,439	29.50	373,222	29.84
Time	484,229	31.43	352,499	28.19
Subtotal	938,668	60.93	725,721	58.03
Deposits from retail customers				
Demand	304,457	19.76	268,220	21.45
Time	297,557	19.31	256,707	20.52
Subtotal	602,014	39.07	524,927	41.97
Total deposits from customers	1,540,682	100.00	1,250,648	100.00

The Group has been consistently focusing on expanding deposit business. Deposits from customers of the Group maintained robust growth as a result of rapid economic growth in China and the increased public disposable income. As at 30 June 2009, deposits from customers of the Group amounted to RMB1,540.682 billion, representing an increase of 23.19% as compared to the end of last year.

In the first half of 2009, the retail customer deposits started to flow back to the stock market as a result of the reviving China's domestic stock market and resumption of initial public offerings. As at 30 June 2009, the percentage of retail deposits to total deposits from customers of the Group was 39.07%, representing a decrease of 2.90 percentage points as compared to the end of 2008.

From January to June 2009, there was a gradual increase in the percentage of time deposits to total deposits from customers of the Group, which was mainly due to the rapid increase in the bank acceptance margins and deposits held at call. As at 30 June 2009, the percentage of time deposits to total deposits from customers of the Group was 50.74%, representing an increase of 2.03 percentage points as compared to the end of 2008. Corporate time deposits accounted for 51.59% of the corporate deposits, representing an increase of 3.02 percentage points as compared to the end of 2008, and retail time deposits accounted for 49.43% of the retail deposits, representing an increase of 0.53 percentage point as compared to the end of 2008.

3.3.3 Shareholders' equity

	As at 30 June 2009	As at 31 December 2008
	(in millions of RMB)	
Paid-up share capital	14,707	14,707
Capital reserve	18,398	18,823
Surplus reserve	6,653	4,612
Investment revaluation reserve	1,147	2,854
Regulatory general reserve	10,822	10,793
Foreign exchange translation reserve	(23)	(34)
Retained profits	28,069	19,836
Proposed profit appropriations	–	7,924
Share dividend approved	4,412	–
Total equity attributable to parent company	84,185	79,515
Minority interests	–	266
Total shareholders' equity	84,185	79,781

3.3.4 Market share of major products or services

According to the statistics published by the PBOC, as at June 2009, the market share and ranking of the Company among the 13 joint stock banks in terms of loans and deposits as at the end of the reporting period are as follows:

Items expressed in RMB	Market share %	Ranking
Total deposits	13.12	2
Total savings deposits	22.47	2
Total loans and advances	13.45	2
Total personal consumption loans	22.89	1

Note: The 13 joint stock banks include: Bank of Communications, China Merchants Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, Evergrowing Bank, China Zheshang Bank, and Bohai Bank.

3.4 Loan quality analysis

In the first half of 2009, the Group took proactive actions to cope with the changes in the complex and ever-changing external economic and financial environment and steadily pushed forward with the operating strategy adjustment and management reform under the guidelines of "Addressing Risks, Seizing Opportunities, Enhancing Management and Developing Scientifically", improving the risk control capability. During the reporting period, the quality of our credit assets has maintained a positive development momentum of continuous optimization.

As at the end of the reporting period, the non-performing loan ratio was 0.86%, representing a decrease of 0.25 percentage point as compared to that at the beginning of the year; whereas the non-performing loan allowance coverage ratio was 241.39%, representing an increase of 18.10 percentage points as compared to that at the beginning of the year.

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

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	1,129,381	98.02	850,356	97.25
Special Mention	12,862	1.12	14,329	1.64
Substandard	2,808	0.24	2,751	0.31
Doubtful	2,907	0.25	3,023	0.35
Loss	4,209	0.37	3,903	0.45
Total loans and advances to customers	1,152,167	100.00	874,362	100.00
Total non-performing loans	9,924	0.86	9,677	1.11

The key analysis on the loan quality of the Company is set out herein as follows:

3.4.1 Distribution and migration of loan portfolios by loan classification

Under the 5-tier loan classification, the non-performing loans of the Company are classified into substandard, doubtful and loss.

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	1,084,124	98.01	810,312	97.21
Special Mention	12,425	1.12	13,737	1.65
Substandard	2,628	0.24	2,626	0.32
Doubtful	2,796	0.25	2,970	0.36
Loss	4,208	0.38	3,903	0.46
Total loans and advances to customers	1,106,181	100.00	833,548	100.00
Total non-performing loans	9,632	0.87	9,499	1.14

In the first half of 2009, keeping up with the economic stimulus package announced by the central government and in response to the call of sustaining economic growth with monetary policies, the Company seized market opportunities on a timely basis and strengthened its credit policy orientation. Guided by the principles of "improving quality, encouraging the credit granting to some industry sectors while discouraging that to others, and optimizing credit structure", the Company successfully widened the coverage of its credit policy to all four dimension of customer categories, industry sectors, regional distribution and business lines, and directed its credit extension in a scientific manner. Through stringent review on loan granting, dynamic credit risk pre-warning system, overall risk screening control and highly effective loan recovery mechanism, the quality of our credit assets remained stable.

As at the end of the reporting period, the Company achieved its goal of having both the amount and ratio of non-performing loans under control, with the amount of non-performing loans of RMB9.632 billion, representing a slight increase of RMB133 million as compared with the beginning of the year, and the ratio of non-performing loans was 0.87%, a decrease of 0.27 percentage points as compared with the beginning of the year. Both the balance of the special mention loans and its proportion dropped as compared with the beginning of the year.

In the first half of 2009, the Company proactively established and improved its credit risk pre-warning system. Pre-warning works were conducted throughout the Company from our Head Office to various branches while development and application of such pre-warning system was expedited. The purpose of such arrangements is to forge an intelligent systemized working platform covering the critical work processes such as identification, release, screening and treatment of risk signals. The continued advancement of the pre-warning works has improved our ability of risk monitoring and control. The following table sets forth the loan migration of the Company for the period indicated.

	The first half of 2009	2008	2007
Normal loan migration ratio (%)	1.01	2.52	4.06
Special mention loan migration ratio (%)	6.30	11.89	15.99
Substandard loan migration ratio (%)	22.65	29.09	30.85
Doubtful loan migration ratio (%)	13.40	14.49	12.82

Note: The migration ratios are calculated according to the requirements of the CBRC. Normal loan migration ratio = the balance of normal loans at the beginning of the period that is converted to the loans of the last four categories at the end of the period/the portion of normal loans at the beginning of the period that remains at the end of the period x 100%; special mention loan migration ratio = the balance of special mention loans at the beginning of the period that is converted to non-performing loans at the end of the period/the portion of special mention loans that remains at the end of the period x 100%; substandard loan migration ratio = the balance of substandard loans at the beginning of the period that is converted to doubtful and loss loans at the end of the period/the portion of substandard loans that remains at the end of the period x 100%; doubtful loan migration ratio = the balance of doubtful loans at the beginning of the period that is converted to loss loans at the end of the period/the portion of doubtful loans at the beginning of the period that remains at the end of the period x 100%.

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3.4.2 Loan structure and loan quality by product type

	As at 30 June 2009				As at 31 December 2008			
	Total loans and advances balance	Percentage of the total (%)	Total non-performing loans	Non-performing loan ratio ⁽¹⁾ (%)	Total loans and advances balance	Percentage of the total (%)	Total non-performing loans	Non-performing loan ratio ⁽¹⁾ (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	621,864	56.22	8,006	1.29	518,440	62.20	8,144	1.57
Working capital loans	438,783	39.67	6,483	1.48	379,793	45.56	6,820	1.80
Fixed asset loans	143,771	13.00	561	0.39	112,827	13.54	498	0.44
Trade finance	26,602	2.40	338	1.27	16,676	2.00	349	2.09
Others ⁽²⁾	12,708	1.15	624	4.91	9,144	1.10	477	5.22
Discounted bills⁽³⁾	207,881	18.79	-	-	95,766	11.49	-	-
Retail loans	276,436	24.99	1,626	0.59	219,342	26.31	1,355	0.62
Residential mortgage loans	194,527	17.58	420	0.22	148,452	17.81	396	0.27
Credit card receivables	33,146	3.00	1,097	3.31	31,604	3.79	874	2.77
Automobile loans	3,621	0.33	20	0.55	2,212	0.26	26	1.18
Others ⁽⁴⁾	45,142	4.08	89	0.20	37,074	4.45	59	0.16
Total loans and advances to customers	1,106,181	100.00	9,632	0.87	833,548	100.00	9,499	1.14

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

(2) Consists primarily of corporate mortgage loans, including non-performing discounted bills.

(3) Excludes non-performing discounted bills described in Note (2). Once discounted bills are classified as non-performing, the Company will classify them as non-performing corporate loans for control purposes.

(4) Consists primarily of retail loans secured by monetary assets, operational loans, home improvement loans, education loans and general consumption loans.

In order to avoid the occurrence of large amount and systemic non-performing assets during the economic downturn, the Company further tightened the control over credit granted to corporate customers in four aspects, from organizational streamlining, limit management, system support to overall monitoring. Meanwhile, the Company identified the actual risks associated with its corporate customers so as to effectively prevent systemic risk.

As at the end of the reporting period, the balance of non-performing loans under corporate loans amounted to RMB8,006 million, representing a decrease of RMB138 million as compared to that at the beginning of the year. The non-performing loan ratio of corporate loans was 1.29%, representing a decline of 0.28 percentage points as compared to that at the beginning of the year. In the meantime, the Company exercised differentiated treatment of various business lines and controlled them by risk category based on their respective risk characteristics, thus reducing the non-performing amount and ratio of working capital loans and trade finance from those at the beginning of the year, and the non-performing ratios of fixed asset loans also fell down accordingly.

In the first half of 2009, the Company adhered to the development strategy for its retail loan business, and promoted the steady development of our retail loan business through the categorized management of customers, scorecard management at finer level, rationalized business process of personal loan business and the development of a management system for collateralized title certificates. During the reporting period, the Company's retail loan grew by 26.03% while the non-performing loan ratio fell from 0.62% at the beginning of the year to 0.59% at the end of the period. Among which, the residential mortgage loans grew by 31.04%, and the credit quality remained good while its non-performing ratio fell by 0.05 percentage points to 0.22%.

Affected by the economic downturn and the strict limitation in execution of policy for writing-off of doubtful debts, as at the end of the reporting period, the Company's non-performing loan ratio of credit card receivable balances rose by 0.54 percentage points to 3.31% as compared to that at the beginning of the year. In the second half of 2009, the Company will ensure the healthy development of its credit card business in the long run through raising the criteria for approval of grant of credit cards to customers, optimizing the structure of its overall customer base, adjusting the credit policy of credit cards and soliciting potential high quality customers, making greater efforts to intensify creditworthiness verification in terms of scope and extent, and preventing fraud and illegal cash withdrawals.

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3.4.3 Loan structure and loan quality by industry

The following table sets forth the distribution of loans and non-performing loans by industry.

	As at 30 June 2009				As at 31 December 2008			
	Total loan balance	Percentage of the total (%)	Non- performing Loan balance	Non- performing loan ratio ⁽¹⁾ (%)	Total loan balance	Percentage of the total (%)	Non- performing Loan balance	Non- performing loan ratio ⁽¹⁾ (%)
(in millions of RMB, excluding percentages)								
Corporate loans	621,864	56.22	8,006	1.29	518,440	62.20	8,144	1.57
Manufacturing	182,858	16.53	2,838	1.55	158,018	18.96	2,627	1.66
Transportation, storage and postal services	106,826	9.66	499	0.47	90,391	10.84	509	0.56
Generation and supply of electric power, gas and water	65,854	5.95	482	0.73	62,063	7.45	616	0.99
Wholesale and retail	63,185	5.71	1,667	2.64	56,897	6.83	1,855	3.26
Property development	56,638	5.12	1,166	2.06	47,233	5.67	1,193	2.53
Leasing and commercial services	47,909	4.33	440	0.92	27,982	3.36	445	1.59
Construction	29,027	2.63	76	0.26	22,774	2.73	44	0.19
Water, environment and public utilities management	23,054	2.09	3	0.01	9,163	1.10	10	0.11
Mining	16,607	1.50	2	0.01	14,127	1.69	-	-
Information transmission, computer service and software	7,740	0.70	157	2.03	6,223	0.75	230	3.70
Others ⁽²⁾	22,166	2.00	676	3.05	23,569	2.82	615	2.61
Discounted bills	207,881	18.79	-	-	95,766	11.49	-	-
Retail loans	276,436	24.99	1,626	0.59	219,342	26.31	1,355	0.62
Residential mortgage loans	194,527	17.58	420	0.22	148,452	17.81	396	0.27
Credit card receivables	33,146	3.00	1,097	3.31	31,604	3.79	874	2.77
Others ⁽³⁾	48,763	4.41	109	0.22	39,286	4.71	85	0.22
Total loans and advances to customers	1,106,181	100.00	9,632	0.87	833,548	100.00	9,499	1.14

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

(2) Consists primarily of education, scientific research, technical services, culture and sports, etc.

(3) Consists primarily of retail loans secured by monetary assets, automobile loans, home improvement loans, education loans and general consumption loans.

In the first half of 2009, in response to changes in the external economic environment, the Company appropriately adjusted the review and approval authorities for credit authorization, strengthened credit authorization management of government financing platforms, medium to long-term project loans and medium-term working capital loans, formulated inter-city credit authorization policy, conducted industry specific credit examination, established a follow-up assessment mechanism for veto of projects, optimized management of the structure of loan portfolio and directed the granting of credit facilities in a reasonable manner. In the first half of 2009, the Company's distribution of corporate loans to different industries was reasonable and the quality of assets was improved steadily. The non-performing loan ratio for construction and mining industries increased slightly as compared to that at the beginning of the year, while the non-performing loan ratios in other major industries recorded a decrease in different magnitudes.

The Company is persistently conscious of the changes in the market environment and the policies governing the property market. In the first half of 2009, the Company adhered to its policies of "cautious in granting, control over total loan volume, loan structure optimization and differentiated treatment" in the grant of loan facilities. The Company has given full support to nationwide leading real estate developers, adequate support to regional key real estate developers and proper restriction to small-and-medium sized real estate developers. The Company gave full support to development projects of ordinary residential commodity housing, and gave priority to residential development loans which could create a demand for residential mortgage loan, and treated commercial property development cautiously. The Company supported the granting of residential mortgage loans to home buyers for self-occupation purpose while restricted those for investment purpose. In respect of residential mortgage loan business, the Company strengthened the investigation and control over core risk, such as the examination of the qualifications of loan applicants, background of transaction, the primary repayment source, the loan criteria for the second house, the control over loan use and took precautions against the risks of "fake mortgage" and "fake down-payment". In the first half of 2009, the balance of corporate loans granted under the property development industry accounted for 5.12% of the total loans, a decrease of 0.55 percentage point as compared to that at the beginning of the year. The non-performing loan ratio was 2.06%, a decrease of 0.47 percentage point as compared to that at the beginning of the year. In the first half of 2009, the Company recorded a rapid growth of 31.04% in its residential mortgage loan business. The non-performing loan ratio was 0.22%, representing a decrease of 0.05 percentage point as compared to that at the beginning of the year.

In the first half of 2009, against the background of deteriorating business environment for domestic SMEs due to the continuing impact of the international financial crisis, the Company maintained its development strategy of focusing on SMEs. During the reporting period, the Company's corporate loans for SMEs maintained a sound growth momentum of "reasonable growth in volume, and continued quality optimization". As at the end of the reporting period, pursuant to the classification standards for SMEs (Guo Tong Zi 【2003】 No. 17) promulgated by the National Bureau of Statistics of China, the balance of corporate loans for domestic SMEs grew by RMB53.48 billion from the beginning of the year to RMB274.02 billion, accounting for 44.7% of total corporate loans within the Mainland China, representing an increase of 1.6 percentage points as compared to that at the beginning of the year. The non-performing loan ratio of domestic SME corporate loans was 2.06%, a decrease of 0.62 percentage point as compared to that at the beginning of the year.

The SME corporate loans within the Mainland China mainly concentrated in Eastern China, Southern China and Central China where economic activities were more active and accounted for approximately 80% of the total SME corporate loans. Among them, approximately 37% were collateralized and pledged loans; approximately 48% were guaranteed loans and over 56% of the SME corporate loans were granted to manufacturing, communication and transportation, storage and postal service enterprises, and also the wholesale and retail sectors.

3.4.4 Percentage analysis by region

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
(in millions of RMB, excluding percentages)				
Eastern China	413,304	37.36	356,013	42.71
Southern China and Central China	407,759	36.86	230,494	27.65
Northern China	172,094	15.56	147,035	17.64
Western China	103,759	9.38	93,323	11.20
Others	9,265	0.84	6,683	0.80
Total loans and advances to customers	1,106,181	100.00	833,548	100.00

In respect of the regional distribution of loans, the majority of the new loans in the first half of 2009 were extended to Eastern China, Southern and Central China, with the amounts increased by RMB57.291 billion and RMB177.265 billion respectively, the total new loans to customers in the aforesaid two regions accounted for more than 86% of the Company's total new loans to customers for the first half of the year.

3.4.5 Distribution of loans by the type of guarantees

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
(in millions of RMB, excluding percentages)				
Collateralized loans	329,893	29.82	263,336	31.59
Pledged loans	58,772	5.31	51,843	6.22
Guaranteed loans	261,784	23.67	200,950	24.11
Unsecured loans	247,851	22.41	221,653	26.59
Discounted bills	207,881	18.79	95,766	11.49
Total loans and advances to customers	1,106,181	100.00	833,548	100.00

The Company has always emphasized on using collaterals as an important means to mitigate risk. As at the end of the period, the balance of collateralized loans increased speedily by RMB66.557 billion as compared to those at the beginning of the year, the percentage of which was 29.82%, much higher than that of other types of secured loans. Meanwhile, the Company reduced the percentage of credit loans in its loan portfolio, as at the end of the period, credit loans accounted for 22.41% of total loans, representing a decrease of 4.18 percentage points compared with that at the beginning of the year.

3.4.6 Distribution of loans by customer type

In the first half of 2009, the percentage structure of the Company's corporate loans by customer type remained stable in general, whilst the loans to domestic enterprises decreased by 4.18 percentage points as compared to those at the beginning of the year.

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%) (in millions of RMB, excluding percentages)	Amount	Percentage of the total (%)
State-owned enterprises	246,325	22.27	197,905	23.74
Joint-stock enterprises	73,844	6.68	63,863	7.66
Other limited liability enterprises	122,518	11.07	100,421	12.05
Other domestic enterprises	71,434	6.46	60,083	7.21
Subtotal of domestic enterprises	514,121	46.48	422,272	50.66
Foreign-funded enterprises	98,480	8.90	89,485	10.74
Subtotal of enterprises operating in the Mainland	612,601	55.38	511,757	61.40
Enterprises operating outside the Mainland	9,263	0.84	6,683	0.80
Subtotal of corporate loans	621,864	56.22	518,440	62.20
Discounted bills	207,881	18.79	95,766	11.49
Retail loans	276,436	24.99	219,342	26.31
Total loans and advances to customers	1,106,181	100.00	833,548	100.00

In the first half of 2009, in response to the changes in the market, the Company has adjusted the structure of its loan terms in a timely manner. As at the end of the reporting period, the percentage of medium to long-term loans under the corporate loans within the Mainland China was 34.94%, an increase of 3.03 percentage points as compared to that at the beginning of the year, of which approximately 60% were attributable to the three major sectors, namely transportation, storage and postal services, leasing and business service industry, and water supply, environment and public utilities management.

3.4.7 Loans to the top ten customers

Top ten borrowers	Industry	Sector nature	Loan balance as at 30 June 2009 (in millions of RMB, excluding percentages)	% of total net capital	% of total loans and advances
A	Communication and transportation	State-owned enterprise	5,308	5.11	0.48
B	Leasing and commercial service	State-owned enterprise	4,732	4.55	0.43
C	Property development	Foreign-invested enterprise	3,966	3.81	0.36
D	Communication and transportation	State-owned enterprise	3,560	3.42	0.32
E	Generation and supply of electric power, gas and water	State-owned enterprise	3,481	3.35	0.31
F	Communication and transportation	State-owned enterprise	3,235	3.11	0.29
G	Generation and supply of electric power, gas and water	State-owned enterprise	3,000	2.89	0.27
H	Communication and transportation	State-owned enterprise	2,500	2.41	0.23
I	Communication and transportation	State-owned enterprise	2,320	2.23	0.21
J	Wholesale and retail	State-owned enterprise	2,214	2.13	0.20
Total loans and advances			34,316	33.01	3.10

As at 30 June 2009, the closing loan balance of the Company's largest single borrower amounted to RMB5.308 billion, representing 5.11% of the Company's net capital. This was in line with the regulatory requirement stipulated by relevant regulatory authorities where the loan balance to a single borrower should not exceed 10% of the bank's net capital.

3.4.8 Distribution of overdue loans

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	4,136	0.37	5,248	0.63
Overdue more than 3 months but within 1 year	2,731	0.25	1,573	0.19
Overdue more than 1 year but within 3 years	2,000	0.18	2,115	0.25
Overdue more than 3 years	4,334	0.39	4,491	0.54
Total overdue loans	13,201	1.19	13,427	1.61
Total loans and advances to customers	1,106,181	100.00	833,548	100.00

Benefiting from the Company's improving capability in monitoring, pre-warning, managing and controlling credit risks, the overdue loans of the Company saw further improvement during the reporting period. At the end of the period, the balance of overdue loans of the Company reduced by RMB226 million to RMB13.201 billion as compared to the beginning of the year, and its proportion to total loans dropped to 1.19%, representing a decrease of 0.42 percentage point as compared to the beginning of the year.

3.4.9 Restructured loans

	As at 30 June 2009		As at 31 December 2008	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Restructured loans	1,398	0.13	1,350	0.16
Of which: loans overdue more than 90 days	892	0.08	1,007	0.12

Note: Substandard and doubtful loans after restructuring

The Company imposes strict and prudent control over restructuring of loans. As at the end of the reporting period, the proportion of Company's total restructured loans to its total loans showed a decrease as compared to those at the beginning of the year.

3.4.10 Repossessed assets and its allowances

As at 30 June 2009, the total repossessed assets of the Company amounted to RMB1.236 billion, and after deduction of allowances for impairment losses of RMB1.151 billion, the net repossessed assets amounted to RMB85 million.

3.4.11 Changes of allowances for impairment losses on loans and advances

The Company adopted two methods of assessing 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 loss amount would be measured in terms of the difference between the carrying value of the loan and its discounted value of estimated future cash flows recoverable through profit or loss of the current period. Loans which were considered individually insignificant and those which had not yet been identified for impairment after individual assessment were grouped in a pool of loans with similar credit risk characteristics for impairment test. Based on the result of test, the Company would determine allowances for impairment losses on loans assessed on a portfolio basis.

The following table sets forth the movements of allowances for impairment losses on loans and advances to customers of the Company.

	The first half of 2009	2008
	(in millions of RMB)	
As at 1 January	21,442	18,750
Charge for the period	2,954	5,358
Releases for the period	(351)	(1,699)
Unwinding of discount ⁽¹⁾	(53)	(108)
Recoveries of loans and advances previously written off	14	64
Write-offs for the period	(292)	(667)
Transfers in/out for the period	12	(88)
Foreign exchange rate movements	1	(168)
At the end of the period	23,727	21,442

Note: (1) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

The Company adopts prudent and cautious risk cushion policies and make provision for the impairment losses arising from its credit assets. As at the end of the reporting period, allowances for impairment losses on loans amounted to RMB23,727 million, representing an increase of RMB2,285 million as compared with that at the beginning of the year. The non-performing loan allowances coverage ratio (total allowances for impairment losses on loans to customers/total non-performing loans) was 246.33%, representing an increase of 20.60 percentage points as compared with that at the beginning of the year. The increase of allowances for impairment losses on loans was primarily due to the augment of loan scale. At the same time, the amount of non-performing loans remained at a low level, which resulted in a higher non-performing loan allowances coverage as compared to that at the beginning of the year.

3.5 Analysis of capital adequacy ratio

The Group calculated and disclosed its capital adequacy ratio according to the "Guideline of the Resolution on the Regulation Governing Capital Adequacy Ratio of Commercial Banks (CBRC Order (2008) No. 11)" issued by the CBRC in July 2008. As at 30 June 2009, the capital adequacy ratio of the Group was 10.63%, representing a decrease of 0.71 percentage point as compared with that at the end of the previous year, while the core capital adequacy ratio was 6.50%, representing a decrease of 0.06 percentage point as compared with that at the end of the previous year. The decrease in the capital adequacy ratio as compared with that at the beginning of the year was attributable to the following factors: (i) the decrease in profits as compared to the corresponding period of the previous year, the capital contribution from profits net of dividend for the first half of the year, which amounted to RMB7,670 million, recorded a decrease of RMB4,590 million as compared to the corresponding period of the previous year, resulting in a decrease in internal capital generation ability; (ii) the rapid growth in risk assets, the Group recorded an increase in risk assets of 20.02%, representing 8.46 percentage points over the corresponding period of the previous year.

The following table sets forth the capital adequacy ratio and its related components as at the dates indicated.

	As at 30 June 2009	As at 31 December 2008
(in millions of RMB)		
Core capital		
Paid-up ordinary share capital	14,707	14,707
Reserves	67,759	56,765
Total core capital	82,466	71,472
Supplementary capital		
General provisions for loans and advances	16,115	13,795
Term subordinated debts	30,200	30,074
Convertible bonds	2	2
Other supplementary capital	491	1,745
Total supplementary capital	46,808	45,616
Total capital base before deductions	129,274	117,088
Deductions:		
– Goodwill	9,598	9,598
– Investments in unconsolidated subsidiaries and other long-term investments	672	1,044
– Investments in commercial real estate	1,949	2,407
Total capital base after deductions	117,055	104,039
Risk-weighted assets	1,100,838	917,201
Core capital adequacy ratio	6.50%	6.56%
Capital adequacy ratio	10.63%	11.34%

III Management's Analysis and Discussion

3.6 Segment operating results

The Group manages its business by divisions, which are organised by a mixture of both business lines and geography.

The main businesses of the Group are corporate banking, retail banking and treasury business. For more information about the products and services of the respective main businesses, please refer to the section headed "Business Operations". The following table sets forth the operating results of the business segments of the Group for the period indicated.

	Jan-June 2009					Jan-June 2008				
	Corporate banking	Retail banking	Treasury business	Others	Total	Corporate banking	Retail banking	Treasury business	Others	Total
	(in millions of RMB)									
External net interest income	10,083	2,112	6,422	6	18,623	12,104	3,535	8,486	-	24,125
Internal net interest income/(expense)	294	3,399	(3,696)	3	-	(266)	2,234	(1,968)	-	-
Net interest income	10,377	5,511	2,726	9	18,623	11,838	5,769	6,518	-	24,125
Net fee and commission income	1,431	2,414	(2)	101	3,944	1,474	2,529	-	-	4,003
Other net income/(expense)	512	254	1,027	144	1,937	503	143	(148)	25	523
Operating income from insurance	-	-	-	187	187	-	-	-	-	-
Total operating income	12,320	8,179	3,751	441	24,691	13,815	8,441	6,370	25	28,651
Operating expenses	(6,911)	(6,827)	(484)	(302)	(14,524)	(5,841)	(5,564)	(273)	(13)	(11,691)
Share of profits of associates and joint ventures	-	-	-	30	30	-	-	-	33	33
Profit before tax from the reporting segments	5,409	1,352	3,267	169	10,197	7,974	2,877	6,097	45	16,993
Other (loss)/profits					(19)					129
Combined profits before tax					10,178					17,122

From January to June 2009, the contributions made by each business segment to the profit before tax of the Group were: 53.14% from corporate banking, representing an increase of 6.57 percentage points as compared to the corresponding period of the previous year, 13.28% from retail banking, representing a decrease of 3.52 percentage points as compared to the corresponding period of the previous year, and 32.10% from treasury business, representing a decrease of 3.51 percentage points as compared to the corresponding period of the previous year.

The major outlets of the Company are located in relatively affluent regions and some large cities in other regions in China. The following table sets forth the segment results of the Company by geographical segments in the periods indicated.

	Six months ended 30 June 2009		Six months ended 30 June 2008	
	Income	Percentage of the total (%)	Income	Percentage of the total (%)
(in millions of RMB, excluding percentages)				
Geographical information				
Eastern China	8,796	35.48	10,013	34.78
Southern and Central China	10,696	43.15	12,441	43.22
Western China	1,834	7.40	2,502	8.69
Northern China	2,086	8.41	3,690	12.82
Overseas	1,379	5.56	141	0.49
Total	24,791	100.00	28,787	100.00

3.7 Other information

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

- (1) Letters of guarantee and letters of credit: the balance of letters of guarantee and letters of credit issued by the Company amounted to RMB99,320 million as at the end of the reporting period. The Company's obligation to make customer advances will arise only in the event of a default by an applicant under the letters of guarantee or the letters of credit, and only by then the Company's profit will be negatively affected.
- (2) Bills of acceptance: as at the end of the reporting period, the Company's balance of bills of acceptance was RMB445,632 million. The Company's obligation to make customer advances will arise only in the event of a default by an applicant for the bill of acceptance, and only by then the Company's profit will be negatively affected.

3.7.2 Outstanding overdue debts

As at the end of the reporting period, the Group did not have any overdue debts that had not been repaid.

3.8 Business operations

3.8.1 Retail Banking Segment

The Company provides retail customers with diversified retail banking products and services, including retail loans, deposits, debit card, credit card, wealth management services, investment services, agency sale of insurance products and fund products, forex trading, and foreign exchange services, of which "All-in-one Card" 一卡通, "credit card" 信用卡, "Sunflower Wealth Management" 金葵花理財 and "personal online banking" 個人網上銀行 and other services have won widespread recognition. The Company provides the above-mentioned products and services through various channels, including branches and sub-branches, self-service centers, ATMs, CDMs, online banking and phone banking service platforms.

Retail loans

The Company provides retail customers with diversified loan products. In the first half of 2009, in view of the relatively loose macro economic policies and the gradual recovery of the economy, the rebound of the real estate market throughout the country and increasing transaction volume of real estates, the Company seized the market opportunities and proactively promoted personal consumption loans and personal automobile loans while focusing on the residential mortgage loans business, so as to further increase the competitive edge of our retail banking and diversify its personal financing businesses. The Company made significant improvement to the basic processing work flow for retail loans, and greatly promoted front office marketing functions at branches after concentrating mid and back office operations in branches. Meanwhile, the Company gradually improved its risk management mechanism and raised the standard of post-loan service. At the same time, the Company reinforced its research and development of new products and upgraded products known as "Easy Consumption" 消費易 to further enhance the wealth management function of personal loans. The Company further improved the standard of process management through launching bank-wide on-line personal loan platform. The Company organized a customer incentive plan known as "Loan by Loan" 貸貸相傳 with an aim to improve existing customers' loyalty while actively seeking new customers. A personal automobile loan marketing competition known as "Speed Contest 2009" was organized to promote the personal automobile loan business. As at 30 June 2009, total retail loans amounted to RMB276.436 billion, representing an increase of 26.03% as compared with that at the end of the previous year and accounting for 24.99% of total loans, of which total residential mortgage loans increased by 31.04% while total credit card receivables increased by 4.88% as compared to the end of the previous year.

Retail customer deposits

The retail deposits of the Company mainly consist of demand deposits, time deposits and call deposits. Retail customer deposits provide substantial low-cost funding for the Company. As at 30 June 2009, total retail customer deposits amounted to RMB550.374 billion, increasing by 15.40% as compared to the end of the previous year. Retail customer deposits accounted for 37.68% of total deposits, decreasing by 2.80 percentage points as compared to the end of the previous year.

Retail non-interest income business

In the first half of 2009, net non-interest income from retail banking was RMB2.668 billion, decreasing by RMB4 million or 0.15% as compared to the corresponding period of the previous year. Amongst them, handling charge income from bank cards (including credit cards) was RMB1.351 billion, an increase of 5.79% as compared to the corresponding period of the previous year;

Bank card business

As at 30 June 2009, the Company had issued a total of 51.72 million All-in-one Card, including 2.65 million cards newly issued during the year, with an average deposit balance of RMB8,670 per card.

2009 is the first year for the overall transformation of our credit card business. The overall operation model will be transformed from "Rapid Expansion" which emphasizes on securing new customers to "Selective Development" which will focus more on balancing risk and the development of quality customers. As at 30 June 2009, the Company had issued a total of 28.85 million credit cards, including 1.59 million cards newly issued during the year. The total number of cards in circulation was 17.05 million, the cumulative number of active card holders was 10.99 million, the cumulative transaction volume via credit cards for the year was RMB134.4 billion, the average transaction volume per month of each card in circulation was RMB1,324, and the revolving credit line balance was RMB12.6 billion. The percentage of interest-earning balance of our credit cards increased from 37.34% at the end of the previous year to 37.95%. The revolving accounts of credit card holders accounted for 23.38%. Interest income from credit cards amounted to RMB1,119 million, an increase of 31.18% as compared to that in the corresponding period of the previous year. Income from credit card non-interest business was RMB1,124 million, an increase of 2.65% as compared to that in the corresponding period of the previous year.

Customers

As at 30 June 2009, the total number of retail deposit accounts of the Company was 40.39 million, and the total deposit balance was RMB550.374 billion, of which, the total number of Sunflower customers (high end customers with assets of more than RMB500,000 with the Company) was 463,500, and their total deposit balance was RMB245.9 billion. The balance of Sunflower customers' total assets under management of the Company amounted to RMB772.0 billion, an increase of RMB112.7 billion or 17.09% as compared to the end of the previous year, and which accounted for 63.11% of the balance of retail customers' total assets under management of the Company, up by 1.25 percentage points as compared to the end of last year.

Marketing

With the sustained efforts of the Company in brand building for its products and services, the Company has been awarded "The Best Retail Bank in China" for three times and "The Best Joint Stock Retail Bank in China" for five consecutive years by *The Asian Banker* magazine. In 2009, while continuously consolidating its brand advantages of "All-in-one Card", "All-in-one Net", "Sunflower Wealth Management" and China Merchants Bank credit card, the Company continued to refine the Sunflower Exclusive value-added services, actively commenced targeted marketing based on customer database, and progressively promoted the integration of sales and service processes. Major marketing campaigns such as "The Third Wealth Management Education Community Tour" were launched. Such efforts in brand building were not only effective in forging closer relations with our customers, but also helpful in developing our customer base and enhancing customer loyalty. Meanwhile, the Company proactively participated in various social welfare activities and sponsored the "Sunflower Qiang Ethnic Group Juvenile Choir Welfare Scheme".

At present, the Company offers its retail banking products primarily through its branches and sub-branches. In the meantime, the Company has established a multi-level marketing system in its branches to meet market changes. As at 30 June 2009, the Company had established and operated 33 branch-level wealth management centers based on existing Sunflower wealth management centers and Sunflower VIP rooms, which formed the preliminary platform for its Diamond-class customer service system.

In 2009, our private banking business was launched throughout the Company with private banking centers established in 8 major cities across the country. The Company was awarded the honour of "The Best Private Bank in China" by *Euromoney*, and "The Best Domestic Private Bank" by *Asia Money*. In March 2009, the Company issued "The Report on Chinese Private Wealth for 2009" jointly with Bain & Company, which is the first authoritative study on the high-end private wealth market of Mainland China based on the survey and study of a great number of samples and has filled the blank home and abroad of a comprehensive study on the Chinese private wealth market. As at 30 June 2009, the total number of private banking customers of the Company grew by 15.63% to 7,398 as compared to that at the beginning of the year, while total assets of private banking customers under management of the Company grew by 16.09% to RMB150.8 billion as compared to that at the beginning of the year.

3.8.2 Corporate Banking

The Company provides corporate customers, financial institutions and government agencies with diversified quality banking products and services. As at 30 June 2009, the total corporate loans of the Company were RMB621,864 million, accounting for 56.22% of the total customer loans; the balance of total discounted bills was RMB207,881 million, accounting for 18.79% of the total customer loans; and total corporate customer deposits were RMB910,316 million, accounting for 62.32% of total customer deposits.

Corporate loans

Corporate loan products of the Company include working capital loans, fixed assets loans and other loans such as buyer's credit, seller's credit, corporate mortgage, trade finance, factoring and overdraft of legal person accounts. In the first half of 2009, the Company actively implemented a customer strategy that equally emphasized small, medium and large sized customers. The Company extended its support to prime industries such as railway, transportation, electricity, telecommunications, urban infrastructure, wholesale and retail, public utilities management, commercial services, renewable energy, environmental protection and high-tech industries. The Company controlled loan disbursements to industries which are subject to the state's intensive macro-economic control such as those "high pollution, high energy consumption and resources dependent" industries. All these resulted in further optimization in the industry structure of corporate loans.

In the first half of 2009, our SME business has developed steadily, with the percentage of our SME loans increased to 44.7%. The total number of our SME customers increased by approximately 10.53% to 10,402 while the total amount of our SME loans surged by 24.25% to RMB274.02 billion as compared to that at the end of the previous year.

In the first half of 2009, bank loans in China increased drastically with a substantial part of it being granted to large enterprises and government-sponsored projects, while the majority of our loans were extended to SMEs. The main reasons for a favorable loan policy towards SMEs are manifold. Firstly, our SME customers are positioned in many different industries with higher performance targets, and the quality of their assets remains good. Therefore, the Company remains determined to carry on its SME development strategy and extend loans in favour of SMEs. Secondly, as the macro-economy in China rebounds gradually, SMEs' effective demand for bank loans increases. Thirdly, the Company supports business development by reforming its internal system and reallocation of resources, putting more manpower, capital and materials into the SME financing department in its branches, and expanding business through professional operation. Fourthly, the Company launched a series of SME-tailored financial products this year, such as receivables-pledged loans and domestic credit insurance financing, all of which have received positive market response. Fifthly, the establishment of a credit center for small-sized enterprises in Suzhou has proved successful in expanding the range of our business development through the offer of standardized products and the adoption of the structure of a business unit for development of its SME business.

On 18 June 2008, the Company established a credit center for small-sized enterprises in Suzhou, which is directly subordinated to the Head Office. The credit center obtained a financial license from the CBRC on 8 December 2008, and started operation on 22 December 2008. Its business extends over the entire nation and specializes in serving small-sized enterprises by providing various kinds of financing facilities with credit limit below RMB10 million, including credit services, guarantees, secured loans and pledge loans. As at 30 June 2009, the credit center had granted loans with a cumulative amount of RMB1.744 billion and had a loan balance of RMB1.323 billion. The average interest rate of our loans was about 20% above the benchmark interest rate, showing our improved strength in business expansion and market pricing. As at 30 June 2009, the credit center had 253 SME customers which maintained a debit loan balance with the Company. Those customers are mainly located in Suzhou, Nantong and other regions.

Discounted bills

Taking into consideration the combined factors of loan size, liquidity, yield and risks, in 2009, the Company effectively drove the development of its discounted bills operations in response to market changes and customer demands. As at 30 June 2009, the balance of discounted bills loans amounted to RMB207.881 billion. Meanwhile, due to the successive improvement to our products and reinforcement of the marketing efforts, the Company's Bill-Express grew rapidly, with a cumulative transaction volume for the first half of the year increased by 62.50% to RMB37.7 billion as compared to the corresponding period of last year.

Corporate client deposits

The Company pays great attention to enhancing the returns of corporate client deposits and strives to increase the percentage of low cost demand deposits to total corporate client deposits. With the expansion of innovative services such as online banking and cash management, higher quality marketing efforts have been made, which effectively facilitated the cooperation between the Bank and corporate clients. As a result, large amount of low cost demand deposits were obtained.

As at 30 June 2009, total corporate client deposits amounted to RMB910.316 billion, an increase of RMB209.019 billion or 29.80% as compared to those at the end of previous year, of which demand deposits accounted for RMB447.239 billion or 49.13%. The relatively large proportion of demand deposits helped reduce interest expenses on deposits.

Non-interest income business

While ensuring the growth of interest income, the Company also steps up its efforts to maximize the percentage of non-interest income to total income from corporate banking business. In 2009, the external market environment has been very tough, and the development of our non-interest income business faces severe challenge. The Company made great efforts in promoting the development of relatively new businesses including cash management, corporate wealth management and new business transactions such as underwriting of debt financing instruments, financial advisory, securitization of credit assets, corporate credit cards, asset custody and corporate annuity, etc.. Meanwhile, the Company continued to maintain the growth of income from traditional businesses including domestic and international settlement, acceptance, guarantee and commitments in order to ensure the diversification of the sources of non-interest income. While continuing to strengthen product innovation, the Company further strengthened product operations and compliance management as well as the brand building of key products. As a result, the marketing and customer application indicators for various core products continued to make breakthroughs. However, against the background of unfavourable external market conditions, the net non-interest income for the first half of 2009 decreased by 4.70% to RMB1.884 billion as compared to the corresponding period of the previous year.

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With regard to online corporate banking business, the number of customers increased rapidly to a total of 90,947, representing an increase of 33% over the corresponding period of the previous year. Among which, the “超級網銀SUPER-BANK”, the key product that was newly launched by the Company this year, has attracted more than 4,000 customers in only two months since inception. The actual utilization ratio by such online corporate banking customers improved further, as the proportion of active transaction customers to total number of such customers enlarged steadily, and the number of core customers continued to increase. The annualized debit transaction substitution ratio reached 43%. Based on the same benchmark, this ratio outperforms its peers in China, indicating that customers' preference over the products has been further enhanced. The product application has penetrated into the core areas of the cash management of customers and become the major tool and approach adopted by the customers for their daily settlement and financial transactions.

As for cash management, there has been a remarkable increase in the comprehensive yield from our products, which contributed remarkably to the Company's efforts in developing and retaining basic customers, absorbing and expanding low-cost corporate settlement deposits, improving the utilization ratio and turnover ratio of banking facilities granted to customers and promoting the cross selling of other wholesale and retail products, and has become one of the Company's important source of direct profit. The number of customers using cash management services reached 92,444. The average daily balance of proprietary corporate deposits from customers using cash management services amounted to RMB550 billion, while the average balance of corporate loan amounted to RMB350 billion. As at the end of June 2009, the number of contractual group company customers using our cross-bank cash management platform (CBS), the prestigious cash management product launched by the Company, reached 157, among which 101 customers have started using the platform, covering a total of 1,727 parent companies and subsidiaries. Leveraging on the unique and exclusive edge of CBS in China, the Company not only stabilized and consolidated the business cooperation with the existing customers, but also successfully attracted a number of sizable and well-known domestic conglomerates as its new customers, thus providing a platform for cross-selling its wholesale products.

In respect of corporate wealth management, the Company captured the opportunity offered by the market and launched a number of new products in the first half of 2009, including Sui Yue Liu Jin (歲月流金), Golden Week (黃金週), Jin Yi Qiu Jin (金益求金) and Dai Li Tao Jin (貸里淘金). These products related to investments on treasury bonds traded in inter-bank bonds market, central bank notes, entrusted loans and high quality credit assets transfers. Despite the unfavorable market conditions in the first half of the year, our wealth management business maintained a good momentum. Sales volume of corporate wealth management was RMB185.205 billion in the first half of 2009, representing an increase of RMB55.905 billion or 43.24% over the corresponding period of the previous year.

With regard to businesses with financial peers, as at the end of June 2009, the balance of placements from banks and other financial institutions reached RMB161.316 billion, representing an increase of RMB46.198 billion or 40.13% as compared to the beginning of the year. The balance of over-the-counter asset business with other banks (such as inter-bank placements and credit assets of repurchase nature) amounted to RMB63.660 billion as at the end of the reporting period, representing an increase of RMB26.984 billion or 73.57% as compared to the beginning of the year. As for third party custody business, both the number of customers and amount of funds continued to rank the first among all domestic joint stock commercial banks and ranked the third among all domestic peers. The Company sold wealth management products in a total amount of RMB39.553 billion through inter-bank channels, representing an increase of RMB36.638 billion over the previous year, and smoothly launched a series of the gold business under the name of “Yi Jin Tong (一金通)”.

As for international settlement, our international business was relatively hard hit by the severe external market conditions. However, the Company strived to keep its businesses on a stable development track by taking appropriate measures and adapting to the changing market circumstances proactively. In the first half of 2009, the Company completed international settlements of US\$46.905 billion, representing a decrease of 21.42% as compared to that of the previous year, and its foreign exchange settlements amounted to US\$33.190 billion, representing a decrease of 19.64% as compared to that of the previous year. The accumulated amount of trade finance was US\$5.523 billion, representing a decrease of 14.87% as compared to that of the previous year; while the international dual factoring amount reached US\$192 million, representing an increase of 43.98% as compared to that of the previous year. The accumulated non-interest income of international business was US\$98.5177 million, representing a decrease of 20.94% as compared to that of the previous year. Among its peers in China, the Company ranked the second and fourth in terms of international dual factoring service and trade finance balance, respectively. According to the ranking of the Executive Committee of the Factors Chain International ("FCI"), the Company ranked the eighth globally and the first domestically in 2008 in export factoring services.

With regard to offshore business, the Company adheres to a balanced development of efficiency, quality and size. Indicators showed that the number of our businesses continued to rank the first among all domestic peers in terms of market share. As at 30 June 2009, deposits from offshore customers amounted to US\$2.236 billion, representing an increase of 4.3% when compared to that at the end of the previous year, while credit assets of offshore customers reached US\$0.65 billion. Credit assets continued to be of good quality, with non-performing ratio of new overdue assets and new assets falling into the class-7 category remained at zero. Cumulative incomes from fee-based businesses reached US\$9.31 million, representing an increase of 12.44% as compared to the previous year, while the profits for the first half of the year amounted to US\$22.42 million.

With respect to assets custody business, the Company made a profit of RMB195 million from custody business in the first half of 2009, with assets under custody amounting to RMB132.883 billion and deposits under custody amounting to RMB23.427 billion. The Company ranked the first among all domestic joint stock custody banks in terms of the size of assets under custody, product quality and income from custody fees.

As for corporate annuity business, the number of newly contracted corporate annuity customers' individual accounts was 163,000 in the first half of 2009, the newly entrusted assets (including those under ancillary custody) reached RMB10.3 billion, while new custody assets amounted to RMB4.35 billion.

With regard to underwriting of debt financing instruments, the Company successfully issued debt financing instruments for 19 enterprises in the first half of 2009 with a total lead underwriting volume of RMB29.6 billion, representing an increase of 196.30% as compared to the previous year. Income from debt underwriting business was RMB163.04 million, representing an increase of 186.14% as compared to the previous year, among which, the Company issued short-term commercial papers for 12 entities with a total lead underwriting volume of RMB12.85 billion, in addition to the issuance of mid-term bills for 7 entities with a total lead underwriting volume of RMB16.75 billion.

In respect of special financial advisory business, the Company earned an aggregate of special financial advisory fee of RMB172 million in the first half of 2009, representing an increase of 247% as compared to the previous year.

Customer base

Over the past 22 years of development, the Company has developed 331,000 corporate depositors and nearly 13,100 corporate borrowers, including domestic leading enterprises and enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinational enterprises. Meanwhile, the Company reinforces the development of small and medium sized enterprise business to form a balanced customer structure. In addition, the Company's products and services have been widely recognized by its clients.

3.8.3 Treasury

Operating environment

In the first half of 2009, the global financial market gradually stabilized, with the global economy showing slight recovery signs as fuelled by massive economic stimulus packages in major economies. The U.S. economy remained vulnerable with an increasing unemployment rate, which significantly depressed the consumption confidence of American consumers and cast a shadow over the recovery of the global economy in the next stage. Europe and Japan suffered no less impact than the U.S. although they were not the origins of the economic crisis. While the U.S. economy is showing signs of stabilization, the economies of Europe and Japan are still in their downward trends. The Chinese economy, however, outperforms the rest of the world with continuous recovery in its stock market and property market driven by large amount of investments and credit facility loans, and has maintained strong consumption. Nevertheless, Chinese export stays low due to weak external demand, and it needs time to confirm whether the economic growth brought about by the government's substantial investments is sustainable, so uncertainties remain in the economic recovery.

Operating strategy

As for RMB business, although the real economy slipped into deflation in the first half of 2009, given the frothing prices of the asset market brought about by economic recovery and easing monetary credit environment, inflation is expected to exert its force. With such effect, the short-term interest rates remain at low level while the long and mid-term ones are being pressed upward. As such, the Company adopted the following measures. In respect of financing activities, the Company was engaged in large-scale operation at low costs, and made more efforts to develop differential treasury businesses such as financing placements and purchase of notes under reverse repo agreement so as to earn credit spread gains higher than the benchmark interest rates of the market. Meanwhile the Company kept its overall investment and finance portfolio at short maturity in preparation for a shift in interest cycles. In respect of bond investments, the Company increased investment in short and medium-term notes with maturity in 5 years, and added moderately holdings in high-yield short-term commercial papers, medium-term notes and floating rate bonds that are more defensive. Besides, the Company pressed forward the development of secondary market trading for the optimization of investment portfolio structure and lower cost of portfolio, conducted range trading at appropriate time and realized fair value gains on some bonds in the portfolio. These have laid a solid foundation for intensifying operations on bond investment in the second half of the year.

As for foreign currency businesses, the Company secured foreign currency liquidity primarily through liquidity management while moderately developing its financing placements for its financing business in light of the prolonged turbulence on the international financial market and the comparably contracted liquidity on the mainland foreign currency market. In respect of debt investments, the Company strictly controlled the credit risk associated with investment in foreign currency debts, and, therefore, all our new investments were put on debts issued by international financial institutions with high credit ratings, financial bonds guaranteed by governments and bonds issued by large Chinese corporations. With market yield lingering around record low and the continuous injection of liquidity into the market by governments all over the world, the yield curve will very likely be pressed upward in the future. Accordingly, the Company adopted some measures. Firstly, it controlled the maturity of investment portfolio, with most of its new investments concentrating on floating rate bonds and mid-term and short-term fixed rate notes with maturity not exceeding three years. Secondly, it took advantage of the trend of the market to conduct range trading. Thirdly, it used derivative products to hedge risks associated with the underlying assets, so as to raise the yield of our portfolios.

Operating results

From January to June of 2009, the annualized yield of the Company's foreign currency/RMB-denominated securities portfolio was 3.61%, down 28 basis points as compared with the corresponding period of the previous year. The decrease in investment yield was mainly attributable to the repricing securities and a lower yield of newly acquired debt investments. During the period, the Company's annualized yield on financial assets under reverse repo agreement and placements with banks and other financial institutions was 1.59%, down by 219 basis points as compared with the corresponding period of the previous year.

As at the end of June 2009, the Company's proprietary investment portfolio reached RMB325.519 billion, up by 8.38% as compared to the end of the previous year. In addition, assets under management on behalf of customers denominated in RMB reached RMB50.620 billion, down by 16.63% as compared to the end of the previous year. For the first half of 2009, the Company's income from wealth management on behalf of customers reached RMB511 million, a decrease of 23.73% as compared to the previous year.

Business development

In the first half of 2009, the Company maintained its leading position in wealth management business among its peers. This was achieved by overcoming the adverse effect of sharp decline in the market yield of its wealth management products, diversifying its product mix and strengthening product innovation. Meanwhile, the Company actively positioned itself as a market maker, through which, the Company's interbank bond transaction volume reached RMB3.34 trillion, representing 8.15% of the total bond transaction volume, ranking the first among the domestic banks in the bond market; the total bilateral quotation transactions covering more than 60 types of bonds surged significantly as compared to the corresponding period of the previous year; the transaction volume of foreign exchange settlement on the inter-bank quotation market continued to outperform its peers in the industry.

3.8.4 Product pricing

Loans

The interest rates of RMB-denominated loans of the Company are regulated by the PBOC. The interest rate of RMB-denominated corporate loans shall not be lower than 90% of the relevant PBOC benchmark rate. The interest rate of residential mortgage loans shall not be lower than 70% of the benchmark rate. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions.

The Company prices its products based on various criteria, such as the borrowers' financial condition, value of collaterals, the intended use and term of loans, cost of loan, credit risk and other risks, expected rates of return, the Company's market position and the prices of its competitors. The Company has started using the funds transfer pricing method to calculate the cost of funds in connection with loan granting. The Company is in the process of developing a loan pricing model that will assist the Company to determine the minimum interest rates at which various loan products may be priced. The branches are allowed to set prices at their own discretion within the established ranges of these internal benchmark prices according to actual circumstances so as to allow them with greater flexibility to compete effectively.

Deposits

Under the current PRC laws and regulations, interest rates for the Company's RMB-denominated demand deposits and general term deposits shall not be higher than the benchmark rates of PBOC. However, the Company is permitted to provide negotiated term deposits to insurance companies, and the National Council for Social Security Fund. The PBOC has liberalized the interest rates charged for inter-bank RMB-denominated loans and deposits between financial institutions, therefore, the Company can negotiate the pricing with other financial institutions. In addition, the Company is permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen or HK dollars in an amount less than US\$3 million. Interest rates on inter-bank foreign currency deposits and foreign currency deposits by non-PRC residents are generally not subject to PRC regulatory restrictions.

Pricing for non-interest based products and services

The Company priced its fee income services based on reasonably estimated costs under the principles of rationality, openness, integrity and consistence with quality and in strict compliance with the requirements imposed by regulatory authorities. Before applying such service prices, the Company fulfills relevant procedures on reporting and public announcement, and makes inquiries available on counters, by telephone and via internet and so on. In addition to compiling the "China Merchants Bank's Regulations on the Price Management of Intermediary Business Services", the Company has established the price management committee of intermediary business services at its Head Office and branches respectively, with a subordinated service price management office, taking charge of daily service price management. Furthermore, the Company has established a modified multiple-layer supervision and investigation mechanism.

3.8.5 Distribution channels

The Company provides products and services via various distribution channels. As at 30 June 2009, in 60 cities across Mainland China, the Company had 47 branches, 648 sub-branches (including outlets), 2 exclusive operation centers equivalent to a branch (a credit card center and a small enterprise credit center), 1 representative office, 1,622 self-service centers and over 1,500 off-bank self-service machines and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd.; two wholly-owned subsidiaries, namely WLB and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States. The outlets of the Company are primarily located in China's relatively more economically affluent regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other regions.

The Company also makes efforts in developing and improving e-banking channels such as online banking and telephone banking, which is highly recognized and has effectively relieved the pressure on the business outlets of the Company. In the first half of 2009, the integrated counter-replacement ratio in respect of retail e-banking channels reached 79.38%; whereas it was 43.00% in respect of corporate e-banking channels. As at 30 June 2009, the total cumulative number of online banking transactions was 122.63 million, up by 54.46% as compared to that in the previous year, and the accumulated transaction amount was RMB1,879.4 billion, up by 28.72% as compared to that in the previous year. In particular, the accumulated online banking transaction amount was 68.212 million, up by 60.54% as compared to that in the previous year, and the accumulated transaction amount was RMB25.336 billion, up by 31.96% as compared to that in the previous year. The number of transactions done through U-BANK, our online corporate bank, was 11.750 million, up by 28.28% as compared to that in the previous year, and the accumulated transaction amount was RMB3.57 trillion, down by 68.77% as compared to that in the previous year. In respect of telephone banking, as at 30 June 2009, the Company sold various types of wealth management products, such as funds, through telephone banking for a total amount of RMB13,252 million. The transaction amount with Quick & Easy Wealth Management (快易理财) was RMB51,927 million and the number of newly opened accounts reached 1,502,600, both representing a significant increase as compared to that in the corresponding period of the previous year.

As at 30 June 2009, the small enterprise credit center set up one first-tier center in Suzhou, one second-tier center in Nantong and several third-tier centers in Changshu, Zhangjiagang, and Kunshan, each having a number of marketing teams. In addition, there are altogether four first-tier centers under construction in Shanghai, Hangzhou, Ningbo, and Nanjing. The small enterprise credit centers form the preliminary organisation framework covering the Yangtze River Delta. Besides, leveraging on the powerful research and development resources of the Head Office, the small enterprise credit centers are building such e-banking channels as online corporate banking and telephone banking which have reflected the characteristics and features of small businesses and achieved initial results.

3.8.6 Overseas businesses

Hong Kong Branch

Established in 2002, our Hong Kong Branch provides corporate and retail banking services. The corporate banking services include loans and deposits, remittance, international trade facilities and settlement, initiating or participating in syndicated loans, and participating in inter-bank transaction of funds and bonds. Retail banking includes providing cross-border electronic banking services for individual customers between Hong Kong and the Mainland China, and the featured product is the "Mainland-Hong Kong All-in-one Card" (兩地一卡通). This card combines the advantages of Hong Kong debit card and Mainland debit card. The cardholder can withdraw cash from ATM and use the card via POS in both Hong Kong and the Mainland China, and enjoy real-time online remittance service between the two places. Hong Kong Branch has launched Hong Kong stock dealing services in February 2009 where the customers may trade Hong Kong stocks easily and efficiently through online banking and automated phone banking to enjoy the convenient investment and finance services.

New York Branch

The New York Branch of the Company, based in 535 Madison Avenue of New York, was officially opened on 8 October 2008. It was the first time that a Chinese bank was approved access to the U.S. market by the U.S. Board of Governors of the Federal Reserve System since the implementation of the "US Foreign Bank Supervision Enhancement Act" in 1991.

The New York Branch of the Company was granted a whole sale banking business license and its current operations include deposits and settlement, the U.S. dollar clearing, trade finance, and syndicated loans, etc. By closely following our corporate cultural principle of "We are here just for you" and capitalizing on the advantage of coordination with domestic branches, our New York Branch will be committed to offering quality financing services to Chinese enterprises which "go abroad" to foreign countries and the U.S. enterprises with investment in China.

Infrastructure building is one of the priority tasks of the New York Branch since its commencement of business. Our New York Branch has put its USD clearing system and trade finance system on-line successfully in the first half of 2009. As a USD clearing bank, the New York Branch has applied for membership in CHIPS and FEDLINE, both being the leading USD clearing systems, to meet customers' various needs. The development of the online corporate banking system of our New York Branch is currently under preparation. It is expected to be ready for operation by the end of this year when New York Branch will be able to offer more convenient services to its customers. With strong emphasis on regulatory compliance and internal control, our New York Branch has appointed a local senior compliance expert as the chief compliance officer, to be responsible for deployment of anti-money laundering monitoring systems in all respects. It has also engaged external agencies to carry out regular audits and screen internal management deficiencies on independent and objective basis, enhancing the management capability of our New York Branch.

3.8.7 Information technology and research & development

Our policy is to achieve strategic transformation leveraging on technological support through continued IT infrastructure building and enhanced IT governance. In the first half of the year, we reformed our IT planning and control structure, so as to continuously enhance the supporting and protecting capacity of the IT system. In addition to optimizing the organization and functions of the Information Control Committee and the Technical Organization Committee, we set up complementary professional support teams, who are in charge of coordinating the IT strategy and investment and controlling the organization, planning and technical standards for our IT support system, and acting as an overall decision-maker and coordinator, to ensure the effective control and sustainable development of our IT support system.

We strengthened the protection function of the operating and control systems to secure the effective support of IT system for business development. Both the mainframe and the core network had experienced zero abnormal shutdowns during the first half of the year, and our indicators of UnionPay system continued to lead our peers. The Shanghai Data warehouse, which was constructed to high standards, has completed computer room design and infrastructure construction. After continuous increase in staff, the Hangzhou Software Development Center was officially put into use, and the strategic layout of overall research and development has taken its initial shape.

The Company continued to put resources into research and development to ensure that big projects can be developed and started, and to bolster the rapid development of business. In the first half of the year, the new system went on-line and was put into use across China. The CRM and retail CRM management system of the Company went on-line successfully, giving a strong impetus to the management of the market and customers. A complete system based on credit risk management, Basel II, ALM/FTP, management accounting is beginning to take shape, enhancing the profitability analysis, cost management and risk control. The Company managed to maintain its leading position in overall service quality by offering comprehensive financing solutions via electronic means to retail and corporate customers through increased system integration, consolidation of distribution channels and product integration. It has also preceded with the internationalization process, smooth integration of WLB's IT system and the going-online of the Business Processing System of our New York Branch.

3.8.8 Businesses of Wing Lung Group

Profile of Wing Lung Bank

WLB, founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with prudence, service with sincerity" in providing personalised and sincere service to the public. The principal operations of WL Group comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities broking, wealth management service, insurance business, financial lease, property trustee and nominees service.

Financial and Operation Review for the First Half of 2009

In 2009, central banks of the world's major economies orchestrated expansionary monetary policies, in order to break the vicious cycle of credit crunch that severely hindered capital flows and the real economy. With no capital flow restriction and additionally backed by the China factor, Hong Kong is one of the primary beneficiary regions from such policies. Substantive capital inflows brought interest rates for the HKD-denominated deposits down to nearly zero. Stimulated by ample liquidity, both the stock market and the property market have rebounded since the second quarter of the year. However, overall export figures kept declining and unemployment rate continued to rise. The overall economy in Hong Kong is predicted to remain weak in the second half of the year.

As we entered 2009, WL Group operated at a steady even pace. Although market interest rates remained low, the financial market seemed to have stabilised. For the period ended 30 June 2009, WL Group recorded an unaudited consolidated profit after tax of HK\$458 million, representing an increase of 30.7% over the corresponding period of the previous year.

As the market interest rates went down, WL Group recorded only a net interest income of HK\$609 million for the first half of 2009, representing a decrease of 10.1% compared to the same period last year. Non-interest income (excluding insurance business) increased by a respectable 39.8% as compared to the corresponding period of the previous year, among which the debt securities investment generated substantial profit, while the insurance business achieved a turnaround from loss to profit with a net income of HK\$30.17 million (excluding gains or losses on investments). Moreover, WL Group's impairment charge for credit losses decreased substantially by HK\$264 million. Its operating expenses amounted to HK\$559 million, an increase of 26.8% as compared to the same period of last year, which was partly attributable to the increase in provision for the Lehman Brothers Minibond incident, as well as the increase of approximately HK\$10.98 million in staff costs due to the increase in retirement benefit costs. If excluding the additional expenses relating to Lehman Brothers Minibond incident in 2009, the related promotion expenses for WLB's 75th anniversary and the professional expenses for the merger and acquisition activities in 2008, the operating expenses of WLB in the first six months of 2009 would only be HK\$17.67 million or 4.2% higher than the same period of 2008.

As at 30 June 2009, total assets and net assets of WL Group increased by 10.2% and 4.5% to HK\$110.8 billion and HK\$10.9 billion respectively as compared to the end of 2008. Total deposits of WL Group, including structured deposits, surged to HK\$91 billion, or 9.4% higher than the total at the end of 2008, while total loans, including trade bills, rose by 5.4% from the end of 2008 to HK\$45.8 billion. Overall loan quality remained sound with a non-performing loan ratio of only 0.72%.

The consolidated capital adequacy ratio and core capital adequacy ratio of WL Group as at the end of June 2009 were 12.4% and 10.7% respectively, and the average liquidity ratio for the first half of the year was 56.8%. On 14 July 2009, WLB issued a subordinated note in the principal amount of HK\$800 million to CMB to enlarge its capital base for future business development.

After acquisition by CMB, WLB not only receives strong support from CMB, but also expands its horizon for future business expansion with the proactive development of Renminbi-related businesses in Hong Kong. By virtue of the complementary advantages and mutual interaction between the two banks, a sustainable earnings growth driven by a gradually enhanced synergy is expected.

Detailed analysis of WL Group's operations for the first half of 2009 is as follows:

Deposits

As at 30 June 2009, total deposits of WL Group, including structured deposits, surged by 9.4% to HK\$91 billion as compared with that at the end of 2008. Deposit growth was mainly from new major corporate clients.

Among the various kinds of deposits, Hong Kong Dollar deposits accounted for the bulk of the increase, up by HK\$6.08 billion or 11.3% as compared to the end of 2008. Other foreign currency deposits surged by value equivalent to HK\$2.13 billion or 14.5% as compared to the end of 2008. As compared to the end of 2008, RMB deposits rose by value equivalent to HK\$400 million or 38.2%, while the US Dollar deposits decreased by value equivalent to HK\$780 million or 5.8%.

With respect to business operation, mutual interaction between CMB and WLB was launched, including "Account Opening Witnessed by CMB Manager" (見證開戶) and "China – Hong Kong Express Link" (匯款快線). Concurrently, mainland high-end customers were proactively invited to open accounts (including deposit, securities and wealth management accounts) with WLB in Hong Kong.

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Advances to customers

As at 30 June 2009, total loans to customers of WL Group (including trade bill) grew by 5.4% to HK\$45.8 billion as compared with that at the end of 2008; and the non-performing loan ratio was only 0.72%. As such, its overall loan quality remained sound.

With respect to corporate banking business, the balance of loans at the end of June 2009 amounted to HK\$18 billion, an increase of 17.1% over that at the end of 2008. During the first half of the year, a number of projects were explored to expand the loan portfolio, to improve loan-to-deposit ratio and to generate more interest income, and the results were remarkable. In the second half of the year, WLB will put efforts on closer cooperation with CMB. By leveraging on the advantages of internal and external linkage and interaction between the two banks, WLB will strive to secure more trade finance customers, so as to generate more income.

As to commercial banking business, the balance of loans at the end of June 2009 amounted to HK\$369 million, representing a decrease of 28.6% as compared to that at the end of 2008. The performance of WLB's trade finance business was affected as most of its customers received far less orders due to sluggish foreign trade environment. WLB's Commercial Banking Department is currently taking a more aggressive approach to recommend the government-launched "Special Loan Guarantee Scheme" to its existing and new customers.

With respect to mortgage and personal loan business, total loans (including all branches) as at the end of June 2009 amounted to HK\$23.2 billion, representing a decrease of 2.4% from year-end of 2008. Of the total, residential mortgage loan balance amounted to HK\$9.28 billion, a decrease of 2.9% as compared with that at the end of 2008. In view of the improved sentiment in property market and facing keen competition, WLB will offer more flexible mortgage terms in line with the market and capitalise on its interactive cooperation with CMB. WLB expects business will grow in the second half of the year with further improvement in the property market.

Investments

As at 30 June 2009, WL Group had a debt securities investment portfolio of HK\$23.2 billion, representing an increase of 115% over that at the end of the previous year. The increment was mainly due to the fact that WL Group purchased several tranches of high quality bonds during the period in order to increase interest income. At the end of the period, WL Group had debt securities investments denominated in foreign currency (including Hong Kong dollar) of HK\$22.97 billion. More than 77.8% of such debt securities in foreign currency (including Hong Kong dollar) are rated A3 or above and their risks are comparatively low.

Treasury

For the six months ended 30 June 2009, revenue from foreign exchange trading amounted to HK\$32.13 million, representing a decrease of 33% over the corresponding period of 2008; while revenue from foreign currency notes exchange amounted to HK\$17.73 million, representing an increase of 38.5% over the corresponding period of 2008. WLB will introduce more proprietary transactions to increase revenue, and will also strengthen the cooperation with CMB to seek more trading opportunities at the same time.

With respect to the inter-bank placement and borrowing, interest rate remained at a low level due to weak funding requirement as a result of subdued business activities. It is expected that in the second half of 2009, WL Group will increase its investment in government guaranteed debt instruments and achieve loan growth through corporate customer referrals by CMB, so as to increase its net interest income.

Wealth management

In the first half of 2009, the wealth management business of WL Group realised a revenue of HK\$13.29 million, a decrease of 62.9% as compared to the corresponding period of last year. The decrease was primarily attributable to the sales suspension of certain relatively higher risk product pursuant to strengthened internal controls. Furthermore, the weakened market sentiments and certain investors' caution also dampened revenue generation.

Wealth Management Centre will focus on developing a new service branded "Sunflower" (金葵花) in the second half of 2009, with a view to providing a comprehensive service platform for high-end customers in both Mainland China and Hong Kong. Such services will cover deposits, securities and wealth management. The detailed procedures and marketing plans for such services are currently being formulated and are expected to be completed by August 2009.

Credit card

As at 30 June 2009, WLB has issued a total of 246,000 credit cards, a decrease of 2% as compared to year-end of 2008. The credit card receivables amounted to HK\$326 million, a decrease of 30.8% as compared to the year-end of 2008. Merchant business turnover was HK\$1 billion, an increase of 7.1% as compared to the corresponding period of 2008.

As the economic environment remains uncertain, WLB adopted more prudent policies in granting credit cards, which led to the reduction in both the total number of credit cards issued and the receivable balance. WLB will decide whether the relevant policies shall be relaxed in the second half of 2009 according to the developments of market conditions. In the third quarter, the Credit Card Centre will focus on the marketing of diamond credit card "Luxe Visa Infinite" and prepare for the introduction of the first World Mastercard Corporate Card in Greater China. In the second half of 2009, WLB will continue to discuss with the credit card centre of CMB for sharing more mutual promotion offers from merchants. In addition, WLB will make efforts to secure merchant business, so as to increase its commission income.

Securities broking

In the first half of 2009, Wing Lung Securities Limited ("Wing Lung Securities") realised a commission income of HK\$102 million, representing a slight year-on-year increase of 1.3%. Although the daily average total turnover of the Hong Kong stock market decreased by 33% during that period, Wing Lung Securities was able to achieve an increased turnover of 5.3%, which was much better than the market average, due to proactive expansion and the establishment of new securities centres. Consequently, its market share also increased. Market conditions have gradually improved since the second quarter as a result of the economic stimulations efforts by governments around the world. The Hang Seng Index broke through the 20,000 point level this July, evidencing an active market. In the second half of 2009, Wing Lung Securities will actively promote its securities services to corporate and institutional customers, so as to secure large amount orders.

Wing Lung Insurance

For the six months ended 30 June 2009, Wing Lung Insurance Company Limited ("Wing Lung Insurance") recorded a gross premium income of HK\$349 million, representing a decrease of 9.7% as compared to the corresponding period of the previous year. Total insurance claims amounted to HK\$182 million, 39.7% lower compared to the corresponding period of the previous year. Underwriting profit amounted to HK\$6.24 million compared to a loss of HK\$112 million in the same period in 2008. Investments made a turnaround to gains. Wing Lung Insurance intends to increase premium for employee compensation policies to bolster underwriting profit. It also plans to expand its business to Chinese invested enterprises and to broaden its client base.

Branches

Following the acquisition of WLB by CMB, WLB has become the retail business platform of CMB in Hong Kong. WLB is committed to developing retail market, with a view to gaining an important market position in Hong Kong. In order to increase distribution network for retail business, WLB proactively expands its branch network. In April and August 2009, WLB established its Des Voeux Road West Branch and its China Hong Kong City flagship branch, while its Mei Foo Sun Chuen Branch is expected to commence operation in September. Currently, WLB has 38 branches in Hong Kong, two branches and a sub-branch in the PRC and two overseas branches, one in Los Angeles and the other in the Cayman Islands.

Its two branches and sub-branch in mainland China have been developing steadily. They will cultivate business with large state-owned enterprises, private enterprises, as well as blue-chip and red-chip companies in Hong Kong, and will strengthen cooperative endeavours with CMB for more business opportunities.

Regarding the preparation of the Macao Branch, WLB formally submitted application to the Monetary Authority of Macao immediately after obtaining consent for establishing such a branch from the Hong Kong Monetary Authority. The Macao regulator is now processing their application.

WLB's Los Angeles Branch is proactively cooperating with CMB's New York Branch on the east coast, with a view to developing a mutual sharing platform to develop business in North America.

Lehman Brothers Minibonds Repurchase Agreement

On 22 July 2009, WLB, without admission of any liability, entered into an agreement with the Securities and Futures Commission, the Hong Kong Monetary Authority and 15 other distributing banks for Lehman Brothers Minibonds ("Minibonds") to make an offer to eligible customers to repurchase their holdings in outstanding Minibonds subscribed through WLB. Under the repurchase scheme, WLB will offer to repurchase all outstanding Minibonds held by WLB's eligible customers at a price equivalent to 60% of the nominal value of the principal invested (those who are below the age of 65 on 1 July 2009); or 70% of the nominal value of the principal invested (those who aged 65 or above on 1 July 2009). Subsequently, upon realising the underlying collateral of relevant Minibonds, WLB will additionally make a payment of up to 10% (depending on actual recoveries) of the nominal value of the Minibonds to eligible customers who are below the age of 65. If such recoveries exceed 70% of the nominal value of the principal invested, WLB will pay amounts in excess of 70% to its eligible customers. Based on the information currently available to WLB, such repurchase scheme will involve an estimated aggregate amount of approximately HK\$203 million (including certain amounts already paid, but excluding any future payments following recovery of the collaterals) if all eligible customers accept the offer.

According to the agreement, WLB has also committed to make available to the Trustee of the Minibonds (HSBC Bank USA, National Association) an amount of approximately HK\$8 million (equivalent to the amount of commission income received by WLB through the distribution of the outstanding Minibonds) to be used by the Trustee to fund collateral recoveries pursuant to a related agreement. WLB agreed that it will not have any claim to the return of this money to the extent that it is utilised by the Trustee.

WLB has made adequate provision for the above-mentioned amounts in its 2008 annual accounts and its interim accounts for the first half of 2009 in accordance with its accounting policy. It is still uncertain at this stage whether WLB can recover any amount from the Minibonds' underlying collateral.

Progress of Integration with WLB

After the acquisition of WLB, the Company prepared a detailed integration plan which was put into full implementation in 2009. Thanks to the joint efforts of employees of both sides, the integration has proceeded smoothly with initial signs of synergies already emerged.

As at the end of June 2009, our branches within China have successfully recommended corporate customers to WLB with loans of HK\$1.055 billion and deposits of HK\$1.481 billion. The revenues generated from corporate intermediary business amounted to HK\$8.29 million. The Company has successfully recommended individual customers to WLB with loans of HK\$23.05 million and deposits of HK\$14.17 million respectively. 61 and 58 credit card-settled discount businesses were swapped, involving 750 and 78 outlets respectively. During the reporting period, WLB was granted two business qualifications by the HKMA, namely "Account Opening Witnessed by CMB Manager" (見證開戶) and "Sub-receiving Bank for IPOs," (首次公開招股副收款行) and launched popular cross-boarder products such as "Financing Passage for SMEs in Hong Kong and the Mainland" (中港中小企業融資通) and "China – Hong Kong Express Link" (匯款快線), and WLB was also proactively preparing for the Sunflower Wealth Management business. In addition, we have officially established the coordinated performance assessment and incentive plan for our domestic branches and WLB, and further rationalised the coordinated business process, thus laying a solid foundation for the commencement of large-scale coordinated operations in the future.

In addition, WLB had reshuffled its internal organizational structure by identifying a number of profit centers, reforming its risk management system, and further enhancing its risk control capability. WLB modified the logo of its 38 outlets in Hong Kong. With the name of WLB being kept, the new logo replaced the original round shape logo with CMB's logo. Due to the upgrading of its IT system by phases, its IT support capacity has been enhanced.

The Company will continue to put forward the integration process as scheduled to achieve the overall goal of the integration, that is "laying a foundation within one year, achieving a remarkable result within three years and obtaining a complete success within five years".

3.8.9 Financial Leasing

CMB Financial Leasing Co., Ltd. (hereinafter called "CMBFL") was one of the five pilot bank-affiliated financial leasing firms approved by the State Council. Approved by China Banking Regulatory Commission on 26 March 2008, it commenced its business in Shanghai on 23 April 2008 with a registered capital of RMB2 billion. It is wholly owned by the Company.

The primary businesses of CMBFL are guided by China's industrial policies. It provides financial services such as financial leasing, asset management, investment and financial advisory to customers like large scale equipment producers in shipping, transportation, power and telecommunication industries and SMEs.

Since its establishment, CMBFL has actively expanded its business and developed a sound internal management system. As at 30 June 2009, with 66 employees, CMBFL reported a total asset of RMB6.346 billion and a net asset of RMB2.059 billion. Realized net profit reached RMB18.97 million. Its business structure has been rationalized and business models have been diversified. It has taken active initiatives in exploring professional commercial development models. In addition, it has strengthened its risk management system in an all-round way and improved human resource. It has also developed its proprietary "leasing business system, phase 2" and "supplier leasing system" and has established an effective internal incentive system.

In the first half of 2009, facing various adverse factors such as reforms on the value-added tax, CMBFL adhered to the operation philosophy of "solid foundation, capacity building, accurate positioning and brand innovation" while seeking new business opportunities despite headwinds, operating in a prudent manner with advancement, enhancing management capability, controlling risks, and creating a favourable environment which will facilitate the rapid growth of the leasing business with cost effectiveness, quality and balanced development in scale, thus laying a solid foundation for the development in the second half of 2009.

3.8.10 CMB International Capital

CMB International Capital Corporation, Ltd. ("CMBIC") is a wholly-owned subsidiary of the Company in Hong Kong. Currently, CMBIC's businesses mainly cover corporate finance advisory services, security brokerage and security investment. As at the end of June 2009, CMBIC had a registered capital of HK\$250 million and 47 employees.

As at 30 June 2009, CMBIC had a total asset of HK\$537 million, an increase of 24.02% as compared to the beginning of the year. Net asset was HK\$343 million, an increase of 0.88% as compared to the beginning of the year. Asset quality was good and cash-flow was abundant with a liquidity ratio of 2.35. Realized operating income amounted to HK\$16.29 million in the first half of 2009, an increase of 201.81% over the corresponding period of the previous year. Realized net profit was HK\$5.8716 million.

In 2009, CMBIC will undertake large-scale restructuring in areas such as personnel, IT transactions and research information platform and market exploration. Based on the analysis of market opportunities and its own resources, taking the Company's advantages in domestic networks and client resources, the advanced IT platform and research advisory business capability, CMBIC will prioritize the development of securities brokerage business alongside moderate development of investment banking business, in an effort to lay a solid foundation for its sustainable and sound development in the future.

3.8.11 China Merchants Fund Management

China Merchants Fund Management Co., Ltd. ("CMFM") was the first fund management joint venture company approved by the CSRC. CMFM was established on 27 December 2002 with a registered capital of RMB210 million. As at the end of the reporting period, the Company had 33.4% equity interest in CMFM. The businesses of CMFM include fund establishment, fund management business and other operations approved by CSRC.

As at 30 June 2009, CMFM reported a total asset of RMB656 million and a net asset of RMB532million. It had 169 employees. Realized operating income totaled RMB226 million in the first half of 2009, a decrease of 33.14% as compared to the corresponding period of the previous year. Realized net profit was RMB69.42 million, a decrease of 43.86% as compared to that in the previous year. CMFM had altogether 12 open-ended mutual funds. The total value of the mutual funds under its management reached RMB37.827 billion and assets totalling RMB51.517 billion. It ranked 25th in terms of the size of mutual funds under management.

In 2009, CMFM continues to strengthen internal control and risk management, stresses the enhancement of investment management and execution capability whilst pursuing different marketing strategies so as to build a more solid foundation for future development.

3.9 Risk management

3.9.1 Credit risk management

Credit risk refers to risks arising from failure of the borrower or the related party to fulfill its obligations under the negotiated terms and conditions. The Company endeavors to formulate an independent, checks and balances risk management system for credit risk management and implement bank-wide policies and procedures, including credit risk identification, measurement, monitoring and management, to control the credit risk of the Company and maintain a balanced profitability.

Risk Control Committee of Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management strategies, policies and authorizations approved by the Board, the Committee is responsible for reviewing and deciding the significant bank-wide risk management policies, and reviewing complicated credit items. The Company reviews credit risk on different levels in accordance with business risk status and the credit approving system. These decision-making entities include: Head Office Risk Management Committee, Head Office Professional Loan Approval Committee and Branch Risk Management Committee. The Company has formulated a comprehensive credit approval and authorization system according to credit management level, the borrowers' credit ratings and credit guarantee conditions. The Company has also implemented practical authorization standards, authorization methods and authorization adjustment rules. The Company is strictly in compliance with the principle of separating the authorization of reviewing credit and granting loans. The procedure of "triple reviewing" is strictly applied before, during and after loan granting. The system of cross-checking among different positions and responsibilities are designed according to various risk control procedures of credit business. The Company has established a well-defined accountability system to ensure effective implementation of the procedure of risk control management.

In the first half of 2009, the Company was confronted with a complicated and challenging financial environment. Guided by the principles of "healthy growth, proactive response, solid foundation and quality enhancement", and the general doctrine of "comprehensiveness, independence, professionalism and check and balances", the Company steadily pushed forward the restructuring of its credit risk management system and fully enhanced its credit risk management capability. Through continued deepening of specific industry researches and organically combining principle and flexibility, the Company extended the width and depth of the coverage of its industry policies and combined with economic situation to formulate guidelines for industry practice. It actively promoted the reform of existing credit approval and authorization procedures, steadily carried out Phase II evaluation for credit approval officer, and discussed the sequence of introduction for risk manager and carried out pilot studies. Meanwhile, it constructed the genealogy of the Group, explored unified Group credit line management and improved the integration of the comprehensive credit risk management system. The Company also established a ten-tier loan classification and management system, promoted the comprehensive classification of financial assets, and improved the systematic operation of making provision. Furthermore, it developed a comprehensive pre-warning system for credit risk, broadened the sources for collection of information for both internal and external risks, and carried out pre-warning in daily management. The Company made full use of the new generation of credit risk management information system to improve the procedures for credit risk management, and furthered the applications of quantitative techniques to reach the targets specified by the Basel II Capital Accord. It also speeded up the formulation and revision of the basis of the credit system, reinforced credit inspection, enhanced the non-performing loan accountability system and recovery of bad debts, and carried out training for credit risk management, the Company saw continuing optimization of asset quality.

In the second half of 2009, the prospects of domestic and overseas economic recovery remain unclear due to insufficient external demand and weak foundation of domestic consumption. There is no clear sign of active capital inflow from private sector. Meanwhile, small and medium enterprises are facing financing difficulties, and potential bubbles exist in asset prices. Under such a complex economic situation with structural contradictions, the regulatory authorities will strengthen the guidance to macro-economic control policies. Therefore, the Company will face the dual pressures from growth of credit size and stiff capital constraint; and its credit quality will also be challenged. The Company will strengthen its credit risk management by adhering to the principles of "healthy growth, structural adjustment, quality enhancement, and risk awareness", paying close attention to government policies, grasping market opportunities, adjusting the business, customer and regional structure of credit assets proactively, and enhancing risk management capability, to ensure a coordinated development of "efficiency, quality, structure and size".

3.9.2 Liquidity risk management

Liquidity risk refers to the risk that the Company is not able to satisfy its customers' needs of withdrawal, application of new loans or repayment of due obligations, or the risk that the Company is not able to raise sufficient funds at reasonable cost to perform its own obligations. The overall liquidity of the Company is managed by the Assets and Liabilities Management Committee, and the Planning and Finance Departments in the Head Office and branches are responsible for execution.

In the first half of 2009, governments around the world focused on "boosting economic recovery and ensuring the stability of financial system". Aiming to maintain stable economic growth, the Chinese government continued to adopt macro-economic policies which were favourable to the market. Market was flooded with excess liquidity due to loose monetary policy and more-than-expected loan issuance. Under these macro-economic conditions, the Company avoided redundancy of capital and improved the efficiency of capital utilization through investment and financing activities, such as granting more loans, encouraging placements with other banks and bills repurchase. At the end of the second quarter, the central bank finetuned its monetary policy which turned market capital from extremely loose to moderate loose. To cope with the change in the monetary policy, the Company timely adjusted its liquidity management policy, thus improving the flexibility of the use of internal funds. The Company changed its liquidity management strategy in response to the macro policy, so that full utilization of capital was ensured, while liquidity remained safe. As at the end of June 2009, the liquidity risk of immediate repayment by the Company was relatively small. The results of stress test showed that the Company was capable of coping with liquidity risks under medium stress scenario.

3.9.3 Interest rate risk management

Interest rate risk refers to the risk of adverse impact of fluctuating interest rates on the financial condition or market cap of banks. The interest rate risks faced by the Company include the risk arising from the difference in the basis of assets and liabilities, repricing risk, yield curve risk and option risk. In particular, basis risk is the primary risk faced by the Company, followed by the repricing risk. The yield curve risk and option risk are relatively insignificant. In adherence to our prudent approach in risk management, the Company's overall objective of interest rate risk management is to achieve steady growth of net interest income under acceptable range of interest rate risk exposure.

In the first half of 2009, adhering to the guiding principle of "maintaining a balanced risk and return profile", the Company conducted various analysis and research on macro conditions, product pricing particulars and market risks on a monthly basis. In addition, the Company also directed the optimization of and adjustment to the assets and liabilities across the Bank and conducted rolling forecasts of net interest income by undertaking dynamic management, adjusting prices for internal fund transfers and guiding business interest rates. The Company has achieved important breakthrough in establishing the interest rate risk management system. It finalized the management regulation on interest rate risks of bank accounts and established the credit limit system, which laid the foundation for managing interest rates with limited risk in a more scientific way. In terms of interest rate sensitivity, as the Company had a higher level of demand deposits and under the existing RMB interest rate risk management policies, the frequency and basis point for the change of demand deposit interest rate were lower than those of other deposit and lending interest rates. As such, the Company saw strong asset sensitivity. With interest rates rise, the attribute of asset sensibility will bring positive effects to the NIM of the Company.

3.9.4 Exchange rate risk management

Exchange rate risk refers to the negative impact arising from the change of FX on the assets and liabilities denominated in foreign currencies. The exchange rate risk of the Company is mainly measured through foreign exchange exposure analysis, sensitivity analysis, stress tests and Value at Risk ("VAR"). The exchange rate risks are divided into structural risk and transaction risk. The Company adopts different management strategies to control structural risks and transaction risks.

Structural foreign exchange risk is the exposure risk arising from mismatches between strategic foreign currency assets and liabilities which is difficult to avoid. The Company matches as far as possible the amounts and terms of borrowings and lendings made in each type of currency. For amounts which cannot be fully matched, the risk will be reduced by hedging through the foreign exchange market.

Foreign exchange transaction risk comes mainly from the provision of foreign exchange trading services by the Company to its customers. Exposure risks exist when the Company fails to immediately hedge all of the foreign exchange positions and when the Company holds a foreign exchange position based on the expectation of future trend with a view to profit from exchanging rate differences. The Company contains its foreign exchange transaction risk through setting risk exposure and stop-loss limits.

3.9.5 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or unsound internal procedures, incompetent personnel or IT systems, or external events. The Company reduces and controls the operational risk by introducing the Basel II-compliant operational risk management processes, strengthening internal control, performing the operational risk screening, enhancing staff's risk prevention awareness and ability, and implementing a strict accountability system. Major measures taken during the reporting period were as follows:

- (1) In order to meet regulatory requirements and further enhance our ability in operational risk management, the Company decided to establish an independent operational risk management department in the Head Office. This is a significant strategic step taken by the Company to improve its overall risk management system. The duties of such department are in general to take responsibilities for the operational risk management of the whole bank, as well as establish a complete operational risk management system and keep it operating properly.
- (2) Pursuant to the requirements of the section "Standardized Approaches" set out in the "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by CBRC, the Company finished the measurement of its operational risk regulatory capital in 2008. Meanwhile, the Company also completed the measurement of quantitative impact of operational risk on the Group and on legal entities by using standardized approaches.
- (3) The Company completed application of a set of tools for operational risk management at our Head Office as a pilot project. The testing scope of the pilot project covered our three business lines including credit, accounting and international operations, involving nearly 60 business processes. This mainly involved streamlining major business processes, establishment of risk control self-evaluation measures, development of key risk indicators system and formulation of risk management policies and procedures, covering such key aspects as the identification, evaluation, monitoring and control of operational risks with such tools.

- (4) The Company made improvement in the computer control room conditions and upgraded the structural usability protection approaches for systems such as core business system, credit card system, core network system, online banking system, billing system, advanced payment system, notification system and securities system, so as to ensure the usability and rapid recovery ability of such systems.
- (5) Pursuant to the relevant requirements of the "Guidelines on IT Risk Management of Commercial Bank" recently promulgated by CBRC, the Company conducted an overall review on the IT departments at its Head Office and at some branches, making assessment on the IT risk they exposed to, and further enhanced its IT risk management through issuance of the "Guidelines on Assessment and Analysis of Data Security Risk" and the "Rules on Separation of Data Security Duties of IT Departments of Head Office".

3.9.6 Compliance risk management

Compliance risk refers to the risks of being subject to legal sanctions, regulatory punishments, major financial losses, and reputation diminishing as a result of commercial banks' failure to observe the laws, rules and guidelines. Our goal for the management of compliance risks is to achieve an effective identification and management of compliance risks by establishing a sound compliance risk management framework to ensure operations in a legal and compliant manner. Major measures taken during the reporting period were as follows:

1. Continuous improvement of the organizational system to reduce compliance risk. After establishing a organizational management structure which comprises a compliance management committee, compliance officers, compliance departments and compliance supervisors, the Company can give full play to the risk control duties performed by its compliance officers and grassroots compliance management staff, and the organizational mechanism for compliance management can provide better support to the sustained development of various businesses.
2. Strengthening three defence lines of compliance management. The first defence line of compliance management was improved and well functioning in respect of self-assessment, management and control; the cooperation between the second and the third defence lines was strengthened, while information communication and feedback mechanism between the compliance departments and the third defence line (i.e. the internal audit department) was implemented.
3. Improving methods and techniques used in compliance enforcement, so as to ensure effective management of risks. The Compliance Risk Management Program, which focused on risks, was compiled and executed. Legal compliance investigation and compliance risks streamlining were conducted at all levels to identify, assess, and eliminate compliance risks. Guidelines were provided and compliance inspections, tests, and special investigations were conducted. Compliance management information system was developed, so as to upgrade IT technologies used in our compliance management.

3.9.7 Anti-money laundering management

Anti-money laundering is regarded as the Company's due social and legal responsibility. The Company attaches great importance to anti-money laundering. During the reporting period, the Company further clarified policies governing acceptance of customers, agencies and businesses located in countries and regions with high risks; refined database of name list and filtration system, improved the monitoring and reporting system for data on anti-money laundering according to new interface codes and validation rules provided by People's Bank of China; conducted on-site investigation of anti-money laundering; carried out special off-site investigations for high risk customers and high risk countries and regions; and conducted trainings on anti-money laundering, especially for account managers so as to improve their awareness and skills of anti-money laundering.

3.9.8 Implementation of Basel II framework

In February 2007, CBRC released the "Guidelines on the Implementation of Basel II Framework by China's Banking Sector", which decided that the first group of commercial banks would be regulated based on Basel II framework from 2010 or, with approval, no later than 2013. Driven by the underlying needs to pursue an international strategy and improve reputation as well as operation and management, the Company strives to become one of the first batch of banks to be approved by CBRC to adopt Basel II. To this end, the Company set up the Basel II Implementation Office under the Head Office to lead various preparation work for the implementation of Basel II. Based on a detailed gap analysis, the Office developed an overall plan of Basel II implementation, which adjusted the task to 13 enforceable project groups based on actual progress of implementation, to refine and optimize the existing risk management system. Currently, 9 project groups have been kicked off and each is well underway.

3.10 Changes in external environment and responding measures

3.10.1 Change and impact of operating environment, macroeconomic control policies and regulations

In the first half of 2009, the active fiscal policies and moderately loose monetary policy continued to take effects. Driven by a series of stimulus packages, the domestic economy has temporarily escaped the effects of financial crisis and poised for stable recovery while the recovery foundation remained shaky. Given the unconventional grants of credit facilities, newly created credit loans have given a strong impetus to the economic growth in addition to injection of ample liquidity into the market. As for commercial banks, the net interest income demonstrated a general shrinking trend as a result of squeezed interest spread caused by the moderately loose monetary policy. The rapid growth of loans increased the need for making adequate provisions and cost control pressure was intensified in line with business expansion.

In face of the significant changes in macro operating environment, the Company adhered to deepening the adjustment to operation strategy, optimising the assets-liabilities structure and striving to overcome the adverse impacts brought about by external environment. As a result, in the first half of the year, the Company maintained and improved the quality of assets while its scale of operation expanded rapidly and its overall business was carried out on a sound basis.

3.10.2 Key issues emerged in the course of business and countermeasures adopted

Declining trend of NIM

In face of complicated macroeconomic and financial situation and the narrowing trend with NIM of commercial banks in general as a result of interest-rate cuts in 2009, the Company responded actively by proactively adjusting strategic structure. Firstly, the Company enhanced the asset and liability management through optimization of the assets-liabilities structure and reasonably balancing the business and term structure of assets and liabilities. Secondly, the Company strengthened interest rate management, improved the pricing ability of assets and strived to curb the high-cost funding sources. Thirdly, the Company strengthened treasury operation, opened up diversified channels for capital use, improved efficiency and effectiveness of capital use through flexible and initiative allocation. Fourthly, the Company continued to intensify the adjustment to income mix with a focus on the steady growth of net non-interest income.

Strategy on structure adjustment of assets and liabilities after interest rate cuts

Affected by the macro-economic downturn and interest rate cuts by the central bank, commercial banks, including the Company, are seeing a general declining trend of net interest income. The Company continued to take measures to further deepen the asset and liability management, optimize the asset liability structure, and improve the balance between risks and revenues. Firstly, the Company increased the loan grants appropriately and the proportion of quality medium and long-term loans in asset business in line with the nation's macroeconomic control policies and industry rejuvenation policies. Secondly, the Company continued to pursue the adjustment to operation strategy by giving priority to key businesses (such as retail loans, SME loans and fee income for intermediary businesses) that are in line with the Company's strategic orientation. Thirdly, the Company strengthened interest rate management and enhanced capital cost management by improving the pricing ability of asset businesses on one hand, and on the other hand, by further consolidating the Company's advantage brought about by low-cost funding sources including the savings deposits and demand deposits. Meanwhile, it adhered to curbing the growth of high-cost funding sources like negotiated deposits and margin deposits against acceptance so as to control the cost at reasonable level while ensuring sufficient liquidity. Fourthly, it adjusted appropriately the structure and maturity of debt investment and at the same time increased operations on investing and financing as well as bills discounting with a view to improve the revenues from investing and financing.

Credit granting

Over the years, the Company has always been actively implementing the monetary policies adopted by the state. In the first half of 2009, driven by the national economic stimulus package, the Company strictly followed the national industry policy and its own credit policy by increasing support of credit loans to the real economy and appropriately granting loans to projects backed by governments, resulting in a slightly higher proportion of long and medium-term loans. In the second half of the year, the Company will continue to follow thoroughly relevant regulatory requirements and adhere to maintaining a balance between risks and revenues, achieving smooth and balanced growth in loans.

Outlook for mortgage loans

Mortgage loans form an important part of our loan businesses. The Company will devote itself to the expansion of this business, while monitoring the risks associated with the mortgage loans in accordance with the requirements of relevant supervisory authority. Affected by the policy of 30% discount off the benchmark interest rates, the yield of residential mortgage loans declined consequently in the first half of the year. However, the downward trend in the yielding of mortgage loans will slow down as re-pricing of interest rates will be completed gradually.

Net non-interest incomes

The Company's net non-interest income has maintained a positive momentum, with its proportion to net operating income increasing throughout the period. In the first half of 2009, the Company's net non-interest income accounted for about one fourth of our net operating income, a further improvement from last year. The fee income from our short-term financial bills and mid-term bills recorded an increase despite various pressures. The net non-interest income for the first half of the year continued to grow by a certain percentage over the corresponding period of the previous year.

Cost Control

In the first half of 2009, owing to the adverse macroeconomic and financial environment, our net interest income reported a decrease, which in turn caused a rise in the cost-to-income ratio as compared to that in the corresponding period of the previous year. Since the beginning of the year, the Company has followed the principle of "encouraging the credit granting to some industry sectors while discouraging that to others" to improve its cost control, and made respectable achievements, among which, a number of expenditures such as advertising expenses, conference fees, travelling expenses, entertainment expenses and payrolls were controlled to negative growth or insignificant growth. As for the network construction, the Company focused on the redesign of existing outlets while seeking a reduction of costs and expenses through further procedure refinement and exploitation of e-banking channels.

3.11 Outlook and measures

In the second half of the year, the Company will face tough challenges posed by numerous uncertainties in the global and domestic economy, but will also be blessed with many favourable conditions.

In terms of environment pressure, the risk prevention task will become more difficult to deal with resulting from the lack of ingredients for domestic economic recovery, excess concentration of credit exposure by banking sector in the previous period, volatile interest rates in money market as well as various risks (i.e. credit risk, market risk and liquidity risk) interconnecting with each other. Under circumstances where capital markets fluctuate violently and demands for effective banking facilities grow stronger, the expansion of debt becomes increasingly difficult. In addition, pressures derived from orientation of policy, regulatory restriction and inter-bank competition also require a higher level of management expertise of the Company.

Despite those challenges, many new opportunities emerged. For instance, further implementation of the policy to stimulate domestic demand by central government, rapid growth in direct financing, gradual improvement in enterprises' production and operation, customer demand for wealth management being increasingly strong, and further implementation of a new round of regional development plans in PRC, and all these will offer wider marketplace and good opportunities for the Company to accelerate business growth.

Facing opportunities and challenges under the new circumstances, the Company will adhere to its working guidelines of "rising up to risks, seizing opportunities, improving management and developing scientifically", and push forward the operating strategy adjustment and management transformation, so as to strike the balance among effectiveness, quality, structure and size. To this end, the Company will focus on the following aspects in the second half of the year. Firstly, to ensure a stable and sound development of our assets business by making more room, modifying structure, focusing on key sectors and controlling pricing. Secondly, to expand sources of low-cost debts and proactively achieve a stable and effective growth of our debt business. Thirdly, to concentrate more efforts in product innovation and increase the income from fee-based business through various channels. Fourthly, to observe closely market changes and enhance the overall risk management. Fifthly, to ensure good supports such as finance planning, human resources, information technology, process management and service management, so as to provide strong supports for business growth. Sixthly, to complete the integration with WLB and steadily promote the development and international operation progress of our New York branch.

IV Share Capital Structure and Shareholder Base

4.1 Changes in the shares of the Company during the reporting period

	As at 31 December 2008		Changes in the reporting period		As at 30 June 2009	
	Quantity (share)	Percentage (%)	Shares subject to trading moratorium converted into shares not subject to trading moratorium (share)	Conversion from Convertible Bonds (share)	Quantity (share)	Percentage (%)
I. Shares which are subject to trading moratorium	4,799,233,254	32.63	-4,799,233,254	-	-	-
1. State-owned shares	-	-	-	-	-	-
2. Shares held by state-owned legal persons	4,799,233,254	32.63	-4,799,233,254	-	-	-
3. Other domestic shareholdings	-	-	-	-	-	-
Of which: shares held by domestic legal persons	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-
4. Overseas shareholdings	-	-	-	-	-	-
Of which: shares held by overseas legal persons	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-
II. Shares which are not subject to trading moratorium	9,907,951,420	67.37	4,799,233,254	19,154	14,707,203,828	100.00
1. Common shares in RMB (A Shares)	7,245,951,420	49.27	4,799,233,254	19,154	12,045,203,828	81.90
2. Foreign shares listed domestically	-	-	-	-	-	-
3. Foreign shares listed overseas (H Shares)	2,662,000,000	18.10	-	-	2,662,000,000	18.10
4. Others	-	-	-	-	-	-
III. Total shares	14,707,184,674	100.00	0	19,154	14,707,203,828	100.00

As at the end of the reporting period, the Company had a total of 435,339 shareholders, including 44,539 holders of H Shares and 390,800 holders of A Shares (whose shares were not subject to trading moratorium). In addition, the Company had 550 holders of convertible bonds, all of which were holders of tradable convertible bonds.

Based on released information available to the Company and its directors, as at 30 June 2009, the Company had met the public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Hong Kong Listing Rules").

4.2 Top ten shareholders and top ten shareholders whose shares are not subject to trading moratorium

Serial No.	Name of Shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital %	Type of shares	Changes in the reporting period (share)	Number of Shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd. ⁽¹⁾	/	2,612,590,901	17.76	H shares	-3,042,613	0	-
2	China Merchants Steam Navigation Company Ltd.	State-owned legal persons	1,818,912,594	12.37	A Shares not subject to trading moratorium	191,790	0	0
3	China Ocean Shipping (Group) Company	State-owned legal persons	947,548,668	6.44	A Shares not subject to trading moratorium	0	0	0
4	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	565,359,590	3.84	A Shares not subject to trading moratorium	0	0	0
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	433,484,335	2.95	A Shares not subject to trading moratorium	0	0	0
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	378,715,868	2.58	A Shares not subject to trading moratorium	0	0	0
7	China Communications Construction Company Ltd.	State-owned legal persons	261,024,805	1.77	A Shares not subject to trading moratorium	0	0	0
8	Shanghai Automotive Industry Corporation	State-owned legal persons	250,564,996	1.70	A Shares not subject to trading moratorium	0	0	1,700,000
9	CNOOC Investment Co., Ltd.	State-owned legal persons	205,305,070	1.40	A Shares not subject to trading moratorium	0	0	0
10	Qinhuangdao Port Group Company Ltd.	State-owned legal persons	175,950,157	1.20	A Shares not subject to trading moratorium	0	0	0
10	China Shipping (Group) Company	State-owned legal persons	175,950,157	1.20	A Shares not subject to trading moratorium	0	0	0
10	Shandong State-owned Assets Investment Holdings Company Ltd.	State-owned legal persons	175,950,157	1.20	A Shares not subject to trading moratorium	0	0	0
10	Guangdong Provincial Highways Administration Bureau	State-owned legal persons	175,950,157	1.20	A Shares not subject to trading moratorium	0	0	0

Note: (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. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Limited; Guangzhou Maritime Transport (Group) Company Ltd. is a wholly-owned subsidiary of China Shipping (Group) Company. The Company is not aware of any co-relationship of other shareholders.

IV Share Capital Structure and Shareholder Base

4.3 Details of changes in shares subject to trading moratorium

Serial No.	Name of Shareholder	Number of shares held which are subject to trading moratorium at the beginning of the period (share)	Number of shares released from trading moratorium during the reporting period (share)	Increase in the number of shares held which are subject to trading moratorium during the reporting period (share)	Number of shares held which are subject to trading moratorium at the end of the period (share)	Reasons for trading moratorium	Date on which the shares were released from trading moratorium Note 2
1	China Merchants Steam Navigation Company Ltd.	1,781,677,633	1,781,677,633	0	0	Note 1	2 March 2009
2	China Ocean Shipping (Group) Company	947,548,668	947,548,668	0	0	Note 1	2 March 2009
3	Guangzhou Maritime Transport (Group) Company Ltd.	565,359,590	565,359,590	0	0	Note 1	2 March 2009
4	Shenzhen Yan Qing Investment and Development Company Ltd.	433,484,335	433,484,335	0	0	Note 1	2 March 2009
5	Shenzhen Chu Yuan Investment and Development Company Ltd.	378,715,868	378,715,868	0	0	Note 1	2 March 2009
6	China Communications Construction Company Ltd.	261,024,805	261,024,805	0	0	Note 1	2 March 2009
7	China Shipping (Group) Company	175,950,157	175,950,157	0	0	Note 1	2 March 2009
8	CCCC Guangzhou Dredging Co., Ltd.	154,771,402	154,771,402	0	0	Note 1	2 March 2009
9	Shanghai Shipping (Group) Company	51,024,331	51,024,331	0	0	Note 1	2 March 2009
10	CCCC Fourth Harbour Engineering Co., Ltd.	21,067,429	21,067,429	0	0	Note 1	2 March 2009
11	CCCC Shanghai Dredging Co., Ltd.	16,888,294	16,888,294	0	0	Note 1	2 March 2009
12	Zhenhua Engineering (Shenzhen) Co. Ltd.	8,794,902	8,794,902	0	0	Note 1	2 March 2009
13	CCCC Third Navigational Engineering Design Institute Co. Ltd.	2,925,840	2,925,840	0	0	Note 1	2 March 2009
Total		4,799,233,254	4,799,233,254	0	0		

Note: (1) Share reform.

(2) The circulated shares subject to trading moratorium set out above should be released on 27 February 2009, which was also the date on which an extraordinary general meeting of the Company was held, such that the actual circulation date was postponed to the next trading day, being 2 March 2009.

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

As at 30 June 2009, the following persons (other than the directors, supervisors and chief executives of the Company (defines as to the Hong Kong Listing Rules)) 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Limited	A	Long	Interest of controlled corporations	2,599,932,810 [#]	1	21.58	17.68*
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	1,785,120,730 [#]	1	14.82	12.14
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Interest of controlled corporations	814,812,080 [#]	1	6.76	5.54
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	434,878,336 [#]	1		
		Long	Interest of controlled corporations	379,933,744 [#]	1		
				814,812,080 [#]		6.76	5.54
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	950,595,801 [#]		7.89	6.46
China Shipping (Group) Company	A	Long	Beneficial owner	176,515,978 [#]			
		Long	Interest of controlled corporations	618,366,092 [#]			
				794,882,070 [#]	2	6.60	5.40
JPMorgan Chase & Co.	H	Long	Beneficial owner	48,356,481			
		Long	Investment manager	291,605,249			
		Long	Custodian corporation/ approved lending agent	77,872,721			
				417,834,451	3	15.70	2.84
		Short	Beneficial owner	20,523,381	3	0.77	0.14
Barclays Global Investors UK Holdings Limited	H	Long	Interest of controlled corporations	272,454,049	4	10.23	1.85
		Short	Interest of controlled corporations	2,207,531	4	0.08	0.02

IV Share Capital Structure and Shareholder Base

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)	
Barclays PLC	H	Long	Interest of controlled corporations	272,454,049	4	10.23	1.85	
		Short	Interest of controlled Corporations	2,207,531	4	0.08	0.02	
Mirae Asset Global Investments (Hong Kong) Limited	H	Long	Investment manager	158,259,500		5.95	1.08	
UBS AG	H	Long	Beneficial owner	129,898,407				
		Long	Interest of controlled corporations	68,866,432	5			
					198,764,839		7.47	1.35
		Short	Beneficial owner	61,299,110				
		Short	Investment Manager	12,700,677				
		Short	Interest of controlled Corporations	21,874,880	5			
				95,874,667		3.60	0.65	

The above numbers of shares were recorded in the disclosure forms completed by the relevant substantial shareholders before 30 June 2009. As far as the Company is aware, during the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2009, there were some updates to the aforesaid numbers of shares, but the levels of the changes did not result in a disclosure obligation in accordance with the SFO.

* It was the number stated in the register of members. As at 30 June 2009, China Merchants Group Limited indirectly held an aggregate of 18.10% of the total issued shares of the Company, in which the A shares it held accounted for 17.90% of that of the Company and the H shares it held accounted for 0.20% of that of the Company.

IV Share Capital Structure and Shareholder Base

Notes:

- (1) China Merchants Group Limited held interest in a total of 2,599,932,810 A shares 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 Co. Ltd. held 1,785,120,730 A shares in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Limited.
 - (1.2) Shenzhen Yan Qing Investment Development Co. Ltd. held 434,878,336 A shares in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd. and China Merchants Group Limited respectively. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Limited and China Merchants Steam Navigation Co. Ltd., referred to in (1.1) above, respectively.
 - (1.3) Shenzhen Chu Yuan Investment Development Co. Ltd. held 379,933,744 A shares in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of Shenzhen Yan Qing Investment Development Co. Ltd., referred to in (1.2) above, and China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, respectively.
- (2) China Shipping (Group) Company held interest in a total of 794,882,070 A shares in the Company by virtue of its direct interest in 176,515,978 A shares in the Company and indirect interest in 618,366,092 A shares in the Company by virtue of its wholly-owned subsidiaries, which held direct interests in the Company as follows:
 - (2.1) Guangzhou Maritime Transport (Group) Company Limited held 567,177,677 A shares in the Company; and
 - (2.2) Shanghai Shipping (Group) Company held 51,188,415 A shares in the Company.
- (3) JPMorgan Chase & Co. held interest in a total of 417,834,451 H shares (Long position) and 20,523,381 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:
 - (3.1) JPMorgan Chase Bank, N.A. held 92,733,621 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.
 - (3.2) J.P. Morgan Whitefriars Inc. held 39,953,299 H shares (Long position) and 11,367,499 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc.
 - (3.3) J.P. Morgan Securities Ltd. held 4,815,000 H shares (Long position) and 4,815,000 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.
 - (3.4) J.P. Morgan Structured Products B.V. held 752,700 H shares (Short position) in the Company. J.P. Morgan Structured Products B.V. was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.

IV Share Capital Structure and Shareholder Base

- (3.5) JPMorgan Asset Management (Taiwan) Limited held 3,668,000 H shares (Long position) in the Company. JPMorgan Asset Management (Taiwan) Limited was wholly-owned by JPMorgan Asset Management (Asia) Inc., which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was wholly-owned by JPMorgan Chase & Co.
- (3.6) JF Asset Management Limited and JPMorgan Asset Management (Singapore) Limited held 50,733,149 H shares (Long position) and 3,597,100 H shares (Long position) in the Company respectively. Both of them were wholly-owned subsidiaries of JPMorgan Asset Management (Asia) Inc., referred to in (3.5) above.
- (3.7) J.P. Morgan Investment Management Inc. held 67,222,750 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.
- (3.8) JPMorgan Asset Management (UK) Limited held 151,523,350 H shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was a wholly-owned subsidiary of JPMorgan Asset Management Holdings (UK) Limited, which in turn was wholly-owned by JPMorgan Asset Management International Limited, which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.
- (3.9) J.P. Morgan Markets Limited held 3,588,182 H shares (Long position) and 3,588,182 H shares (Short position) in the Company. J.P. Morgan Markets Limited was a wholly-owned subsidiary of Bear Stearns Holdings Limited, which in turn was a wholly-owned subsidiary of Bear Stearns UK Holdings Limited. Bear Stearns UK Holdings Limited was wholly-owned by The Bear Stearns Companies LLC, which in turn was wholly-owned by JPMorgan Chase & Co.

The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 77,872,721 H shares (Long position). Besides, 23,697,999 H shares (Long position) and 12,120,199 H shares (Short position) were held through derivatives as follows:

752,700 H shares (Short position)	–	through cash settled derivatives (on exchange)
23,697,999 H shares (Long position) and 11,367,499 H shares (Short position)	–	through physically settled derivatives (off exchange)

- (4) Barclays PLC held interest in a total of 272,454,049 H shares (Long position) and 2,207,531 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:
 - (4.1) Barclays Global Investors, N.A. held 16,620,900 H Shares (Long position) and 2,207,531 H shares (Short position) in the Company. Barclays Global Investors, N.A. was a wholly-owned subsidiary of Barclays California Corporation, which in turn was a wholly-owned subsidiary of Barclays Global Investors Finance Limited, which was wholly-owned by Barclays Global Investors UK Holdings Limited. Barclays Global Investors UK Holdings Limited was owned as to 92.3% by Barclays Bank PLC, which in turn was a wholly-owned subsidiary of Barclays PLC.
 - (4.2) Barclays Global Fund Advisors held 230,223,750 H shares (Long position) in the Company. Barclays Global Fund Advisors was a wholly-owned subsidiary of Barclays Global Investors, N.A., referred to in (4.1) above.
 - (4.3) Barclays Global Investors Ltd held 25,140,899 H shares (Long position) in the Company. Barclays Global Investors Ltd was wholly-owned by Barclays Global Investors UK Holdings Limited, referred to in (4.1) above.
 - (4.4) Barclays Global Investors (Deutschland) AG held 468,500 H shares (Long position) in the Company. Barclays Global Investors (Deutschland) AG was a wholly-owned subsidiary of Barclays Global Investors Holdings Deutschland GmbH, which in turn was a wholly-owned subsidiary of Barclays Global Investors UK Holdings Limited, referred to in (4.1) above.

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- (5) UBS AG held interest in a total of 68,866,432 H shares (Long position) and 21,874,880 H shares (Short position) in the Company by virtue of its 100% control over the following corporations, which held direct interests in the Company:

Name of controlled Corporation	No. of shares	
	Long position	Short position
UBS Global Asset Management Trust Company	250,250	–
UBS Global Asset Management (Canada) Inc.	992,550	–
UBS Global Asset Management (Americas) Inc.	6,516,800	–
UBS Global Asset Management (Hong Kong) Ltd	7,011,420	–
UBS Global Asset Management (Singapore) Ltd	14,294,278	–
UBS Global Asset Management (UK) Limited	10,101,370	–
UBS Global Asset Management (Japan) Ltd	4,026,903	–
UBS Financial Services Inc.	16,500	–
UBS Securities LLC	21,874,880	21,874,880
UBS Fund Services (Luxembourg) S.A.	2,988,316	–
UBS Fund Management (Switzerland) AG	793,165	–

Among the entire interest of UBS AG in the Company, 45,846,131 H shares (Long position) and 58,703,110 H shares (Short position) were held through derivatives as follows:

282,091 H shares (Long position) and 5,073,206 H shares (Short position)	–	through physically settled derivatives (on exchange)
3,763,050 H shares (Long Position) and 1,271,050 H shares (Short position)	–	through cash settled derivatives (on exchange)
40,971,940 H shares (Long position) and 52,358,854 H shares (Short position)	–	through physically settled derivatives (off exchange)
829,050 H shares (Long position)	–	through cash settled derivatives (off exchange)

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (defines as to the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2009 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4.5 Undertakings associated with the share reform

The Company implemented a share reform (the "Conversion Scheme") on 27 February 2006. The Conversion Scheme stated the undertakings of the shareholders whose shares were subject to trading moratorium were as follows: shareholders without put obligation undertook not to trade or transfer their shares within 24 months from 27 February 2006; shareholders with put obligation undertook not to trade or transfer their shares within 36 months from 27 February 2006. In particular, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Co., Ltd. and Shenzhen Chu Yuan Investment and Development Co., Ltd. undertook not to trade or transfer their shares before the share price of the Company first reached RMB8.48 or above (after excluding rights and dividends, as the case may be) in the 12 months after expiry of the aforesaid 36-month lock-up period. The aforesaid shareholders have performed their undertakings (as mentioned above).

Shareholders with put obligation undertook that, after completion of the Conversion Scheme, they would advise the Board of Directors to formulate a long-term incentive plan including share option incentive plan, which should be implemented by the Board of Directors or first submitted to the Shareholders' General Meeting of the Company for approval and then implemented by the Board of Directors according to relevant regulations of the State.

The H-Share Appreciation Rights Scheme for the Senior Management of the Company was implemented after the approval of the Company's 2007 First Extraordinary General Meeting held on 22 October 2007. Details of the Scheme were disclosed in relevant announcements published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

4.6 Convertible bonds

Issuance and listing of convertible bonds

Upon approval of China Securities Regulatory Commission through its Zheng Jian Fa Xing Zi 【2004】 No. 155 document, the Company issued 65 million convertible bonds on 10 November 2004 with carrying value of RMB100 each, amounting to RMB6.5 billion of convertible bonds in issue. Upon approval of Shanghai Stock Exchange through its Shang Zheng Shang Zi 【2004】 No.165 document, the 65 million convertible bonds of the Company were listed and traded on 29 November 2004 under the name of "CMB Convertible Bonds" (bond code: 110036) on Shanghai Stock Exchange. The validity period for the listed convertible bonds of the Company was from 29 November 2004 to 10 November 2009.

The unconverted convertible bonds of the Company were less than RMB30 million as at 25 September 2006, and pursuant to relevant regulations, trading of "CMB Convertible Bonds" has been suspended since 29 September 2006.

Top ten holders of convertible bonds as at the end of the reporting period

Serial No.	Name of convertible bonds holder	Type of securities	Amount of convertible bonds held as at end of the reporting period (in RMB)	Percentage of total convertible bonds in issue %
1	Zhao Yanqing	Convertible bond	69,000	0.0011
2	Wan Xianghong	Convertible bond	65,000	0.0010
3	Zhang Jianfeng	Convertible bond	49,000	0.0008
4	Lu Junwen	Convertible bond	40,000	0.0006
5	Cui Qiang	Convertible bond	37,000	0.0006
6	He Guangping	Convertible bond	32,000	0.0005
7	Huang Xiaodu	Convertible bond	30,000	0.0005
8	Liang Tingjian	Convertible bond	25,000	0.0004
9	Ding Jin	Convertible bond	19,000	0.0003
10	Jiang Weiping	Convertible bond	17,000	0.0003

Note: The Company is not aware of any relationship among the top ten convertible bonds holders.

Price adjustment of convertible bonds

On 20 June 2005, pursuant to the terms of issuance set out in the prospectus of "CMB convertible bonds" and the relevant rules and regulations on the issuance of convertible bonds by CSRC, the Company implemented the Profit Appropriations Scheme for 2004, pursuant to which RMB1.1 (tax included) in cash was distributed for every 10 shares held. The capital reserve was converted into share capital in the proportion of 5 shares for every 10 shares held. Accordingly, the conversion price of "CMB Convertible Bonds" was adjusted from RMB9.34 per share to RMB6.23 per share (details of which were set out in the "Special Indicative Announcement on Adjustment to the Conversion Price of Convertible Bonds of China Merchants Bank Co., Ltd." published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 14 June 2005).

The Company implemented the Share Reform on 24 February 2006, pursuant to which capital reserve was converted into share capital in the proportion of 0.8589 bonus shares for every 10 shares held, and the conversion price of "CMB Convertible Bonds" was adjusted downward from RMB6.23 per share to RMB5.74 per share accordingly (details of which were set out in the "Special Indicative Announcement on Adjustment to the Conversion Price of Convertible Bonds of China Merchants Bank Co., Ltd." published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 22 February 2006).

On 3 July 2009, the Company implemented the Profit Appropriations Scheme for 2008, pursuant to which RMB1 (tax included) in cash was distributed for every 10 shares held together with a bonus issue of 3 bonus shares for every 10 shares held. Accordingly, the conversion price of "CMB Convertible Bonds" was adjusted from RMB5.74 per share to RMB4.42 per share (details of which were set out in the "Special Indicative Announcement on Adjustment to the Conversion Price and Resumption of Conversion of Convertible Bonds of China Merchants Bank Co., Ltd." published on the newspapers and websites designated by the Company for information disclosure on 29 June 2009).

Conversion of convertible bonds

The "CMB convertible bonds" could be converted into shares starting from 10 May 2005. As at 30 June 2009, "CMB convertible bonds" (110036) amounting to RMB6,498,282,000 were converted into share of "CMB" (600036). The number of converted shares (including shares enlarged by capital reserve) were 1,043,701,547. The amount of convertible bonds was RMB1,828,000 at the beginning of the reporting period. The number of converted shares was 19,154 and the amount of which was RMB110,000 during the reporting period. The outstanding "CMB convertible bonds" amounted to RMB1,718,000, representing 0.03% of the total issued amount of the "CMB convertible bonds".

V Directors, Supervisors, Senior Management, Employees and Organizational Structure

5.1 Directors, supervisors and senior management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the reporting period (shares)	Shareholding at the end of the reporting period (shares)
Qin Xiao	Male	1947.4	Chairman & Non-Executive Director	2007.6-2010.6	0	0
Wei Jiafu	Male	1949.12	Vice Chairman & Non-Executive Director	2007.6-2010.6	0	0
Fu Yuning	Male	1957.3	Non-Executive Director	2007.6-2010.6	0	0
Li Yinquan	Male	1955.4	Non-Executive Director	2007.6-2010.6	0	0
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2010.6	0	0
Ding An Hua, Edward	Male	1964.4	Non-Executive Director	2007.6-2010.6	0	0
Sun Yueying	Female	1958.6	Non-Executive Director	2007.6-2010.6	0	0
Wang Daxiong	Male	1960.12	Non-Executive Director	2007.6-2010.6	0	0
Fu Junyuan	Male	1961.5	Non-Executive Director	2007.6-2010.6	0	0
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2007.6-2010.6	0	0
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2007.6-2010.6	0	0
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2007.6-2010.6	0	0
Wu Jiesi	Male	1951.10	Independent Non-Executive Director	2007.6-2010.6	0	0
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2008.1-2010.6	0	0
Yan Lan	Female	1957.1	Independent Non-Executive Director	2007.6-2010.6	0	0
Chow Kwong Fai, Edward	Male	1952.8	Independent Non-Executive Director	2007.6-2010.6	0	0
Liu Yongzhang	Male	1956.12	Independent Non-Executive Director	2007.6-2010.6	0	0
Liu Hongxia	Female	1963.9	Independent Non-Executive Director	2007.6-2010.6	0	0
Shi Jiliang	Male	1945.2	Chairman of Board of Supervisors and External Supervisor	2007.6-2010.6	0	0
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2007.6-2010.6	0	0
Chen Haoming	Male	1966.3	Shareholder Supervisor	2007.6-resignation	0	0
Li Jiangning	Male	1959.4	Shareholder Supervisor	2007.6-2010.6	0	0
Dong Xiande	Male	1947.2	Shareholder Supervisor	2007.6-2010.6	0	0
Shao Ruiqing	Male	1957.9	External Supervisor	2007.6-2010.6	0	0
Yang Zongjian	Male	1957.4	Employee Supervisor	2007.6-2010.6	0	0
Shi Shunhua	Male	1962.12	Employee Supervisor	2007.6-2010.6	0	0
Zhou Song	Male	1972.4	Employee Supervisor	2008.8-2010.6	33,500 ^{Note}	33,500 ^{Note}
Tang Zhihong	Male	1960.3	Executive Vice President	2007.6-2010.6	0	0
Yin Fenglan	Female	1953.7	Executive Vice President	2007.6-2010.6	0	0
Ding Wei	Male	1957.5	Executive Vice President	2008.4-2010.6	0	0
Zhu Qi	Male	1960.7	Executive Vice President	2008.11-2010.6	0	0
Tang Xiaoqing	Male	1954.8	Secretary of Party Discipline Committee	2008.12 to present	0	0
Wang Qingbin	Male	1956.12	Executive Assistant President	2009.5 to present	0	0
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 to present	0	0
Fan Peng	Male	1953.2	Chief Audit Officer	2007.6-2010.6	0	0
Lan Qi	Male	1956.6	Secretary of Board of Directors	2007.6-2010.6	0	0

Note: The shares held by Mr. Zhou Song during the reporting period were A shares of the Company.

5.2 Appointment and resignation of directors, supervisors and senior management

Mr. Wang Qingbin was appointed as Executive Assistant President of the Company with effect from 19 May 2009, the qualification of Mr. Wang Qingbin as Executive Assistant President was approved by the CBRC Shenzhen Bureau.

The Company's former Shareholder Supervisor, Mr. Chen Haoming, resigned from a shareholder company due to work reassignment, as such, Mr. Chen resigned as Shareholder Supervisor of the Company on 21 July 2009, details of which were set out in the announcement dated 22 July 2009 published by the Company in newspapers and websites which were designated for information disclosure.

5.3 H share appreciation rights incentive scheme

To further establish and enhance its incentive system, and to combine the interest of shareholders, the Company and the senior management, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 1st Extraordinary General Meeting of 2007 held on 22 October 2007. On 30 October 2007, the Board of the Company made the first grant under the scheme.

On 7 November 2008, the Board of the Company made the second grant of the H Share Appreciation Rights. The target and proportion for the grants are as follows:

No.	Name	Title	Number of share appreciation rights granted (in ten thousand)	Percentage of target shares in respect of granted appreciation rights in total shares	Percentage of granted appreciation rights to total appreciation rights for the period
1	Ma Weihua	President	30	0.0020%	22.73%
2	Zhang Guanghua	Executive Vice President	15	0.0010%	11.36%
3	Li Hao	Executive Vice President	15	0.0010%	11.36%
4	Tang Zhihong	Executive Vice President	15	0.0010%	11.36%
5	Yin Fenglan	Executive Vice President	15	0.0010%	11.36%
6	Ding Wei	Executive Vice President	15	0.0010%	11.36%
7	Xu Lianfeng	Chief Technology Officer	9	0.0006%	6.82%
8	Fan Peng	Chief Audit Officer	9	0.0006%	6.82%
9	Lan Qi	Secretary of Board of Directors	9	0.0006%	6.82%
Total			132	0.009%	100.00%

These H share appreciation rights are granted at the price of HK\$12.76 and will remain valid for ten years effective from 7 November 2008, within which two years from 7 November 2008 is defined as a restricted exercising period, when no share appreciation rights can be exercised. The effective exercising period is 8 years after the expiry of the restricted exercising period. During the first 4 years of the effective exercising period, the annual effective exercisable rights is 25% of the total granted rights. The effective exercisable share appreciation rights granted are exercisable from the effective date till the date of expiry. Under the incentive scheme, the management may exercise their effective exercisable share appreciation rights once and for all or in several tranches. The share appreciation rights shall only be exercised within the exercising period. As at 30 June 2009, the closing price of the Company's H Shares was HK\$17.74.

V Directors, Supervisors, Senior Management, Employees and Organizational Structure

5.4 Employee Information

As at 30 June 2009, the number of the Company's employees were 37,416, including 5,986 executives, 27,457 ordinary employees and 3,973 administrative staff, among which 35,604 employees have received higher education, accounting for 95.16%. Currently, retirees numbered 111.

5.5 Branches and representative offices

The Company continued its organic expansion in 2009. In the first half of 2009, 2 branches commenced business and the Company received approval for setting up another branch and a representative office, and 3 non-local sub-branches were approved to be upgraded to branches. Specifically, on 1 April 2009, the Company's Wuhu Branch was given an approval by CBRC Anhui Bureau to commence business; and on 21 May 2009, the Company's Qujing Branch was approved by CBRC Yunnan Bureau to commence business. On 17 April 2009, the Company obtained the approval from CBRC to set up its Yulin Branch. On 21 April 2009, the Company obtained the approval from CBRC to set up its London Representative Office. In addition, on 30 April 2009, the Company's Dandong Sub-branch obtained the approval from CBRC to upgrade to branch; and on 25 May 2009, the Company's Yichang Sub-branch and Huangshi Sub-branch obtained the approval from CBRC Hubei Bureau to upgrade to branches.

In the second half of the year, the Company will continue to expand its network according to the annual plan, and preparations will be made for setting up of Shijiazhuang and Guiyang branches.

The following table sets out the branches and representative offices as at 30 June 2009

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Assets scale (in millions)
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,973	703,042
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	69	2,674	127,127
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	52	2,556	97,114
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	27	1,267	41,708
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	47	2,321	100,861
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	20	1,108	36,261
Guangzhou Branch	138, Tiyu Road East, Tianhe District, Guangzhou	510620	38	1,477	35,691
Chengdu Branch	248, Shuncheng Street, Qingyang District, Chengdu	610016	24	927	27,084
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	16	593	14,594
Xi'an Branch	107 Heping Road, Xi'an	710001	22	956	24,713
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	20	989	30,154
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	391	19,235
Changzhou Branch	125 Heping Road South, Changzhou	213003	5	173	6,392
Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	4	146	4,635
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	12	510	30,764
Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	1	62	4,681
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	24	960	25,034
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	16	617	20,445
Hangzhou Branch	23 Hangda Road, Hangzhou	310007	22	1,099	67,602
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	11	521	32,399
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	9	347	12,056
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	7	256	10,943
Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	3	128	4,285

V Directors, Supervisors, Senior Management, Employees and Organizational Structure

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Assets scale (in millions)
Taizhou Branch	535 Shifu Road, Taizhou	318000	2	111	3,046
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	19	678	19,734
Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	20	810	23,014
Fuzhou Branch	60 Guping Road, Fuzhou	350003	13	561	30,907
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Fengze District, Quanzhou	362000	6	231	4,538
Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	16	764	25,723
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	21	883	23,544
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	714	26,510
Yantai Branch	237 Nanda Street, Yantai	264000	6	202	5,736
Weifang Branch	5151 Shengli Street East, Weifang	261041	1	84	3,680
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	395	11,422
Kunming Branch	48 Dongfeng Road East, Kunming	650051	18	660	35,114
Qujing Branch	Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	1	40	331
Hefei Branch	436 Changjiang Road Central, Hefei	230061	14	517	34,370
Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	1	70	1,076
Xiamen Branch	862 Xiahe Road, Xiamen	361004	11	417	19,339
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	12	459	9,660
Zhengzhou Branch	68 Jingsan Road, Zhengzhou	450008	13	488	22,162
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	13	538	18,032
Foshan Branch	1-3/F, Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	10	454	13,311
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	4	228	5,751
Hohhot Branch	56 Xinhua Street, Hohhot	010010	4	203	7,954
Changchun Branch	1111 Ziyu Avenue, Zhaoyang District, Changchun	130026	1	91	7,836
Nanning Branch	92-1 Minzu Avenue, Nanning	530022	1	98	1,163
Hong Kong Branch	12 Harcourt Road, Hong Kong	–	1	88	24,194
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	8	1
USA Representative Office	509 Madison Avenue, Suite 306, New York, NY10022, U.S.A	–	1	1	1
New York Branch	535 Madison Avenue, 18th Floor, New York, NY10022, U.S.A	–	1	30	260
Credit Card Centre	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,426	32,426
Credit Centre for Small Sized Enterprises	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	116	1,303
Total	–	–	702	37,416	1,888,958

6.1 Overview of corporate governance

The Company is committed to steady improvement of its corporate governance to ensure sustainable development and compliance with relevant regulations.

During the reporting period, the Company convened a total of 29 meetings, including 2 general meetings, 9 board meetings (1 physical meeting and 8 by way of written resolutions), 14 special committees meetings of the Board of Directors (2 of the Strategy Committee, 2 of the Risk Management Committee, 2 of the Audit Committee, 7 of the Related Party Transactions Control Committee, 1 of the Remuneration and Appraisal Committee), 4 meetings of the Board of Supervisors (1 physical meeting, 2 by way of written resolutions, 1 in the form of research and investigation). During the meetings, 36 proposals were reviewed, and 10 reports were made. The company's procedure function has been fully performed, thus strongly supporting our business development.

In addition, the Company has made efforts to enhance its corporate governance in the following aspects:

1. The Company has attentively studied the problems existing in corporate governance which were pointed out by the CBRC in its "2008 Regulatory Report for China Merchants Bank". In order to tackle those problems, the Company has fully communicated and exchanged views with CBRC Shenzhen Bureau. During the reporting period, the Company clarified or supplemented the terms of appointment of directors, the quantified attendance requirements of directors at meetings and the establishment of evaluation system for the supervisor's performance by making amendments to the Articles of Association to better meet the requirements of corporate governance.
2. All special committees meetings of the Board of Directors have carried out their duties in an independent, compliant and effective manner. They have also studied and reviewed a series of significant proposals for sustainable development of the Company, which has improved the efficiency of the Board and better informed the decision-making of the Board. During the reporting period, the special committees organized a total of 14 meetings, at which 19 special proposals were reviewed and 12 specific reports were heard and studied. In particular, the Strategy Committee reviewed the special proposals relating to the issuance of the Company's capital bonds, the establishment of new outlets and the operation of Wing Lung Bank; the Remuneration and Appraisal Committee – reviewed the special proposals related to the termination of the Company's Restricted A Share Incentive Scheme and the remuneration package for senior management; the Audit Committee reviewed the special proposals related to the Company's annual report and the audited financial statements of 2008, the audit report on the whole bank for 2008, the work plan of the audit department for 2009, and the self-assessment report on internal control for 2008; the Risk Management Committee reviewed the special proposals relating to bad debts written off by the Company for 2008, the management of credit risks and market risks for 2008 and the first quarter of 2009, the implementation of New Basal Capital Accord for 2008 and the work plan for 2009, the medium-term plan on the capital management for 2009 to 2011, and formulation of the strategy regarding the management of consolidated statements; the Related Party Transactions Control Committee reviewed the special proposals in relation to the Company's report on the related party transactions for 2008, the audit report on related party transactions for 2008 and the management plan for related party transactions for 2009.
3. The Board of Supervisors visited Nanchang Branch and carried out research on issues regarding loan origination, the development of internal control and crime prevention from January to April of 2009, so as to study and analyse the branch's implementation of the credit policies promulgated by the Head Office.

After a thorough self-inspection, no inconsistency was found between corporate governance practice and requirements set out in CSRC's regulatory documents governing public listed companies. There were no undisciplined practices in the Company's corporate governance, nor was any information disclosed to its major shareholders or actual controller before it was revealed to the public.

During the reporting period, the Company has fully complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Hong Kong Listing Rules, and has been dedicated to maintaining a high standard corporate governance.

6.2 Information about general meetings

During the reporting period, the Company convened its 2009 First Extraordinary General Meeting and 2008 Annual General Meeting in Shenzhen on 27 February 2009 and 19 June 2009 respectively. The notice and the convening, holding and voting procedures of the meetings all complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on *China Securities Journal*, *Shanghai Securities News*, *Securities Times*, and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 28 February 2009 and 20 June 2009 respectively.

6.3 Meetings held by the Board and its special committees

During the reporting period, the seventh session of the Board of the Company held its 33rd, 34th, 35th, 36th, 37th, 38th, 39th, 40th and 41st meeting.

During the reporting period, the special committees of the Board of the Company held a total of 14 meetings, including 2 Strategy Committee meetings, 1 Remuneration and Appraisal Committee meeting, 2 Risk Management Committee meetings, 2 Audit Committee meetings and 7 Related Party Transactions Control Committee meetings. During the reporting period, the special committees reviewed 19 special proposals, heard and studied 12 special work reports.

6.4 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 as at 30 June 2009.

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 said guidelines by employees.

6.5 Board of Supervisors

During the reporting period, the seventh session of the Board of Supervisors of the Company held its 12th, 13th and 14th meeting, and carried out one special investigation.

6.6 Internal audit and internal control

6.6.1 Description of a complete, reasonable and effective internal control system

In line with the requirements of relevant laws, regulations and rules, and taking into account the asset structure, operation mode and business characteristics of the Company, the Company has established an organizational structure with “the general meeting, the Board of Directors, the Board of Supervisors and the senior management” as the main management team, and an internal control system involving all of its employees. The Board of Directors is responsible for formulating the basic rules of internal control and supervising the implementation of the rules; under authority delegated by the Board of Directors, the Risk Management Committee and the Audit Committee are responsible for internal control management while the auditing department evaluates the effectiveness of the internal control system.

During the reporting period, the Company has strengthened the basic system of corporate governance, and improved the mechanism of periodic communication among “the general meeting, the Board of Directors, the Board of Supervisors and the senior management” and the designated committees as well as the mechanism to check and balance decision-making process; improved its authorization management system by strictly implementing hierarchical delegation and supervision mechanism; strengthened the implementation of internal control system, and linked it with performance assessment so as to strictly implement accountability while effectively carrying out the incentive scheme; based on the principles of comprehensiveness, relevance and compliance, the Company regularly identifies and assesses risks related to business operation and evaluates the status of internal control so as to ensure rigorous implementation of internal control policies in every link including decision-making, execution, supervision and feedback and ensure the legal compliance of operation and management and the safety of assets. This constitutes the internal control mechanism which ensures scientific decision, sound functioning, effective supervision and perfect governance that cover all institutions, departments and positions.

The Company has put in place an effective risk control system, which ensures that risks incurred in operation and the realization of internal control targets are within the Company's risk appetite. During the reporting period, the Company continued to improve business operations standards while adhering to the principle of putting regulations and internal control first. The Company revised the auditing and evaluation measures for internal control. The Company's branches were required to evaluate internal control and review its current management status of internal control; the Company developed systems and tools for the management of operational risk pursuant to the New Basel Capital Accord and relevant requirements of the CBRC; carried out bank-wide procedure reforms and optimized resources allocation according to the principle of separation of the front office, core forces and back office, streamlined and improved procedures of credit, accounting and retail; continued to upgrade the hardware facilities and software systems of computers so as to enhance the support and control of IT technology on operating activities and risk management; the Company launched special audit survey covering credit, accounting and finance, carried out thorough examinations of each business segment of the Company including investigations into anti-money laundering and operational risk to improve the internal control system. With the improvement of State legal system and its own development, the Company will continue to improve its internal control and make it more comprehensive, rational and effective.

The Company standardized its accounting practice, thus ensuring the authenticity and completeness of accounting information, the authenticity and fairness in preparing its financial statements. The Company complied with the principles of authenticity, accuracy, completeness and timeliness in information disclosure, ensuring effective communications within the Company and that between the Company and external parties.

As reviewed by the Board of the Company, no major defects have been identified in the Company's internal control system which made it less comprehensive, rational and effective.

The Board of Supervisors concurs with the Board of Directors in the description of the completeness, reasonableness and validity of the internal control system of the Company and the implementation particulars thereof.

6.6.2 Internal audit

The internal auditing department of the Company is responsible for inspecting and assessing all the business and management activities of the Company independently and providing improvement suggestions to the senior management. The Company has established four auditing sub-departments in Beijing, Shanghai, Shenzhen and Xi'an, which are directly under the administration of the Head Office, and auditing divisions in each branch. The Head Office vertically manages all auditing sub-departments and auditing divisions in each branch. The internal auditing department of the Company, which is an independent operating and management unit, reports directly to the Board of Directors, Board of Supervisors and the President. The Company has established internal auditing mechanism based on the Internal Auditing Prospectus of China Merchants Bank Co., Ltd. and is composed of general rules, operation rules and working standards. It has also established an inspection system combining on-site auditing and off-site auditing.

In the first half of 2009, the auditing department of the headquarters and those of branches conducted a total of 349 on-site audits, including 305 regular audits, 18 special audits and 26 resignation audits. These audits covered credit, accounting, personal assets, retail banking, financial management and IT risk management. The Company has assessed the adequacy, compliance, effectiveness and appropriateness of the internal control of the audited departments by measuring 5 key elements. In order to tackle problems identified in such audits, the Company continued to follow up and required the entities being audited to conduct rectifications, tracked the accountabilities of the responsible employees, and reinforced the roles of the business line management departments of the Head Office and branches in rectification.

7.1 Implementation of profit appropriation of the year 2008

The annual general meeting of 2008 held on 19 June 2009 passed the Company's Profit Appropriation Plan for Year 2008 as follows: 10% of the Company's profit after tax of RMB20.412 billion as stated in the audited financial statement (domestic section) was appropriated to statutory surplus reserve, totaling RMB2.041 billion. Regulatory general reserve was RMB1.40 billion. Profits distributable to shareholders for the year was RMB24.874 billion. Based on the total share capital of A shares and H shares, the Company issued 3 bonus shares for every 10 shares, and declared a cash dividend (including tax) of RMB1.00 (denominated and declared in RMB) for every 10 shares, payable in RMB for A share-shareholders and in HKD for H share-shareholders. The Board of Directors of the Company has already implemented the above-mentioned appropriation plan. For further details relating to the implementation, please refer to the announcements published by the Company on designated newspapers and websites for information disclosure on 26 June, 29 June, and 4 July 2009 respectively.

7.2 Interim dividend appropriation for the year 2009

The Company did not propose to distribute 2009 interim dividend or bonus shares or did not propose to capitalize the capital reserve (for January-June 2008: Nil).

7.3 Companies in which the Company holds controlling interest and other investee companies

Shareholdings in non-listed financial companies

Name of companies	Initial investment (RMB)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB)	Profits/ (losses) for the reporting period (RMB)	Changes in owners' equity for the reporting period (RMB)	Origination of shares
Wing Lung Bank Limited	32,081,936,899	100.00	231,028,792	30,313,857,679	273,472,546	557,349,040	Equity investment
CMB International Capital Corporation Limited	250,520,000	100.00	250,000,000	250,520,000	4,379,635	2,898,697	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	2,000,000,000	100.00	N/A	2,000,000,000	18,966,760	18,966,760	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914,400	33.40	70,000,000	284,247,813	20,411,348	23,023,379	Equity investment
Taizhou City Commercial Bank Co., Ltd.	306,671,377	10.00	90,000,000	345,708,204	-	-	Equity investment
China UnionPay Co., Ltd.	155,000,000	3.80	110,000,000	155,000,000	3,400,000	-	Equity investment

VII Report of the Board of Directors

Name of companies	Initial investment (RMB)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB)	Profits/(losses) for the reporting period (RMB)	Changes in owners' equity for the reporting period (RMB)	Origination of shares
EPS Company (Hong Kong) Limited	HK\$8,400,000	2.10	2	HK\$8,400,000	–	–	Equity investment
Yantai City Commercial Bank Corporation Limited	189,620,000	4.99	99,800,000	189,620,000	–	–	Equity investment
Bank Consortium Holdings Ltd.	HK\$20,000,000	13.33	20,000,000	HK\$59,888,021	HK\$2,025,655	HK\$18,756	Equity investment
Joint Electronic Teller Services Limited	HK\$2,000,000	2.88	20,000	HK\$7,803,495	HK\$467,607	–	Equity investment
Hong Kong Life Insurance Ltd.	HK\$70,000,000	16.67	70,000,000	HK\$58,840,766	HK\$(2,676,331)	HK\$4,524,634	Equity investment
BC Reinsurance Limited	HK\$21,000,000	21.00	21,000,000	HK\$31,878,588	HK\$7,744,819	–	Equity investment
Professional Liability Underwriting Services Limited	HK\$810,000	27.00	810,000	HK\$3,708,390	HK\$1,204,346	HK\$12,227	Equity investment
Equity Underwriters Limited	HK\$2,172,500	40.00	1,580,000	HK\$2,551,842	HK\$1,201,750	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK\$136,000	0.35	136,000	HK\$136,000	–	–	Equity investment
AR Consultant Service Ltd.	HK\$4,023,349	8.70	100,000	HK\$6,341,999	–	–	Equity investment
Luen Fung Hang Life Limited	MOP6,000,000	6.00	60,000	MOP6,000,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK\$570,000	3.00	N/A	HK\$570,000	–	–	Equity investment
I-Tech Solutions Limited	HK\$3,000,000	50.00	3,000,000	HK\$4,496,784	HK\$35,116	–	Equity investment

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

Securities investments

Stock code	Abbreviation	Currency	Initial investment (RMB)	Shareholdings at end of period (shares)	Carrying value at the end of the period (RMB)	Percentage of total investment at the end of the period (%)	Gain/(loss) for the reporting period (RMB)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK\$	416,891	983,500	118,806,800	43.97	53,134,577
03988.HK	Bank of China Ltd.	HK\$	35,864,798	12,000,000	44,160,000	16.34	–
00939.HK	China Construction Bank Corporation	HK\$	7,138,971	3,000,000	18,000,000	6.66	–
02778.HK	Champion Real Estate Investment Trust	HK\$	31,754,586	6,164,000	15,594,920	5.77	–
00011.HK	Hang Seng Bank Ltd.	HK\$	114,987	86,667	9,412,036	3.48	–
02388.HK	BOC Hong Kong (Holdings) Limited	HK\$	5,902,031	687,000	9,315,720	3.45	–
00005.HK	HSBC Holdings plc	HK\$	7,033,220	105,763	6,943,341	2.57	–
00006.HK	Hong Kong Electric Holdings Limited	HK\$	1,199,905	132,690	5,725,574	2.12	–
01398.HK	Industrial and Commercial Bank of China Limited	HK\$	3,271,890	800,000	4,320,000	1.60	–
00883.HK	CNOOC Limited	HK\$	2,320,821	376,000	3,613,360	1.34	–
Other securities investments at the end of the period		HK\$	23,691,747	496,578	34,332,869	12.70	505,699
Total		HK\$	118,709,847	24,832,198	270,224,620	100.00	53,640,276

- Notes: 1. The above table ranked the securities according to their carrying values at the end of the period to show the top 10 holdings;
2. Other securities investments refer to those other than the top 10 holdings.

7.4 Shareholdings and trading in equity interest of other listed companies

During the reporting period, apart from the acquisition of equity interest in WLB as disclosed herein, the Company had not held or traded any equity interest of other listed companies.

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

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

7.6 Use of raised fund and major investment not financed by raised fund Use of fund raised from H Shares

The Company issued 2,200,000,000 H Shares at face value of RMB1 per share at the price of HK\$8.55 per share on 22 September 2006 which were listed and tradable on the Hong Kong Stock Exchange, and through the exercise of the over-allotment option, issued 220,000,000 H Shares of RMB1 per share at the price of HK\$8.55 per share on 27 September 2006 which were listed and tradable on the Hong Kong Stock Exchange, raising net proceeds of RMB20.505 billion. All the proceeds had been received as of 5 October 2006. According to the commitments stated in the Prospectus, the funds raised were used completely as additional capital to enhance capital adequacy ratio and the capacity of risk resistance.

Use of funds raised from the issue of RMB30 billion subordinated debts

According to the approval documents "Approval of Issuing Subordinated Debts by China Merchants Bank" (Yin Jian Fu 【2008】 No. 304) issued by CBRC and "Determination on Administration Approval by the People's Bank of China" (Yin Shi Chang Xu Zhun Yu Zi 【2008】 No. 25), the Company successfully issued subordinated debts in the amount of RMB30 billion to institutional investors in the PRC interbank bond market on 4 September 2008.

The funds raised from the issue of subordinated debts were mainly used as additional capital to consolidate the capital base, to strengthen the supplementary capital and to enhance capital adequacy of the Company, in accordance with the applicable laws and approvals granted by the regulatory authorities.

Major investments not financed by raised fund

As of 30 June 2009, the total investment in Shanghai Lujiazui Project was RMB799 million, of which RMB147 million was invested during the reporting period.

7.7 Interests and short positions of directors and supervisors

As at 30 June 2009, the interests and short positions of the Directors and Supervisors 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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and Supervisors 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 share held in issue (%)	Percentage of all issued share (%)
Zhou Song	Supervisor	A	Long position	Beneficial owner	33,500	0.00028	0.00023

Save as disclosed above, as at 30 June 2009, none of the Directors or Supervisors held or was deemed to hold any interests or short positions in the shares, and underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the Directors or Supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

7.8 Disciplinary actions imposed on the Company, directors, supervisors and senior management

During the reporting period, none of the Company, its directors, supervisors or senior management was subject to investigation by relevant authorities nor subject to mandatory measures imposed by judicial organs or discipline inspection authorities. None of them was referred or handed over to judicial authorities or being prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, prohibited from engagement in the securities markets, given circulated notice of criticism, nor determined as unqualified. None of them has been penalized by other administrative authorities nor publicly censured by any stock exchange.

7.9 Undertakings made by the Company

The Company has no undertakings which need to be notified during the reporting period.

7.10 Significant connected transactions

7.10.1 Overview of connected transactions

All the connected transactions of the Company have been conducted on normal commercial terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company in the reporting period were those conducted between the Company and CIGNA & CMC Life Insurance Company Limited (“CIGNA & CMC Life Insurance”), China Merchants Fund Management Company Limited (“CMFM”) and China Merchants Securities Company Limited (“CM Securities”), respectively.

7.10.2 Non-exempt continuing connected transactions

CIGNA & CMC Life Insurance

The insurance marketing agency services between the Company and CIGNA & CMC Life Insurance constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

China Merchants Steam Navigation Company Limited, a wholly-owned subsidiary of China Merchants Group Limited (“CM Group”), is one of the promoters and a substantial shareholder of the Company. CM Group holds approximately 18.10% indirect equity interest in the Company (including the deemed interest held via affiliates). CM Group is an indirect controlling shareholder of Shenzhen Municipal Dingzun Investment Advisory Company, Ltd. (“Dingzun”), which in turn holds 50% equity interest in CIGNA & CMC Life Insurance. Pursuant to the Hong Kong Listing Rules, CIGNA & CMC Life Insurance is an associate of the connected person of the Company and therefore a connected person of the Company.

Pursuant to the share transfer agreement signed by Dingzun and the Company on 5 May 2008, the Company would acquire from Dingzun its 50% equity interest in CIGNA & CMC Life Insurance for a consideration of RMB141,865,000 (please refer to the Company’s announcement dated 5 May 2008 and the Company’s circular dated 13 May 2008). The principal business of CIGNA & CMC Life Insurance includes life insurance, accidents insurance and health insurance products. The completion of the acquisition is subject to the approvals from the independent shareholders of the Company and the regulatory authorities. After the completion of the acquisition, CIGNA & CMC Life Insurance will become a non-wholly-owned subsidiary of the Company. The future financial statements of CIGNA & CMC Life Insurance will be consolidated into the Company’s financial statements. The independent shareholders have granted their approvals for the acquisition. However, as at the date of this report, the regulatory authorities have not yet granted their approvals. Prior to the completion of the acquisition by the Company, the agency services conducted by the Company related to the sale of insurance products of CIGNA & CMC Life Insurance constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

Upon approval of the Board of Directors of the Company, the Company entered into the co-operation agreement on 5 January 2009 with CIGNA & CMC Life Insurance for a term commencing on 1 January 2009 and expiring on 31 December 2011. The agreement was entered into on normal commercial terms. The service fees payable by CIGNA & CMC Life Insurance to the Company pursuant to the service co-operation agreement should be determined in accordance with the following pricing policies:

- (1) to follow the fee as prescribed by the PRC Government; or
- (2) where there is no PRC Government prescribed fee, but a Government guidance fee exists, to follow the Government guidance fee; or
- (3) where there is neither a PRC Government prescribed fee nor a Government guidance fee, to follow the fees to be agreed between the parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CIGNA & CMC Life Insurance for each of 2009, 2010 and 2011 was set at RMB500,000,000 less than 2.5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be only subject to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2009, the aggregate amount of the connected transactions between the Company and CIGNA & CMC Life Insurance totaled RMB38,600,000.

CMFM

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

Pursuant to the share transfer agreement signed in June 2006, the Company acquired 33.4% of the equity interest in CMFM. After the acquisition, each of CM Securities and ING Asset Management B.V. held 33.3% of the equity interest in CMFM (please refer to the Company's announcement dated 6 July 2007). The Company's acquisition of the 33.4% equity interest in CMFM was completed on 28 August 2007. Pursuant to the Hong Kong Listing Rules, CMFM is an associate of the connected person of the Company and therefore a connected person of the Company.

Upon approval of the Board of Directors of the Company, the Company entered into an agency sales agreement with CMFM on 5 January 2009 for a term commencing on 1 January 2009 and expiring on 31 December 2011. The agreement was entered into on normal commercial terms. The agency service fees payable to the Company by CMFM pursuant to the service cooperation agreement would be on an arm's length basis and calculated on normal commercial terms, having regard to the fees and charges specified in the funds offering documents and/or the offering prospectus.

The annual cap of the continuing connected transactions between the Company and CMFM for each of 2009, 2010 and 2011 was set at RMB800,000,000, less than 2.5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2009, the aggregate amount of the connected transactions between the Company and CMFM amounted to RMB53,710,000.

CM Securities

The provision of third-party custodian account, the wealth management agency services and collective investment products between the Company and CM Securities constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

China Merchants Steam Navigation Company Limited is one of the promoters and a substantial shareholder of the Company. CM Group holds 100% and 51.65% equity interest in China Merchants Steam Navigation Company Limited and CM Securities respectively, and holds approximately 18.10% of indirect equity interest in the Company (including the deemed interest held via affiliates). Pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

Upon approval of the Board of Directors of the Company, the Company entered into a service co-operation agreement with CM Securities on 5 January 2009 for a term commencing on 1 January 2009 and expiring on 31 December 2011. The agreement was entered into on normal commercial terms. The service fees payable by CM Securities to the Company pursuant to the service co-operation agreement should be determined in accordance with the following pricing policies:

- (1) to follow the fee as prescribed by the PRC Government; or
- (2) where there is no PRC Government prescribed fee, but a Government guidance fee exists, to follow the Government guidance fee; or
- (3) where there is neither a PRC Government prescribed fee nor a Government guidance fee, to follow the fees to be agreed between the parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CM Securities for each of 2009, 2010 and 2011 was set at RMB1,000,000,000 which is less than 2.5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2009, the aggregate amount of the connected transactions between the Company and CM Securities amounted to RMB153,420,000.

The independent non-executive directors of the Company had reviewed the above-mentioned non-exempt continuing connected transactions between the Company and each of CIGNA & CMC Life Insurance, CMFM and CM Securities, respectively, and confirmed that:

- (1) the transactions were conducted in the ordinary and usual course of business of the Company;
- (2) the terms of the connected transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole;
- (3) the transactions were entered into on normal commercial terms and conditions which were no less favorable than offered to independent third parties; and
- (4) the transactions were conducted in accordance with terms of relevant agreements.

Details of the aforesaid connected transactions were set out in the Company's announcement in respect of continuing connected transactions dated 5 January 2009.

7.11 Material litigation and arbitration

As of 30 June 2009, the number of pending litigation and arbitration cases involving the Company totaled 3,387, with a total principal amount of RMB1,553,673,500 and interest of 95,393,000. In particular, there were a total of 72 pending litigation and arbitration cases against the Company as at 30 June 2009, with a total principal amount of RMB357,431,600 and total interest of RMB1,850,200. There are three pending cases with a principal amount exceeding RMB100,000,000, with an aggregate amount of RMB416,144,800.

7.12 Major contracts

None of the material contracts of the Company is involved in holding in custody or hiring or leasing any assets of other companies and vice versa outside the Company's regular business scope. All guarantee contracts have been entered into in the course of the Company's regular guarantee businesses within the regular operation scope. The Company is not aware of any significant guarantee or illegal guarantee for its subsidiaries.

7.13 Significant event in respect of fund entrusting

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

7.14 Major activities in asset acquisition, disposal and reorganization

7.14.1 Progress of acquisition of WLB

On 15 January 2009, the Company completed the mandatory acquisition of WLB which then became a wholly-owned subsidiary of the Company. WLB withdrew the listing of its shares on the Hong Kong Stock Exchange effective from 16 January 2009. For further details of the acquisition, please refer to the announcements published by the Company on designated newspapers and websites for information disclosure.

For details of WLB's operation and progress of integration, please refer to section headed "Business of Wing Lung Group" herein.

7.14.2 Progress of acquisition of CIGNA & CMC Life Insurance

In order to further optimize revenue structure, broaden operation channels and enhance comprehensive competitive edge, the Company and Dingzun entered into a share transfer agreement on 5 May 2008, pursuant to which the Company agreed to acquire from Dingzun its 50% equity interests in CIGNA & CMC Life Insurance for a consideration of RMB141,865,000.

China Merchants Steam Navigation Company Limited, a wholly owned subsidiary of CM Group, is one of the promoters and a substantial shareholder of the Company. CM Group is an indirect controlling shareholder of Dingzun which in turn holds 50% equity interest in CIGNA & CMC Life Insurance. Dingzun is therefore a connected person of the Company under the Hong Kong Listing Rules. The transaction contemplated by the share transfer agreement constituted a discloseable and connected transaction of the Company, which was subject to Independent Shareholders' approval pursuant to Rule 14A.18 of the Hong Kong Listing Rules.

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008. The acquisition is still subject to the approvals from relevant regulatory authorities.

For details of the above acquisition, please refer to the Company's announcement dated 5 May 2008 and the Company's circular dated 13 May 2008.

7.14.3 Progress of acquisition of Tibet Trust

On 18 August 2008, the 27th meeting of the Seventh Session of the Board of Directors of the Company passed the "Resolution on Acquisition of Controlling Interest in Trust and Investment Corporation of Tibet Autonomous Region" ("Tibet Trust"), pursuant to which the Company agreed to acquire 60.5% equity interest in Tibet Trust and authorized the Company's management to deal with the acquisition procedures.

In September 2008, the Company entered into a framework agreement with relevant parties including Tibet Autonomous Region Finance Bureau in relation to the acquisition of equity interest in Tibet Trust. In order to promote the acquisition of equity interest in Tibet Trust, the Company proactively negotiated with the relevant parties since early 2009, which has effectively facilitated the restructuring process of Tibet Trust. Currently, the restructuring proposal of Tibet Trust has been approved by Tibet government. On 3 August 2009, the Company entered into an agreement on the transfer of interests and rights in Tibet Trust with the relevant parties including Tibet Autonomous Region Finance Bureau. Pursuant to the agreement, the Company would acquire 60.5% equity interest in Tibet Trust at a consideration of RMB363,707,028.34. The acquisition is still subject to the approval of relevant regulatory authorities.

7.15 Implementation of the Share Appreciation Rights Incentive Scheme during the reporting period

For details about the implementation of the Company's Share Appreciation Rights Incentive Scheme, please refer to the section "Directors, Supervisors, Senior Management, Employees and Branch Organizational Structure".

7.16 Liabilities, changes in funding and credit facilities and cash arrangement for the repayment of convertible bonds in the coming years

As of the end of the reporting period, the Company had RMB1,718,000 of convertible bonds remained outstanding, and the Company is capable of repaying the principal and interests of the convertible bonds.

7.17 Use of funds by related parties

During the reporting period, none of the major shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and neither had they used the funds of the Company through any unfair related party transactions.

7.18 Social responsibilities

As an enterprise highly aware of its responsibilities, the Company is dedicated to delivering its social responsibilities in various ways in addition to the full performance of its banking functions and contribution to social and economic development.

I. Continuous effort in poverty alleviation

The year 2009 marked the eleventh year for the Company to provide designated poverty relief to Wuding County and Yongren County in Yunnan Province. In the first half of the year, our employees donated RMB5,201,300 in cash, 34,573 pieces of clothes and 216 computers to the two counties. The Company also provided cycling additional small loans with an amount of RMB4 million, so as to intensify the aid to the self-rescue production program for the impoverished farmers.

II. Increasing support to small and medium sized enterprises (SMEs)

In the first half of 2009, the Company continued to adhere to our strategy of supporting SMEs for growth. As at 30 June 2009, the Company had 10,402 SME customers, an increase of 991 as compared to the beginning of the year, with the balance of loans amounting to RMB274.02 billion, accounting for 44.7% of the total corporate loans, up by 1.6 percentage points and increased by RMB53.48 billion or 24.25% as compared to the beginning of the year. Our efforts in offering comprehensive services to SMEs have played a positive role in creating jobs. The CBRC highly appreciated our support to SMEs, and granted the title of "Active Supporter of SMEs" to the Company.

III. Proactively developing green financial business

During the reporting period, the Company continued to perfect our policies for green finance and proactively commenced various green finance businesses. In particular, the Company applied for and obtained approval from French Development Agency for three projects, and completed the project loan for the incineration power plant project in Deqing county; innovatively introduced the loan product for the street lighting modification project in Foshan using buyer credit; and attributable to our efforts in promoting comprehensive strategic cooperation with Guangdong Science and Technology Department, Beijing Environmental Exchange, and Shanghai Environmental Exchange, the Company was honoured as the "Best Green Bank in China" by the Economic Observer.

IV. Launching the "Third Wealth Management Education Community Tour"

Spurred on by the success of the previous two Wealth Management Education Community Tours, the Company officially launched its "Third Wealth Management Education Community Tour" in June 2009. This campaign with the theme of "Win your Future by Managing Your Wealth and Health" aimed at forging a healthy, harmonious and sustainable financial relationship with families, enabling the majority investors to share the fruitful results of China's economic development and live a happy and healthy life through sound wealth management. In the next few months, the Company will hold 2,000 wealth management educational seminars in about 50 cities, so as to start another green trip for advocating the concept of sound wealth management.

V. Implementing the charity project of "Sunflower" Qiang ethnic group children's choir

The Company's "Sunflower" Qiang ethnic group children's choir officially started in January 2009, with the international renowned pianist Lang Lang acting as art advisor to the choir. On 12 May 2009, in commemoration of the 1st anniversary of the devastating earthquake, the Company held a choir's public charity bazaar. On 30 June 2009, the "Sunflower" Qiang ethnic group children's choir was honored to give performance together with the famous singer Song Zuying in "the Charm of China" Beijing Bird's Nest Summer Music Festival at the Bird's Nest.

VI. Participating in activities organized by public welfare communities

The Company has joined more than ten influential public welfare communities in China and abroad, including Corporate Social Responsibility Alliance, Ecology Society of Entrepreneur, and Shenzhen Soft Science Development Foundation. These public welfare communities have done a great deal of work for post-disaster reconstruction, environment protection, promotion of social responsibility and scientific research, etc.

In addition, the Company's credit card center published "the Report on Use of Charitable Funds raised for Wenchuan Earthquake Emergency Relief Charity" on 12 May 2009, detailing the use of disaster-relief funds through the Company's credit card over the past year. The Company is the first credit card issuer in China to disclose the use of disaster-relief donations to the public.

7.19 Compliance statement for corporate governance

The Company has fully complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Hong Kong Listing Rules and has dedicated to maintaining its high level of corporate governance.

7.20 Changes in accounting policies

Amendments have been made to IFRS 8-Operating Segment in the way of presenting segment information. It requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. The information to be reported would be that used internally for the purpose of evaluating segment performance and decision-making by the chief decision maker. This is the first time for the Group to use the above mentioned presentation in this interim financial report. In addition, in this interim report, the Group began to adopt IAS 1--Presentation of Financial Statements (Revised in 2007) in relation to the new format of merging of the consolidated income statement and merging of the change in owner's equity. The corresponding amount related to above mentioned changes has been restated in the financial report in accordance with the new way of presentation.

Change in the way of presentation as above mentioned does not have any impact on gains or losses, total amount of income and expenditure, or net assets.

7.21 Compliance with Banking (Disclosure) Rules

The Company has prepared the interim financial statements in respect of H shares for the year 2009 in strict compliance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

7.22 Review on interim results

Our external auditor, KPMG (Certified Public Accountants) has reviewed the interim financial statements of the Company prepared in accordance with the International Accounting Standards and disclosure requirements under the Hong Kong Listing Rules respectively. Meanwhile, the Audit Committee under the Board of Directors of the Company has reviewed and approved the results and financial report of the Company for the period ended 30 June 2009.

7.23 Publication of interim report

The Company prepared the interim report in both English and Chinese versions in accordance with the International Accounting Standards and the Hong Kong Listing Rules. These reports are available on the website of Hong Kong Stock Exchange and the website of the Company. In the event of any discrepancies in interpretation between the English version and 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 and the preparation rules for interim reports, which is available on the website of Shanghai Stock Exchange and the website of the Company.

By Order of the Board

Qin Xiao

Chairman of Board of Directors

28 August 2009

Chapter VIII Review Report to the Board of Directors and Interim Financial Report for 2009

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REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA MERCHANTS BANK CO., LTD.

INTRODUCTION

We have reviewed the interim financial report set out on pages 97 to 158 which comprises the consolidated balance sheet of China Merchants Bank Co., Ltd as of 30 June 2009 and the related consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity and consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, 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 Hong Kong 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 financial report as at 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 August 2009

UNAUDITED CONSOLIDATED INCOME STATEMENT

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2009	2008
Interest income	4	31,502	35,778
Interest expense	5	(12,879)	(11,653)
Net interest income		18,623	24,125
Fee and commission income	6	4,588	4,534
Fee and commission expense		(546)	(440)
Net fee and commission income		4,042	4,094
Other net income	7	1,939	568
Insurance operating income		187	–
Operating income		24,791	28,787
Operating expenses	8	(11,880)	(10,306)
Charge for insurance claims		(160)	–
Operating profit before impairment losses		12,751	18,481
Impairment losses	9	(2,603)	(1,392)
Share of profit of associates		23	33
Share of profit of jointly controlled entities		7	–
Profit before tax		10,178	17,122
Income tax	10	(1,916)	(3,877)
Profit for the period		8,262	13,245
		RMB	RMB
Earnings per share			
Basic	12(a)	0.56	0.90
Diluted	12(b)	0.56	0.90

The notes on pages 104 to 158 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 29.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2009	2008
Profit for the period		8,262	13,245
Other comprehensive income for the period (after tax and reclassification adjustments)	11		
Exchange differences		11	–
Available for sale investments: net movement in fair value reserve		(1,707)	371
		(1,696)	371
Total comprehensive income for the period		6,566	13,616

The notes on pages 104 to 158 form part of this interim financial report.

UNAUDITED CONSOLIDATED BALANCE SHEET

(Expressed in millions of Renminbi unless otherwise stated)

	Note	As at 30 June 2009	As at 31 December 2008
Assets			
Cash and balances with banks and other financial institutions	13	70,694	37,016
Balances with central bank	14	198,303	174,673
Placements with banks and other financial institutions	15	182,811	156,378
Loans and advances to customers	16	1,128,211	852,754
Investments	17	346,540	310,446
Interest in associates	18	287	266
Interest in jointly controlled entities	19	144	136
Fixed assets	20	15,038	15,062
Intangible assets	21	2,388	2,381
Deferred tax assets	22	2,480	2,521
Goodwill	23	9,598	9,598
Other assets		16,274	10,566
Total assets		1,972,768	1,571,797
Liabilities			
Deposits from banks and other financial institutions	24	185,309	115,792
Placements from banks and other financial institutions	25	67,104	50,124
Deposits from customers	26	1,540,682	1,250,648
Trading liabilities	17(e)	177	524
Derivative financial liabilities	32(b)	1,338	2,266
Financial liabilities at fair value through profit or loss	17(f)	945	1,828
Certificates of deposit issued	27(a)	1,900	1,840
Convertible bonds issued	27(b)	2	2
Other debts issued	27(c)	4,997	4,996
Current taxation		1,018	2,956
Deferred tax liabilities	22	881	848
Other liabilities		53,285	26,752
Subordinated notes issued	27(d)	30,945	33,440
Total liabilities		1,888,583	1,492,016

The notes on pages 104 to 158 form part of this interim financial report.

UNAUDITED CONSOLIDATED BALANCE SHEET

(Expressed in millions of Renminbi unless otherwise stated)

	Note	As at 30 June 2009	As at 31 December 2008
Equity			
Share capital	28	14,707	14,707
Capital reserve		18,398	18,823
Surplus reserve		6,653	4,612
Investment revaluation reserve		1,147	2,854
Regulatory general reserve		10,822	10,793
Exchange reserve		(23)	(34)
Retained profits		28,069	19,836
Proposed profit appropriations	29(b)	–	7,924
Approved stock dividends	29	4,412	–
Total equity attributable to share holders of the bank		84,185	79,515
Minority interests		–	266
Total equity		84,185	79,781
Total equity and liabilities		1,972,768	1,571,797

The notes on pages 104 to 158 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in millions of Renminbi unless otherwise stated)

For the six months ended 30 June 2009												
Attributable to shareholders of the Bank												
Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Approved stock dividends	Subtotal	Minority interests	Total
At 1 January 2009	14,707	18,823	4,612	2,854	10,793	(34)	19,836	7,924	-	79,515	266	79,781
Appropriations to statutory surplus reserve for the year 2008	-	-	2,041	-	-	-	-	(2,041)	-	-	-	-
Approved cash dividends for the year 2008	29(b)	-	-	-	-	-	-	(1,471)	-	(1,471)	-	(1,471)
Approved stock dividends for the year 2008	29	-	-	-	-	-	-	(4,412)	4,412	-	-	-
Transfer of retained profits to regulatory general reserve		-	-	-	29	-	(29)	-	-	-	-	-
Acquisition of minority interests		-	(425)	-	-	-	-	-	-	(425)	(266)	(691)
Total comprehensive income for the period	11	-	-	(1,707)	-	11	8,262	-	-	6,566	-	6,566
At 30 June 2009	14,707	18,398	6,653	1,147	10,822	(23)	28,069	-	4,412	84,185	-	84,185

For the six months ended 30 June 2008									
Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total	
At 1 January 2008	14,705	27,545	3,088	(471)	9,500	7,976	5,641	67,984	
Appropriations to statutory surplus reserve for the year 2007	-	-	1,524	-	-	-	(1,524)	-	
Dividends paid for the year 2007	29(a)	-	-	-	-	-	(4,117)	(4,117)	
Conversion of convertible bonds	2	11	-	-	-	-	-	13	
Total comprehensive income for the period	-	-	-	371	-	13,245	-	13,616	
At 30 June 2008	14,707	27,556	4,612	(100)	9,500	21,221	-	77,496	

The notes on pages 104 to 158 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months end 30 June	
		2009	2008 (restated)
Operating activities			
Profit before tax		10,178	17,122
Adjustments for:			
– Impairment losses charged on loans and advances		2,650	1,571
– Impairment losses released on balances and placements with banks and other financial institutions		–	(274)
– Impairment losses released on investment		(44)	–
– Impairment losses (released)/charged on other assets		(3)	95
– Unwind of interest income on impaired loans		(54)	(48)
– Depreciation		1,072	617
– Amortisation of intangible asset		124	13
– Amortisation of discount and premium of debt investments		(211)	(985)
– Amortisation of discount and premium of issued debts		6	2
– Write-off of loans and advances, net of recoveries		(295)	(34)
– Net gain on debt investments		(798)	(146)
– Interest income on debt investments		(4,196)	(3,276)
– Interest expense on issued debts		1,000	227
– Share of profit of associates		(23)	(33)
– Share of profit of jointly controlled entities		(7)	–
– Net gain on sale of fixed assets		(1)	–
Changes in operating assets and liabilities:			
Increase in balances with central bank		(31,663)	(37,858)
Increase in balances and placements with banks and other financial institutions with original maturity over 3 months		(68,881)	(11,074)
Increase in loans and advances to customers		(277,722)	(69,404)
Increase in other assets		(6,668)	(3,821)
Increase in deposits from customers		290,034	103,092
Increase/(decrease) in deposits and placements from banks and other financial institutions		86,497	(40,894)
Increase in other liabilities		21,927	8,463
Net cash inflow/(outflow) from operating activities		22,922	(36,645)
Income tax paid		(3,408)	(3,977)

The notes on pages 104 to 158 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months end 30 June	
		2009	2008 (restated)
Investing activities			
Payment for purchase of debt investments		(449,718)	(365,139)
Proceeds from redemption or disposal of debt investments		415,116	357,745
Interest received from debt investments		2,854	2,830
Payment for purchase of fixed assets		(1,153)	(1,780)
Proceeds from sale of fixed assets		106	268
Payment of equity investments		(39)	(876)
Net cash outflow from investing activities		(32,834)	(6,952)
Net cash outflow before financing activities		(13,320)	(47,574)
Financing activities			
Issue of certificates of deposit		975	662
Repayment of certificates of deposit issued		(918)	–
Repayment of subordinated notes		(2,500)	–
Dividends paid		–	(5)
Interest paid on issued debts		(18)	(26)
Net cash (outflow)/inflow from financing activities		(2,461)	631
Net decrease in cash and cash equivalents		(15,781)	(46,943)
Cash and cash equivalents at 1 January		186,671	167,031
Effect of foreign exchange rate changes		419	(1,301)
Cash and cash equivalents at 30 June	30(a)	171,309	118,787
Cash flows from operating activities include:			
Interest received		26,717	31,234
Interest paid		11,790	10,155

In previous years, "Payment for purchase of debt investments" and "Proceeds from redemption or disposal of debt investments" were reported in gross basis. Starting from 1 January 2009, the Group changes its accounting policy to report "Payment for purchase of debt investments" and "Proceeds from redemption or disposal of debt investments" in net basis. Comparative figures in 2008 are restated accordingly.

The notes on pages 104 to 158 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

1 REPORTING ENTITY

China Merchants Bank Co., Ltd. (“the Bank”) is a bank domiciled in the People’s Republic of China (the “PRC”). The condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2009 comprise the Bank and its subsidiaries (together referred to as the “Group”).

The consolidated financial statements of the Group as at and for the year ended 31 December 2008 are available upon request from the Bank’s registered office at China Merchants Bank Tower, Shenzhen, the PRC.

The particulars of the Bank’s subsidiaries as at 30 June 2009 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in million)	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited	Hong Kong	HK\$250	100%	Investment advisory services
CMB Finance Lease Co., Ltd.	Shanghai	RMB2,000	100%	Finance lease
Wing Lung Bank Limited (“WLB”)	Hong Kong	HK\$1,161	100%	Banking

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Financial Reporting Standards (“IFRSs”) IAS 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2008.

This interim financial report is unaudited, but has been reviewed by the Audit Committee of the Bank. The interim financial report has also been reviewed by the Bank’s auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

IFRS 8, Operating segments

IAS 1 (revised 2007), Presentation of financial statements

Improvements to IFRSs (2008)

Amendments to IFRS 7, Financial Instruments: Disclosures-improving disclosures about financial instruments

The amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 31). As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. These amendments had no material impact on the Group's financial statements.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

4 INTEREST INCOME

	Six months ended 30 June	
	2009	2008
Loans and advances (note)	24,394	27,523
Balances with central bank	1,356	1,313
Balances and placements with		
– banks	1,207	2,267
– other financial institutions	138	414
Debt investments	4,407	4,261
Interest income on financial assets that are not at fair value through profit or loss	31,502	35,778

Note: Included in the above is interest income of RMB54 million accrued on impaired loans (for the six months ended 30 June 2008: RMB48 million).

5 INTEREST EXPENSE

	Six months ended 30 June	
	2009	2008
Deposits from customers	10,096	8,742
Deposits and placements from		
– banks	886	591
– other financial institutions	891	2,091
Issued debts	1,006	229
Interest expense on financial liabilities that are not at fair value through profit or loss	12,879	11,653

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2009	2008
Bank cards fees	1,385	1,277
Remittance and settlement fees	508	487
Agency services fees	1,109	916
Commissions from credit commitment and loan business	364	295
Trust services fees	735	1,099
Others	487	460
	4,588	4,534

Note: Included above is fee and commission income earned by the Group arising from financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB1,275 million (for the six months ended 30 June 2008: RMB1,135 million).

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

7 OTHER NET INCOME

	Six months ended 30 June	
	2009	2008
Trading profits arising from		
– foreign exchange	534	287
– securities, derivatives and other trading activities	188	167
Net income on financial instruments designated at fair value through profit or loss	296	11
Net gain on disposal of available-for-sale financial assets	704	32
Rental income	74	26
Others	143	45
	1,939	568

8 OPERATING EXPENSES

	Six months ended 30 June	
	2009	2008
Staff costs		
– salaries, bonuses and staff welfare	4,715	4,566
– contributions to defined contribution retirement schemes	584	497
– housing allowances	305	235
– others	256	257
	5,860	5,555
Business tax and surcharges	1,457	1,619
Depreciation	1,072	617
Rental expenses	904	626
Other general and administrative expenses	2,587	1,889
	11,880	10,306

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2009	2008
Impairment losses charged on:		
– loans and advances (note 16(c))	2,650	1,571
– balances and placements with banks and other financial institutions	–	(274)
– investments		
– available-for-sale investments	(14)	–
– held-to-maturity investments (note 17(c))	(30)	–
– other assets	(3)	95
	2,603	1,392

10 INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2009	2008
Current tax		
– Mainland China	1,428	3,914
– Hong Kong	36	3
– Overseas	6	–
	1,470	3,917
Deferred tax (note 22(b))	446	(40)
	1,916	3,877

The current tax provision is based on the estimated assessable profit for 2009, and is determined by using tax rates applicable to the Group's operations in different areas.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

11 OTHER COMPREHENSIVE INCOME

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

	Six months ended 30 June					
	2009			2008		
	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/benefit	Net-of-tax amount
Exchange differences	11	-	11	-	-	-
Available-for-sale investments	(2,085)	374	(1,711)	453	(79)	374
Share of investment revaluation reserve of Associates	-	-	-	(4)	1	(3)
Share of investment revaluation reserve of jointly controlled entities	4	-	4	-	-	-
Other comprehensive income	(2,070)	374	(1,696)	449	(78)	371

(b) Reclassification adjustments relating to components of other comprehensive income

	Six months ended 30 June	
	2009	2008
Available-for-sale investments:		
Changes in fair value recognised during the period	(889)	314
Reclassification adjustments for amounts transferred to profit or loss:		
– (Gains)/loss on disposal	(811)	60
– impairment losses	(11)	-
Net movement in the fair value reserve during the period recognised in other comprehensive income	(1,711)	374

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

12 EARNINGS PER SHARE

Movements of the share capital are included in note 28.

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of shares in issue, calculated as follows:

	Six months ended 30 June	
	2009	2008
Net profit	8,262	13,245
Weighted average number of shares in issue (in million)	14,707	14,707
Basic earnings per share (in RMB)	0.56	0.90

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the diluted net profit and the weighted average number of shares in issue after adjusting for the effect of all dilutive potential shares, calculated as follows:

	Six months ended 30 June	
	2009	2008
Net profit	8,262	13,245
Interest expense on convertible bonds issued	-	-
Diluted net profit	8,262	13,245
Weighted average number of shares in issue (in million)	14,707	14,707
Effect of deemed conversion of convertible bonds (in million)	1	1
Weighted average number of shares in issue after dilution (in million)	14,708	14,708
Diluted earnings per share (in RMB)	0.56	0.90

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

13 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2009	As at 31 December 2008
Cash	7,360	6,928
Balances with banks	63,261	30,063
Balances with other financial institutions	101	58
	70,722	37,049
Less: Impairment allowances		
– banks	(24)	(29)
– other financial institutions	(4)	(4)
	(28)	(33)
	70,694	37,016

14 BALANCES WITH CENTRAL BANK

	As at 30 June 2009	As at 31 December 2008
Statutory deposit reserve funds	158,655	126,992
Surplus deposit reserve funds	38,665	46,751
Fiscal deposits	983	930
	198,303	174,673

The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 13.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively as at 30 June 2009 (31 December 2008: 13.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2009	As at 31 December 2008
Money market placements		
– banks	64,918	80,836
– other financial institutions	4,950	1,000
	69,868	81,836
Balances under resale agreements (note)		
– banks	111,412	61,652
– other financial institutions	1,531	12,890
	112,943	74,542
	182,811	156,378
Maturing		
– within one month	67,167	92,605
– between one month and one year	115,266	63,395
– after one year	378	378
	182,811	156,378

Note: Assets purchased under the above resale agreements are registered national bonds issued by the PRC government, bonds issued by the PBOC and policy banks and other debt securities of equivalent amounts.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	As at 30 June 2009	As at 31 December 2008
Corporate loans	654,536	545,961
Discounted bills	207,881	95,766
Retail loans	289,750	232,635
Gross loans and advances to customers	1,152,167	874,362
Less: impairment allowances		
– individually-assessed	(6,473)	(6,727)
– collectively-assessed	(17,483)	(14,881)
Net loans and advances to customers	1,128,211	852,754

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	As at 30 June 2009	As at 31 December 2008
<i>Domestic enterprises:</i>		
State-owned enterprises	247,841	198,739
Joint-stock enterprises	75,008	64,244
Other limited liability enterprises	125,008	101,029
Others	71,434	60,283
	519,291	424,295
Foreign-invested enterprises	99,169	90,235
Enterprises operating in the Mainland	618,460	514,530
Enterprises operating outside the Mainland	36,076	31,431
Corporate loans	654,536	545,961
Discounted bills	207,881	95,766
Retail loans	289,750	232,635
Gross loans and advances to customers	1,152,167	874,362

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by borrowers' industry sector:

Operation in Mainland China

	As at 30 June 2009		As at 31 December 2008	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	185,753	24	159,565	23
Transportation, storage and postal services	105,751	22	89,408	24
Wholesale and retail	62,351	42	56,311	42
Production and supply of electric power, gas and water	66,853	8	62,364	7
Property development	51,762	66	44,581	65
Leasing and commercial services	47,909	22	27,982	28
Construction	29,562	25	22,969	24
Mining	17,153	12	14,127	4
Water, environment and public utilities management	23,054	37	9,163	40
Telecommunications, computer services and software	7,741	25	6,223	21
Others	21,049	19	22,266	12
Corporate loans	618,938	27	514,959	26
Discounted bills	207,881	100	95,766	100
Credit cards	33,146	–	31,604	–
Mortgages	194,552	100	148,548	100
Others	49,106	96	39,493	100
Retail loans	276,804	87	219,645	86
Gross loans and advances to customers	1,103,623	54	830,370	50

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by borrowers' industry sector: *(continued)*

Operation outside Mainland China

	As at 30 June 2009		As at 31 December 2008	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Property development	22,809	57	19,646	67
Financial concerns	3,136	30	2,429	12
Wholesale and retail trade	2,470	68	1,837	78
Manufacturing	1,365	38	1,273	44
Transport and transport equipment	3,165	38	3,002	38
Recreational activities	83	15	97	15
Information technology	2	85	3	82
Others	2,568	45	2,715	45
Corporate loans	35,598	52	31,002	58
Credit cards	287	–	415	–
Mortgages	9,656	100	9,964	100
Others	3,003	95	2,611	97
Retail loans	12,946	97	12,990	96
Gross loans and advances to customers	48,544	64	43,992	69

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) *Analysed by borrowers' industry sector: (continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	As at 30 June 2009			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing and processing	3,051	2,861	2,004	4,123
Transportation, storage and postal services	478	499	482	2,200
Mortgages	3,414	429	–	1,905

	As at 31 December 2008			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing and processing	2,797	2,650	2,004	3,627
Transportation, storage and postal services	636	509	484	1,852
Mortgages	4,214	411	–	1,624

(iii) *Analysed by borrowers' geographical areas:*

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. At 30 June 2009, over 90% of the Group's loans and advances to customers was classified under People's Republic of China (unchanged from the positions at 31 December 2008).

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Six months ended 30 June 2009			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances		Total
		For which impairment losses are collectively assessed	For which impairment losses are individually assessed	
At 1 January	13,795	1,086	6,727	21,608
Charge for the period (note 9)	2,334	290	394	3,018
Releases for the period (note 9)	(13)	(1)	(354)	(368)
Unwinding of discount	–	–	(54)	(54)
Recoveries of loans and advances previously written off	–	2	14	16
Write-offs	–	(10)	(301)	(311)
Transfers in the period	–	–	46	46
Exchange difference	–	–	1	1
At 30 June	16,116	1,367	6,473	23,956

	Year ended 31 December 2008			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances		Total
		For which impairment losses are collectively assessed	For which impairment losses are individually assessed	
At 1 January	10,434	631	7,685	18,750
Charge for the year	3,363	597	1,454	5,414
Addition through acquisition of subsidiary	98	3	31	132
Releases for the year	(10)	(1)	(1,700)	(1,711)
Unwinding of discount	–	–	(108)	(108)
Recoveries of loans and advances previously written off	–	–	65	65
Write-offs	–	(56)	(622)	(678)
Transfers out	–	(88)	–	(88)
Exchange difference	(90)	–	(78)	(168)
At 31 December	13,795	1,086	6,727	21,608

NOTES TO THE INTERIM FINANCIAL REPORT

(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

As at 30 June 2009

	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances		Total	Gross impaired Loans and advances as a % of gross Loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
		for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))			
Gross loans and advances to						
– financial institutions	22,146	–	7	22,153	0.03	–
– non-financial institution customers	1,120,190	1,647	8,177	1,130,014	0.87	1,240
	1,142,336	1,647	8,184	1,152,167	0.85	1,240
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(22)	–	(4)	(26)		
– non-financial institution customers	(16,094)	(1,367)	(6,469)	(23,930)		
	(16,116)	(1,367)	(6,473)	(23,956)		
Net loans and advances to						
– financial institutions	22,124	–	3	22,127		
– non-financial institution customers	1,104,096	280	1,708	1,106,084		
	1,126,220	280	1,711	1,128,211		

NOTES TO THE INTERIM FINANCIAL REPORT

(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)*

As at 31 December 2008						
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances		Total	Gross impaired Loans and advances as a % of gross Loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
		for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))			
Gross loans and advances to						
– financial institutions	24,963	–	7	24,970	0.03	–
– non-financial institution customers	839,827	1,382	8,183	849,392	1.13	1,140
	864,790	1,382	8,190	874,362	1.09	1,140
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(130)	–	(4)	(134)		
– non-financial institution customers	(13,665)	(1,086)	(6,723)	(21,474)		
	(13,795)	(1,086)	(6,727)	(21,608)		
Net loans and advances to						
– financial institutions	24,833	–	3	24,836		
– non-financial institution customers	826,162	296	1,460	827,918		
	850,995	296	1,463	852,754		

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 for which objective evidence of impairment has been identified:
 - individually; or
 - collectively; that is portfolios of homogeneous loans.
- (iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Loans and advances to customers include investment in finance lease receivables and hire purchase contracts, analysed as follows:

	As at 30 June 2009		As at 31 December 2008	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	1,620	1,888	840	985
After 1 year but within 5 years	4,270	4,644	2,044	2,237
After 5 years	58	61	60	63
	5,948	6,593	2,944	3,285
Impairment allowances:				
– individually-assessed	(18)	(18)	(22)	(22)
– collectively-assessed	(83)	(83)	(54)	(54)
Unearned future income on finance lease	–	(645)	–	(341)
Net investment in finance leases and hire purchase contracts	5,847	5,847	2,868	2,868

17 INVESTMENTS

	As at 30 June 2009	As at 31 December 2008
Financial assets at fair value through profit or loss (note 17(a))	19,704	17,699
Available-for-sale investments (note 17(b))	232,642	206,959
Held-to-maturity debt securities (note 17(c))	79,733	70,373
Receivables (note 17(d))	14,461	15,415
	346,540	310,446

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

(i) Trading assets

	As at 30 June 2009	As at 31 December 2008
<i>Listed</i>		
In the Mainland		
– PRC government bonds	420	352
– bonds issued by the PBOC	4,534	2,873
– bonds issued by policy banks	1,336	1,585
– bonds issued by commercial banks and other financial institutions	3,679	2,266
– other debt securities	1,944	2,825
Outside the Mainland		
– PRC government bonds	–	47
– bonds issued by commercial banks and other financial institutions	257	593
– other debt securities	385	439
– equity investments	1	96
– investments in funds	–	1
	12,556	11,077
<i>Unlisted</i>		
In the Mainland		
– bonds issued by policy banks	70	98
– bonds issued by commercial banks and other financial institutions	137	130
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	170	65
– other debt securities	1,473	1,597
	14,406	12,967
Derivative financial instruments (note 32(b))	965	2,287
	15,371	15,254

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

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

	As at 30 June 2009	As at 31 December 2008
<i>Listed</i>		
In the Mainland		
– PRC government bonds	257	261
– bonds issued by commercial banks and other financial institutions	68	–
– other debt securities	1,167	–
Outside the Mainland		
– bonds issued by policy banks	–	66
– bonds issued by commercial banks and other financial institutions	399	118
– other debt securities	2,046	1,189
<i>Unlisted</i>		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	133	200
– other debt securities	263	611
	4,333	2,445
	19,704	17,699
Financial assets at fair value through profit or loss (excluding derivative financial instruments)		
<i>Issued by:</i>		
Sovereigns	7,064	5,564
Banks and other financial institutions	6,249	5,166
Public sector entities	181	297
Corporates	5,245	4,385
	18,739	15,412

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	As at 30 June 2009	As at 31 December 2008
<i>Listed</i>		
In the Mainland		
– PRC government bonds	13,802	9,734
– bonds issued by the PBOC	7,814	52,661
– bonds issued by policy banks	43,654	34,762
– bonds issued by commercial banks and other financial institutions	69,398	46,514
– other debt securities	74,643	49,062
– equity investments	66	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	6,375	4,468
– other debt securities	1,589	844
– equity investments	274	337
– investments in funds	14	11
	217,629	198,393
<i>Unlisted</i>		
In the Mainland		
– bonds issued by commercial banks and other financial institutions	2,000	6,976
– other debt securities	4,516	–
– equity investments	669	609
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	7,488	306
– other debt securities	298	644
– equity investments	42	18
– investments in funds	–	13
	15,013	8,566
	232,642	206,959

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(b) Available-for-sale investments *(continued)*

	As at 30 June 2009	As at 31 December 2008
<i>Issued by:</i>		
Sovereigns	22,114	63,007
Banks and other financial institutions	129,557	93,578
Corporates	80,971	50,374
	232,642	206,959

(c) Held-to-maturity debt securities

	As at 30 June 2009	As at 31 December 2008
<i>Listed</i>		
In the Mainland		
– PRC government bonds	20,386	15,548
– bonds issued by the PBOC	12,210	13,588
– bonds issued by policy banks	8,276	8,420
– bonds issued by commercial banks and other financial institutions	27,491	26,238
– other debt securities	1,110	1,374
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	1,420	1,379
– other debt securities	946	361
Unlisted		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	7,690	3,496
– other debt securities	389	184
	79,918	70,588
Less: Impairment allowances	(185)	(215)
	79,733	70,373

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS (continued)

(c) Held-to-maturity debt securities (continued)

	As at 30 June 2009	As at 31 December 2008
<i>Issued by:</i>		
Sovereigns	32,823	29,280
Banks and other financial institutions	44,710	39,336
Public sector entities	9	24
Corporates	2,191	1,733
	79,733	70,373
Listed fair value	73,169	68,831
Movements of allowances for impairment losses		
At 1 January	215	–
Addition through acquisition of subsidiaries	–	84
Charge for the period/year	–	199
Reversal for the period/year	(30)	–
Write-offs for the period/year	–	(68)
At 30 June/31 December	185	215

(d) Receivables

	As at 30 June 2009	As at 31 December 2008
<i>Unlisted</i>		
In the Mainland		
– PRC government bonds	4,073	5,789
– bonds issued by the PBOC	8,000	8,000
– bonds issued by commercial banks and other financial institutions	778	578
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	1,409	877
– other debt securities	263	233
	14,523	15,477
Less: Impairment allowances	(62)	(62)
	14,461	15,415

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

	As at 30 June 2009	As at 31 December 2008
<i>Issued by:</i>		
Sovereigns	12,073	13,789
Banks and other financial institutions	2,125	1,393
Corporate	263	233
	14,461	15,415
Movements of allowances for impairment losses		
At 1 January	62	–
Charge for the period/year	–	62
At 30 June/31 December	62	62

Receivables are unlisted bearer's national bonds issued by the PRC government and other investments which are not quoted in an active market in the PRC or overseas. Accordingly, the Group is unable to disclose their market values. The Group considers the recoverable amounts from these assets upon their maturities are the same as their carrying values and no provision for impairment losses is required.

(e) Trading liabilities

	As at 30 June 2009	As at 31 December 2008
Short positions in exchange fund bill and notes at fair value:		
– listed	1	1
– unlisted	176	523
	177	524

(f) Financial liabilities at fair value through profit or loss

	As at 30 June 2009	As at 31 December 2008
<i>Unlisted</i>		
Outside the Mainland China		
– certificates of deposit issued	803	1,208
– structured deposit	142	620
	945	1,828

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(g) (i) *Trust & Investment Corporation of Tibet Autonomous Region*

On 18 September 2008, the Bank entered into the framework agreement with the Tibet Autonomous Region Finance Bureau to acquire 60.5% equity interest in Trust & Investment Corporation of Tibet Autonomous Region ("Tibet Trust"). As of 30 June 2009, the completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the China Securities Regulatory Commission ("CSRC") and China Banking Regulatory Commission ("CBRC").

(ii) *CIGNA & CMC Life Insurance Company Limited*

On 5 May 2008, the Bank entered into an agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interest in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance") for a total consideration of RMB141.9 million. The completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the CSRC, the CBRC and the China Insurance Regulatory Commission ("CIRC"). As of 30 June 2009, the proposed acquisition is not yet approved by the relevant regulatory authorities.

18 INTEREST IN ASSOCIATES

	As at 30 June 2009	As at 31 December 2008
Share of net assets	173	152
Goodwill	114	114
	287	266

The following list contains only the particulars of associates as of 30 June 2009, which are unlisted corporate entities and principally affected the results or assets of the Group:

Name of associates	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Bank	Held by the subsidiary	
China Merchants Fund Management Company Limited	Incorporated	Shenzhen	RMB210,000	33.40%	33.40%	–	Asset management
Professional Liability Underwriting Services Limited	Incorporated	Hong Kong	HK\$3,000	27.00%	–	27.00%	Insurance underwriting
Equity Underwriters Limited	Incorporated	Hong Kong	HK\$3,950	40.00%	–	40.00%	Insurance underwriting

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

19 INTEREST IN JOINTLY CONTROLLED ENTITIES

	As at 30 June 2009	As at 31 December 2008
Share of net assets	92	82
Loan to jointly controlled entities	52	54
	144	136

Details of the group's interest in the jointly controlled entities are as follows:

Name of jointly controlled entities	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Bank	Held by the subsidiary	
Bank Consortium Holding Limited	Incorporated	Hong Kong	HK\$150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (note)	Incorporated	Hong Kong	HK\$10,024	2.88%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited	Incorporated	Hong Kong	HK\$420,000	16.67%	–	16.67%	Life insurance business
BC Reinsurance Limited	Incorporated	Hong Kong	HK\$100,000	21.00%	–	21.00%	Reinsurance business
i-Tech Solutions Limited	Incorporated	Hong Kong	HK\$6,000	50.00%	–	50.00%	Electronic document processing

Note: The Bank's subsidiary, Wing Lung Bank is one of the five founders of the entity and jointly control the entity. Wing Lung Bank hold 20% of the entity's common share and is entitled to 2.88% of the paid dividends.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS

2009

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total
Cost:							
At 1 January 2009	8,004	2,594	2,305	4,838	2,294	1,534	21,569
Additions	-	-	529	240	269	115	1,153
Transfers	78	(78)	(49)	3	8	-	(38)
Disposals/write-offs	(20)	-	-	(136)	(260)	(37)	(453)
At 30 June 2009	8,062	2,516	2,785	4,945	2,311	1,612	22,231
Accumulated depreciation:							
At 1 January 2009	1,565	188	-	2,932	947	875	6,507
Depreciation	188	73	-	526	170	115	1,072
Transfers	(2)	(3)	-	(11)	-	(1)	(17)
Written back on disposals/write-offs	-	-	-	(108)	(226)	(35)	(369)
At 30 June 2009	1,751	258	-	3,339	891	954	7,193
Net book value:							
At 30 June 2009	6,311	2,258	2,785	1,606	1,420	658	15,038

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

2008

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total
Cost:							
At 1 January 2008	5,065	531	1,411	3,828	1,801	1,202	13,838
Additions through acquisition of subsidiaries	2,839	2,095	–	52	62	21	5,069
Additions	93	–	1,442	1,502	652	384	4,073
Transfers	209	(32)	(548)	–	17	5	(349)
Disposals/write-offs	(202)	–	–	(544)	(238)	(78)	(1,062)
At 31 December 2008	8,004	2,594	2,305	4,838	2,294	1,534	21,569
Accumulated depreciation:							
At 1 January 2008	1,385	137	–	1,927	935	732	5,116
Depreciation	283	56	–	1,220	238	207	2,004
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/write-offs	(108)	–	–	(215)	(226)	(64)	(613)
At 31 December 2008	1,565	188	–	2,932	947	875	6,507
Net book value:							
At 31 December 2008	6,439	2,406	2,305	1,906	1,347	659	15,062

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

21 INTANGIBLE ASSETS

2009

	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2009	1,021	330	10	1,156	2,517
Additions	67	62	–	–	129
Exchange difference	–	–	–	2	2
At 30 June 2009	1,088	392	10	1,158	2,648
Amortization:					
At 1 January 2009	43	82	1	10	136
Additions	81	21	2	20	124
At 30 June 2009	124	103	3	30	260
Net book value:					
At 30 June 2009	964	289	7	1,128	2,388

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

21 INTANGIBLE ASSETS *(continued)*

2008

	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2008	387	209	–	–	596
Additions through acquisition of subsidiaries	210	1	10	1,156	1,377
Additions	424	121	–	–	545
Disposals	–	(1)	–	–	(1)
At 31 December 2008	1,021	330	10	1,156	2,517
Amortization:					
At 1 January 2008	26	52	–	–	78
Additions	17	30	1	10	58
At 31 December 2008	43	82	1	10	136
Net book value:					
At 31 December 2008	978	248	9	1,146	2,381

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX

	As at 30 June 2009	As at 31 December 2008
Deferred tax assets	2,480	2,521
Deferred tax liabilities	(881)	(848)
Total	1,599	1,673

(a) Nature of deferred tax assets and liabilities

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

	As at 30 June 2009	As at 31 December 2008
Impairment losses on loans and advances to customers and other assets	2,770	3,198
Investment revaluation reserve	(334)	(708)
Others	(837)	(817)
Total	1,599	1,673

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX *(continued)*

(b) Movements of deferred tax

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2009	3,198	(708)	–	(817)	1,673
Recognised in the consolidated income statement	(428)	–	–	(18)	(446)
– due to timing differences	(266)	–	–	(16)	(282)
– due to income tax rate change	(162)	–	–	(2)	(164)
Recognised in reserves	–	374	–	(1)	373
– due to timing differences	–	479	–	(1)	478
– due to income tax rate change	–	(105)	–	–	(105)
Exchange difference	–	–	–	(1)	(1)
At 30 June 2009	2,770	(334)	–	(837)	1,599
At 1 January 2008	2,038	103	144	(123)	2,162
Addition through acquisition of subsidiaries	16	8	–	(913)	(889)
Recognised in the consolidated income statement	1,144	–	(144)	213	1,213
– due to timing differences	883	–	(144)	230	969
– due to income tax rate change	261	–	–	(17)	244
Recognised in reserves	–	(819)	–	6	(813)
– due to timing differences	–	(830)	–	6	(824)
– due to income tax rate change	–	11	–	–	11
At 31 December 2008	3,198	(708)	–	(817)	1,673

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which has taken effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the Bank's business in areas other than Shenzhen is reduced from 33% to 25% from 1 January 2008; the income tax rate for the Bank's business in Shenzhen is gradually increased from 15% to the standard rate of 25% over a five-year transition period (being 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

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(Expressed in millions of Renminbi unless otherwise stated)

23 GOODWILL

	As at 30 June 2009	As at 31 December 2008
At 1 January	9,598	–
Addition through acquisition of a subsidiary	–	10,177
Impairment	–	(579)
At 30 June/31 December	9,598	9,598

The goodwill arose from the acquisition of Wing Lung Bank Limited on 30 September 2008.

24 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2009	As at 31 December 2008
Deposits from banks	12,273	25,150
Deposits from other financial institutions	173,036	90,642
	185,309	115,792

25 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2009	As at 31 December 2008
Money market takings		
– banks	16,562	37,842
Balances under repurchase agreements (note)		
– banks	15,810	4,840
– other financial institutions	164	946
	15,974	5,786
Rediscounted bills	34,568	6,496
	67,104	50,124

Note: Assets sold under the above repurchase agreements are registered national bonds issued by the PRC government, bonds issued by PBOC, policy banks and others debt securities and loans of equivalent amounts.

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26 DEPOSITS FROM CUSTOMERS

	As at 30 June 2009	As at 31 December 2008
Demand deposits		
– corporate customers	454,439	373,222
– retail customers	304,457	268,220
	758,896	641,442
Time deposits		
– corporate customers	484,229	352,499
– retail customers	297,557	256,707
	781,786	609,206
	1,540,682	1,250,648

27 ISSUED DEBT SECURITIES

(a) Certificates of deposits issued

At the balance sheet date, certificates of deposit issued by the Bank were as follows:

Terms	Date of issue	Annual Interest Rate (%)	Nominal value	Carrying amount	
				As at 30 June 2009	As at 31 December 2008
			(in US\$ million)		
1 year	4 November 2008	LIBOR+0.30%	45	307	307
1 year	25 May 2009	LIBOR+0.26%	50	342	–
			(in HK\$ million)		
1 year	10 January 2008	3.50%	500	–	440
2 years	16 April 2008	HIBOR+0.40%	220	194	194
				843	941

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

27 ISSUED DEBT SECURITIES *(continued)*

(a) Certificates of deposits issued *(continued)*

At the balance sheet date, certificates of deposit issued by WLB were as follows:

Terms	Date of issue	Annual Interest Rate (%)	Nominal value	Carrying amount	
				As at 30 June 2009	As at 31 December 2008
			(in US\$ million)		
1 year	21 April 2008	LIBOR+0.40%	25	-	170
Half a year	4 September 2008	LIBOR+0.30%	30	-	205
			(in HK\$ million)		
3 years	27 March 2006	HIBOR+0.12%	115	-	101
3 years	2 November 2006	HIBOR+0.08%	150	132	132
3 years	8 March 2007	HIBOR+0.08%	120	106	106
2 years	24 January 2008	HIBOR+0.10%	110	97	97
3 years	24 January 2008	HIBOR+0.18%	100	88	88
1 year	7 April 2009	HIBOR+0.20%	380	335	-
1 year	26 May 2009	HIBOR+0.27%	190	167	-
1 year	26 May 2009	HIBOR+0.27%	150	132	-
				1,057	899
				1,900	1,840

Interest on all these certificates of deposit are payable quarterly.

(b) Convertible bonds issued

On 10 November 2004, the Bank issued a 5-year convertible bond with a nominal value of RMB6,500 million. The interest rates are 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the fourth year and 2.5% for the fifth year, payable on 10 November each year. The convertible bonds can be converted into the Bank's shares at the holder's option at RMB9.34 per share during the period from 10 May 2005 to 10 November 2009. Upon maturity, an additional 6% interest will be given to bond holders who have not converted the bonds into shares.

The conversion price of the bonds was revised from RMB9.34 per share to RMB6.23 per share with effect from 17 June 2005 following the issue of bonus shares by the Bank in 2005.

The conversion price of the bonds has been further revised from RMB6.23 per share to RMB5.74 per share with effect from 24 February 2006 following the issue of bonus shares by the Bank in 2006.

On 25 September 2006, the convertible bonds of the Bank in circulation were less than RMB30 million. Pursuant to the relevant requirements, the convertible bonds were suspended for trading with effect from 29 September 2006. Holders of convertible bonds can convert the bonds into share anytime before the conversion period expires.

NOTES TO THE INTERIM FINANCIAL REPORT

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27 ISSUED DEBT SECURITIES *(continued)*

(b) Convertible bonds issued *(continued)*

The Bank has an early redemption option which commences six months after the bonds' issue date and lapses on the maturity date. During that period, the Bank may redeem any outstanding convertible bonds at 103% of the nominal value of the convertible bonds plus the accrued interest if the closing price of the Bank's listed A shares is more than 125% of the then applicable conversion price for 20 consecutive business days.

During the final year before the maturity date of the convertible bonds, if the last traded price of the Bank's listed A shares falls below 75% of the conversion price for 20 consecutive trading days, the bond holders can exercise the put option to sell to the Bank all or a portion of the outstanding bonds at 108.5% of the nominal value of the convertible bonds plus accrued interest.

Details of the convertible bonds are as follows:

	As at 30 June 2009	As at 31 December 2008
Initial recognition:		
– Nominal value	6,500	6,500
– Issuance cost	(65)	(65)
– Equity component	(918)	(918)
Liability component at issue date	5,517	5,517
Accretion	235	235
Amounts converted to shares	(5,750)	(5,750)
Liability component as at 30 June/31 December	2	2

(c) Other debts issued

Particulars	Terms	Date of issue	Annual fixed interest Rate (%)	Nominal value (in million)	Carrying amount	
					As at 30 June 2009	As at 31 December 2008
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000	4,997	4,996

The CBRC and the PBOC approved the Bank's issuance of a total of RMB15,000 million fixed term notes on 29 September 2005 (Yin Jian Fu 【2005】 No. 252) and 9 October 2005 (Yin Fu 【2005】 No. 75). The Bank issued a total of RMB10,000 million fixed rate term notes during the period from 13 October 2005 to 26 October 2005. Interest on these notes is payable annually.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

27 ISSUED DEBT SECURITIES *(continued)*

(d) Subordinated notes issued

Particulars	Terms	Date of issue	Annual fixed interest Rate (%)	Nominal value (in million)	Group and Bank Carrying amount	
					As at 30 June 2009	As at 31 December 2008
Fixed rate notes (note (i))	61 months	from 31 March to 10 June 2004	4.59 to 5.10	3,500	1,000	3,500
Fixed rate notes (note (ii))	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from 6 year onwards, if the notes are not called by the Bank)	19,000	18,966	18,962
Fixed rate notes (note (ii))	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	6,986	6,986
Floating rate notes (note (ii))	120 months	4 September 2008	R*+1.53% (for the first 5 years); R*+4.53% (from 6 years onwards, if the notes are not called by the Bank)	4,000	3,993	3,992
					30,945	33,440

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 4 September 2008 was 4.14%.

Note:

- (i) The CBRC approved the Bank's issuance of RMB3,500 million subordinated notes on 30 March 2004 (Yin Jian Fu 【2004】 No. 36), and the amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio. Interest on the subordinated notes is payable annually.
- (ii) The CBRC and PBOC approved the Bank's issuance of RMB30 billion 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 amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

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(Expressed in millions of Renminbi unless otherwise stated)

28 SHARE CAPITAL

	Registered and issued share capital	
	No. of shares (in million)	Amount
At 1 January 2009	14,707	14,707
Conversion of convertible bonds	-	-
At 30 June 2009	14,707	14,707
At 1 January 2008	14,705	14,705
Conversion of convertible bonds	2	2
At 31 December 2008	14,707	14,707

By type of share:

	No. of shares (in million)	
	As at 30 June 2009	As at 31 December 2008
Listed shares		
– A-Shares		
– with trading moratorium	-	4,799
– without trading moratorium	12,045	7,246
– H-Shares	2,662	2,662
	14,707	14,707

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

29 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	Six months ended 30 June 2009	Year ended 31 December 2008	Six months ended 30 June 2008
Dividends in respect of the previous year, approved, declared and paid during the period:			
Approved and declared cash dividends RMB1 per every 10 shares	1,471	–	–
Approved and declared stock dividends 3 shares per every 10 shares	4,412	–	–
Approved, declared and paid cash dividends RMB2.8 per every 10 shares	–	4,117	4,117

(b) Proposed profit appropriations

Items	Amount appropriated in respect of		
	the six months ended 30 June 2009	the year ended 31 December 2008	the six months ended 30 June 2008
Statutory surplus reserve	–	2,041	–
Dividends:			
– cash dividends: Nil (2008: RMB1 per every 10 shares)	–	1,471	–
– stock dividends: Nil (2008: 3 shares per every 10 shares)	–	4,412	–
	–	7,924	–

2008 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 24 April 2009 and was approved in the annual general meeting held on 19 June 2009.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balances of cash and cash equivalents

	As at 30 June 2009	As at 30 June 2008
Cash	7,360	5,838
With original maturity within 3 months:		
– balances with banks and other financial institutions	42,622	11,467
– balances with central bank	39,648	44,729
– placements with banks and other financial institutions	79,789	52,340
– investment securities:		
– at fair value through profit or loss	867	52
– available-for-sale	1,023	4,361
	171,309	118,787

(b) Significant non-cash transactions

Apart from the non-cash transactions relating to the conversion of convertible bonds to share capital during the period of which the details are included in note 27(b), there were no other significant non-cash transactions.

31 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.

On first-time adoption of IFRS 8, Operating segments, to be consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments:

– Corporate banking

The provision of financial services to corporations and institutions includes lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice and other investment services.

– Retail banking

The provision of financial services to retail customers includes lending and deposit taking activities, credit card facilities and investment services.

– Treasury business

It covers interbank and capital market activities and proprietary trading.

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates and jointly controlled entities. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purposes of segmental analysis, external net interest income/expense represents the net interest income earned or expenses incurred on banking business originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the reportable segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective reportable segments and apportionment of management overheads. Inter-segment interest income and expenses recognised through the internal funds transfer pricing mechanism are eliminated in the consolidated results of the operations and is shown in the reconciliation. The Bank's capital attribution methodologies involve a number of assumptions and estimates that are revised periodically by management. Such methodologies have been revised by management in 2008 to reflect the latest development in the market.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities

	Corporate banking		Retail banking		Treasury business		Others		Total	
	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30
	June 2009	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009	June 2008
External net interest income	10,083	12,104	2,112	3,535	6,422	8,486	6	-	18,623	24,125
Internal net interest income/(expense)	294	(266)	3,399	2,234	(3,696)	(1,968)	3	-	-	-
Net interest income	10,377	11,838	5,511	5,769	2,726	6,518	9	-	18,623	24,125
Net fee and commission income	1,431	1,474	2,414	2,529	(2)	-	101	-	3,944	4,003
Other net income/(expense)	512	503	254	143	1,027	(148)	144	25	1,937	523
Insurance operating income	-	-	-	-	-	-	187	-	187	-
Operating income	12,320	13,815	8,179	8,441	3,751	6,370	441	25	24,691	28,651
Operating expenses										
- depreciation	(287)	(222)	(644)	(364)	(35)	(19)	(81)	(12)	(1,047)	(617)
- others	(4,656)	(4,469)	(5,512)	(4,692)	(493)	(527)	(56)	(1)	(10,717)	(9,689)
Charge for insurance claims	-	-	-	-	-	-	(160)	-	(160)	-
	(4,943)	(4,691)	(6,156)	(5,056)	(528)	(546)	(297)	(13)	(11,924)	(10,306)
Reportable segment profit before impairment losses	7,377	9,124	2,023	3,385	3,223	5,824	144	12	12,767	18,345
Impairment losses	(1,968)	(1,150)	(671)	(508)	44	273	(5)	-	(2,600)	(1,385)
Share of profit of associates and jointly controlled entities	-	-	-	-	-	-	30	33	30	33
Reportable segment profit before tax	5,409	7,974	1,352	2,877	3,267	6,097	169	45	10,197	16,993
Capital expenditure (note)	376	653	858	1,070	46	57	2	-	1,282	1,780

	Corporate banking		Retail banking		Treasury business		Others		Total	
	As at 30 June 2009	As at 31 December 2008	As at 30 June 2009	As at 31 December 2008	As at 30 June 2009	As at 31 December 2008	As at 30 June 2009	As at 31 December 2008	As at 30 June 2009	As at 31 December 2008
	Reportable segment assets	855,828	636,676	292,535	236,756	802,537	677,360	4,881	4,831	1,955,781
Reportable segment liabilities	949,419	735,249	610,716	532,441	314,717	212,849	1,848	1,718	1,876,700	1,482,257
Interest in associates and jointly controlled entities	-	-	-	-	-	-	431	402	431	402

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some period.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenues		
Total revenues for reportable segments	24,691	28,651
Other revenues	100	136
Consolidated revenue	24,791	28,787
Profit		
Total profit or loss for reportable segments	10,197	16,993
Other (loss)/profit	(19)	129
Consolidated profit before income tax	10,178	17,122
	As at 30 June 2009	As at 31 December 2008
Assets		
Total assets for reportable segments	1,955,781	1,555,623
Goodwill	9,598	9,598
Intangible assets	1,135	1,155
Deferred tax assets	2,480	2,521
Other unallocated assets	3,774	2,900
Consolidated total assets	1,972,768	1,571,797

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(continued)*

	As at 30 June 2009	As at 31 December 2008
Liabilities		
Total liabilities for reportable segments	1,876,700	1,482,257
Current taxation	1,018	2,956
Deferred tax liabilities	881	848
Other unallocated liabilities	9,984	5,955
Consolidated total liabilities	1,888,583	1,492,016

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operation in Hong Kong, New York and subsidiaries operating in Hong Kong and Shanghai.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

- “Eastern China” region refers to the following areas serviced by the subsidiary and branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;
- “Southern and Central China” region refers to the Head Office and the following areas serviced by the associate and branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province, Henan Province and Guangxi Autonomous Region;
- “Western China” region refers to the following areas serviced by the branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region;
- “Northern China” region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Liaoning Province, Jilin Province, Heilongjiang Province, Shanxi Province and Inner Mongolia Autonomous Region; and
- “Outside Mainland China” refers to operations of Hong Kong branch, New York branch and the overseas operations of subsidiaries.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Revenues		Non-current assets	
	Six months ended 30 June 2009	Six months ended 30 June 2008	As at 30 June 2009	As at 31 December 2008
Eastern China	8,796	10,013	3,907	3,555
Southern and Central China	10,696	12,441	14,592	14,604
Western China	1,834	2,502	1,267	1,258
Northern China	2,086	3,690	1,284	1,382
Outside Mainland China	1,379	141	6,405	6,644
Total	24,791	28,787	27,455	27,443

32 OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

(i) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	As at 30 June 2009	As at 31 December 2008
Contractual amount		
Irrevocable guarantees	73,347	69,408
Irrevocable letters of credit	25,973	17,721
Bills of acceptances	445,632	197,582
Irrevocable loan commitments		
– with an original maturity of under one year	4,278	929
– with an original maturity of one year or over	18,724	13,139
Credit card commitments	102,033	92,877
Shipping guarantees	4	3
	669,991	391,659

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(a) Contingent liabilities and commitments *(continued)*

(i) Credit commitments *(continued)*

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans. The Directors are of the opinion that the Group will not assume any risks on the unused credit limits for other loan customers as such limits are revocable and subject to the loan approval process. As a result, such balances are not included in the above contingent liabilities and commitments.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB658,466 million at 30 June 2009 (31 December 2008: RMB605,738 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, 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.

	As at 30 June 2009	As at 31 December 2008
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	153,734	142,914

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

There are no relevant standards prescribed by IFRSs in calculating the above credit risk weighted amounts.

The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

(ii) Capital commitments

Authorised capital commitments not provided for were as follows:

	As at 30 June 2009	As at 31 December 2008
For purchase of fixed assets:		
– Contracted for	1,949	1,848

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(a) Contingent liabilities and commitments *(continued)*

(iii) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	As at 30 June 2009	As at 31 December 2008
Within 1 year	1,130	1,145
After 1 year but within 5 years	3,824	3,417
After 5 years	1,422	1,100
	6,376	5,662

(iv) Outstanding litigations

At 30 June 2009, the Group was a defendant in certain pending litigations with gross claims of RMB359 million (31 December 2008: RMB381 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the interim financial report.

(v) 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 (the "MOF") and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	As at 30 June 2009	As at 31 December 2008
Redemption obligations	7,887	6,461

The Group expects the amount of redemption before the maturity date of these government bonds through the Group will not be material.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives

Derivatives are off-balance sheet financial instruments which mainly include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose.

The following tables provide an analysis of the notional amounts of derivatives of the Group and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the transaction volume outstanding at the balance sheet date; they do not represent amounts at risk.

	As at 30 June 2009						
	Notional amounts with remaining life of					Fair values	
	Less than 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	31,974	1,596	3,969	137	37,676	89	(222)
Currency derivatives							
Spot	28,648	-	-	-	28,648	5	(6)
Forwards	10,809	39,035	1,270	-	51,114	608	(480)
Foreign exchange swaps	7,310	10,797	1,768	-	19,875	42	(120)
Options	12,484	1	-	-	12,485	137	(140)
	59,251	49,833	3,038	-	112,122	792	(746)
Other derivatives							
Equity swaps	-	-	298	-	298	8	(8)
Equity options	593	2	-	-	595	5	(5)
Credit default swaps	-	137	3,204	-	3,341	5	(15)
	593	139	3,502	-	4,234	18	(28)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	112	1,368	2,340	-	3,820	66	(198)
Other derivatives							
Equity options	44	370	1,560	-	1,974	-	(144)
	156	1,738	3,900	-	5,794	66	(342)
Total						965	(1,338)

(Note 17(a))

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	As at 31 December 2008					Fair values	
	Notional amounts with remaining life of				Total	Assets	Liabilities
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years			
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	1,190	33,338	5,834	136	40,498	178	(238)
Currency derivatives							
Spot	15,895	–	–	–	15,895	17	(16)
Forwards	20,024	32,217	1,344	–	53,585	1,400	(1,165)
Foreign exchange swaps	10,724	9,645	405	–	20,774	216	(113)
Options	9,654	56	–	–	9,710	295	(318)
	56,297	41,918	1,749	–	99,964	1,928	(1,612)
Other derivatives							
Equity swaps	1,617	1,189	112	–	2,918	59	(59)
Equity options	351	16	–	–	367	6	(6)
Credit default swaps	–	–	3,303	–	3,303	97	(187)
	1,968	1,205	3,415	–	6,588	162	(252)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	670	1,353	1,605	–	3,628	19	(164)
Total						2,287	(2,266)

(Note 17(a))

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts take into account the effects of bilateral netting arrangements.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

Credit risk weighted amounts

	As at 30 June 2009	As at 31 December 2008
Interest rate derivatives	32	62
Currency derivatives	473	585
Other derivatives	41	37
	546	684

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

33 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is included in the income statement as fee income.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	As at 30 June 2009	As at 31 December 2008
Entrusted loans	67,657	75,214
Entrusted loan funds	67,657	75,224

33 TRANSACTIONS ON BEHALF OF CUSTOMERS *(continued)*

(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, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The investments of the wealth management products and the funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheet. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

At the balance sheet date, funds received from customers under wealth management services were as follows:

	As at 30 June 2009	As at 31 December 2008
Funds received from customers under wealth management services	50,620	60,718

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE

	As at 30 June 2009							
	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))	46,026	-	-	-	-	-	159,638	205,664
Amounts due from banks and other financial institutions	8,497	93,490	113,068	30,651	438	-	-	246,144
Loans and advances to customers (note (ii))	3,318	56,897	166,858	493,927	221,647	182,102	3,462	1,128,211
Investments (note (iii))	-	8,330	13,596	45,833	200,237	76,536	2,008	346,540
– at fair value through profit or loss	-	308	1,583	2,095	11,879	2,950	889	19,704
– available-for-sale	-	2,006	9,122	24,500	143,183	52,725	1,106	232,642
– held-to-maturity	-	5,841	2,575	14,313	37,036	19,961	7	79,733
– receivables	-	175	316	4,925	8,139	900	6	14,461
Other assets	9,152	1,774	1,895	2,726	358	100	30,204	46,209
Total assets	66,993	160,491	295,417	573,137	422,680	258,738	195,312	1,972,768
Amounts due to banks and other financial institutions	154,026	62,258	8,784	26,344	1,001	-	-	252,413
Deposits from customers (note (iv))	741,027	213,508	206,243	296,880	61,485	21,539	-	1,540,682
Financial liabilities at fair value through profit or loss	-	94	93	883	52	-	1,338	2,460
Certificates of deposit issued	-	-	-	1,812	88	-	-	1,900
Convertible bonds issued	-	-	-	2	-	-	-	2
Other debts issued	-	-	-	-	4,997	-	-	4,997
Subordinated notes issued	-	1,000	-	-	-	29,945	-	30,945
Other liabilities	47,075	1,465	1,802	2,613	1,694	322	213	55,184
Total liabilities	942,128	278,325	216,922	328,534	69,317	51,806	1,551	1,888,583
(Short)/long position	(875,135)	(117,834)	78,495	244,603	353,363	206,932	193,761	84,185

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE *(continued)*

	As at 31 December 2008							
	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))	53,680	-	-	-	-	-	127,921	181,601
Amounts due from banks and other financial institutions	14,039	93,564	59,747	18,731	385	-	-	186,466
Loans and advances to customers (note (ii))	3,508	45,899	117,208	374,444	167,610	141,556	2,529	852,754
Investments (note (iii))	-	16,550	18,734	76,507	136,272	58,959	3,424	310,446
- at fair value through profit or loss	-	625	1,139	5,074	7,022	1,454	2,385	17,699
- available-for-sale	-	12,923	15,119	62,834	71,594	43,462	1,027	206,959
- held-to-maturity	-	3,002	1,860	6,685	45,463	13,357	6	70,373
- receivables	-	-	616	1,914	12,193	686	6	15,415
Other assets	4,935	1,248	1,353	2,310	862	1,032	28,790	40,530
Total assets	76,162	157,261	197,042	471,992	305,129	201,547	162,664	1,571,797
Amounts due to banks and other financial institutions	98,456	34,179	28,485	3,635	1,161	-	-	165,916
Deposits from customers (note (iv))	694,315	113,071	144,483	238,655	58,570	1,554	-	1,250,648
Financial liabilities at fair value through profit or loss	-	317	471	1,069	495	-	2,266	4,618
Certificates of deposit issued	-	440	306	610	484	-	-	1,840
Convertible bonds issued	-	-	-	2	-	-	-	2
Other debts issued	-	-	-	-	4,996	-	-	4,996
Subordinated notes issued	-	-	-	-	3,500	29,940	-	33,440
Other liabilities	22,698	837	1,485	2,484	1,475	1,318	259	30,556
Total liabilities	815,469	148,844	175,230	246,455	70,681	32,812	2,525	1,492,016
(Short)/long position	(739,307)	8,417	21,812	225,537	234,448	168,735	160,139	79,781

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE *(continued)*

Notes:

- (i) For balances with central bank, indefinite amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.
- (ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals was overdue for more than 1 month. The indefinite amounts are stated net of appropriate allowances for impairments.
- (iii) The remaining maturities of trading assets and assets designated 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.

35 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Transaction terms and conditions

During the periods, 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 Directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2009	2008
Short-term loans	4.86% to 5.31% p.a.	4.86% to 7.47% p.a.
Medium to long-term loans	5.40% to 5.94% p.a.	5.40% to 7.83% p.a.
Saving deposits	0.36% p.a.	0.36% to 0.72% p.a.
Time deposits	1.17% to 3.60% p.a.	1.17% to 5.85% p.a.

There were no allowances for impairment losses made on an individual basis against loans and advances granted to related parties during the periods.

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(b) Shareholders and their related companies

The Bank's largest shareholder China Merchants Steam Navigation Company Limited ("CMSNCL") and its related companies hold 18.10% (12.37% (31 December 2008: 12.37%) held directly by CMSNCL) of the Bank's shares as at 30 June 2009 (31 December 2008: 18.04%). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	As at 30 June 2009	As at 31 December 2008
<i>On balance sheet:</i>		
Loans and advances	3,508	4,441
Investments	2,843	2,168
Deposits from customers	26,484	23,258
<i>Off balance sheet:</i>		
Irrevocable guarantees	920	988
Irrevocable letters of credit	113	169
Bills of acceptances	431	269
	Six months ended 30 June	
	2009	2008
Average balance of loans and advances	3,239	3,780
Interest income	180	118
Interest expense	292	335
Fees and commission income	244	245

NOTES TO THE INTERIM FINANCIAL REPORT

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(c) Companies controlled by directors other than those under note 35(b) above

	As at 30 June 2009	As at 31 December 2008
<i>On balance sheet:</i>		
Loans and advances	2,869	–
Investments	–	370
Deposits from customers	17,331	8,266
<i>Off balance sheet:</i>		
Irrevocable letters of credit	9	–
Bills of acceptances	77	11
	Six months ended 30 June	
	2009	2008
Average balance of loans and advances	1,485	18
Interest income	12	2
Interest expense	74	5
Fees and commission income	17	1

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(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared in accordance with the guideline "Regulation Governing Capital Adequacy of Commercial Banks" 【Order (2007) No.11】 issued by the CBRC (the "CBRC guideline") in July 2007, which may have significant differences with the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Group as at 30 June 2009 and as at 31 December 2008, calculated based on PRC GAAP, were as follows:

	As at 30 June 2009	As at 31 December 2008
Core capital adequacy ratio	6.50%	6.56%
Capital adequacy ratio	10.63%	11.34%
Components of capital base		
Core capital:		
– Paid up ordinary share capital	14,707	14,707
– Reserves	67,759	56,765
Total core capital	82,466	71,472
Supplementary capital:		
– General provisions for doubtful debts	16,115	13,795
– Term subordinated bonds	30,200	30,074
– Convertible bonds	2	2
– Other supplementary capital	491	1,745
Total supplementary capital	46,808	45,616
Total capital base before deductions	129,274	117,088
Deductions:		
– Goodwill	9,598	9,598
– Investments in unconsolidated subsidiaries and other long-term investments	672	1,044
– Investment in commercial real estate	1,949	2,407
Total capital base after deductions	117,055	104,039
Risk weighted assets	1,100,838	917,201

Unaudited supplementary financial information

(Expressed in millions of Renminbi unless otherwise stated)

(B) LIQUIDITY RATIOS

	As at 30 June 2009	As at 31 December 2008
Liquidity ratios		
RMB current assets to RMB current liabilities	40.2%	47.2%
Foreign currency current assets to foreign currency current liabilities	83.1%	99.1%

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and the CBRC and based on PRC GAAP.

(C) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a 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.

As at 30 June 2009				
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	32,437	2,586	61,032	96,055
– of which attributed to Hong Kong	4,574	2,515	57,825	64,914
Europe	45,643	22	855	46,520
North and South America	9,588	43	4,821	14,452
	87,668	2,651	66,708	157,027

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(Expressed in millions of Renminbi unless otherwise stated)

(C) CROSS-BORDER CLAIMS *(continued)*

	As at 31 December 2008			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	28,876	1,849	55,331	86,056
– of which attributed to Hong Kong	4,352	1,849	54,057	60,258
Europe	39,967	–	444	40,411
North and South America	11,930	348	3,881	16,159
	80,773	2,197	59,656	142,626

(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers that are more than 90 days overdue are analysed as follows:

(i) By geographical segments

	As at 30 June 2009	As at 31 December 2008
Eastern China	3,219	2,317
Southern and Central China	3,563	3,469
Western China	1,338	1,444
Northern China	898	856
Others	175	133
	9,193	8,219

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(Expressed in millions of Renminbi unless otherwise stated)

(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(ii) By overdue period

	As at 30 June 2009	As at 31 December 2008
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	1,239	710
– between 6 and 12 months	1,592	882
– over 12 months	6,362	6,627
Total	9,193	8,219
As a percentage of total gross loans and advances:		
– between 3 and 6 months	0.11%	0.08%
– between 6 and 12 months	0.14%	0.10%
– over 12 months	0.55%	0.76%
Total	0.80%	0.94%

(iii) Collateral information

	As at 30 June 2009	As at 31 December 2008 (Restated)
Secured portion of overdue loans and advances	1,422	1,155
Unsecured portion of overdue loans and advances	7,467	6,779
Value of collaterals held against overdue loans and advances	1,475	1,188
Provision of overdue loans and advances for which impairment losses are individually assessed	5,820	5,905

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(Expressed in millions of Renminbi unless otherwise stated)

(E) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

Loans and advances to financial institutions that are more than 90 days overdue are analysed as follows:

(i) By geographical segments

	As at 30 June 2009	As at 31 December 2008
Northern China	7	7

(ii) By overdue period

	As at 30 June 2009	As at 31 December 2008
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of:		
– between 3 and 6 months	–	1
– between 6 and 12 months	1	3
– over 12 months	6	3
Total	7	7
As a percentage of total gross loans and advances:		
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	–
Total	–	–

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(Expressed in millions of Renminbi unless otherwise stated)

(E) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(continued)

(iii) Collateral information

	As at 30 June 2009	As at 31 December 2008
Secured portion of overdue loans and advances	–	–
Unsecured portion of overdue loans and advances	7	7
Value of collaterals held against overdue loans and advances	–	–
Provision of overdue loans and advances for which impairment losses are individually assessed	4	4

Note: The above analysis, (d) and (e), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

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

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

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

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

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(Expressed in millions of Renminbi unless otherwise stated)

(F) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2009		As at 31 December 2008	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	1,493	0.13%	1,426	0.16%
Less:				
– rescheduled loans and advances but overdue more than 90 days	893	0.08%	1,009	0.12%
Rescheduled loans and advances overdue less than 90 days	600	0.05%	417	0.05%

There were no rescheduled loans and advances to financial institutions as at 30 June 2009 and 31 December 2008.

(G) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 2009 and 31 December 2008, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the notes to the interim financial report.

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(Expressed in millions of Renminbi unless otherwise stated)

(H) CURRENCY CONCENTRATIONS OTHER THAN RMB

	As at 30 June 2009			Total
	US Dollars	HK Dollars	Others	
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	118,521	97,461	26,376	242,358
Spot liabilities	(103,136)	(91,719)	(25,565)	(220,420)
Forward purchases	52,058	5,171	3,897	61,126
Forward sales	(47,878)	(4,958)	(4,858)	(57,694)
Net option position	(53)	4	49	–
Net long/(short) position	19,512	5,959	(101)	25,370
Net structural position	281	32,873	–	33,154

	As at 31 December 2008			Total
	US Dollars	HK Dollars	Others	
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	106,510	74,677	22,122	203,309
Spot liabilities	(94,871)	(71,502)	(23,431)	(189,804)
Forward purchases	45,858	5,035	5,925	56,818
Forward sales	(47,265)	(2,394)	(4,427)	(54,086)
Net option position	(22)	2	20	–
Net long position	10,210	5,818	209	16,237
Net structural position	269	31,693	–	31,962

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of overseas branches; and
- Investment in subsidiaries.

(I) RISK MANAGEMENT

(i) Credit risk

Credit risk represents the potential loss that may arise from the failure of 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 Management and Internal Control Committee is set up and is appointed by the Board to be responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions. To mitigate risk, the Group may obtain collateral and guarantees where appropriate.

With respect to daily operations, the Risk Management Department, as directed by the Risk Management and Internal Control Committee, coordinates and monitors the work of other risk management functions, including the Corporate Banking Department and the Legal and Compliance Department.

With respect to the credit risk management of corporate and institutional business, the Group enhanced post-lending monitoring, and refined the industry-specific guideline and credit policy baseline for credit approval. Fine-tuning credit acceptance and exit policies, and optimizing its economic capital management and credit risk limit management have also contributed to the improvement in asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, where appropriate, the Group requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

In respect of the loan portfolio, the Group adopts a risk based loan classification methodology. The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

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(I) RISK MANAGEMENT *(continued)*

(i) Credit risk *(continued)*

The risks involved in credit commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain numbers 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.

Analyses of loans and advances by industry, customer type and nature are stated in notes 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 the financial derivatives, the Group has signed netting agreements with certain counterparties.

The impact of market turmoil on credit risk

In the first half of 2009, the Group continues to adopt a prudence approach in investing in investments to minimize the Group's exposure to credit risk. Over 90% of the investments held by the Group were issued by the PRC Government, the PBOC, the PRC policy banks and large PRC-based corporations and commercial banks with high credit ratings. The remaining amount, just under 10%, was issued by large corporations and financial institutions domiciled outside PRC with investment grade credit ratings from the major agencies. Given that the impact of the financial crisis on China's economy was relatively minimal (when compared with the US and Europe), the credit quality of the Group remained stable.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk. The Group is exposed to market risk primarily through its proprietary trading activities. The Group considers that any market risk arising from its proprietary trading book is not material.

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Planning and Finance Department is responsible for implementing the market risk management policies and procedures.

(I) RISK MANAGEMENT *(continued)*

(ii) Market risk *(continued)*

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

The historical simulation model for the Value-at-risk ("VaR") analysis is used by the Group to measure and monitor the market risk of its trading portfolio. Gap analysis and scenario analysis are used by the Group to measure and monitor the market risk of its non-trading business. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Effective from October 2007, the Group's Planning and Finance Department calculates VaR using the historical movement in market rates and prices, at a 99% confidence level, the observation period is 250 trading days and the holding period is 10 days.

The impact of market turmoil on market risk

In the first half of 2009, market risks were under control amid a more stable global financial market. The Bank maintained appropriately loose market liquidity, and the credit spread volatility had largely narrowed to a normal level. With the recovery of overseas credit markets, the prices of credit bonds denominated in foreign currencies rose steadily. At the same time, the domestic bonds market rose sharply within a short period of time at the beginning of the year as the PBOC cut its interest rates several times during the second half of last year; however, with the progressive improvement of macro-economic statistics and the increased market expectation of economic recovery and long-term inflation, the market return rates continued to rise and the prices of bonds decreased subsequently. The investment portfolio of the Group mainly consisted of debt securities issued by the PRC Government, PRC policy banks and large PRC-based corporations and commercial banks with high credit ratings. The return on investment for the first half of the year remained stable, with positive market risk indicators being recorded.

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(I) RISK MANAGEMENT *(continued)*

(iii) Currency risk

The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities.

The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group also reviews and analyses its exposures to currency risks regularly. To mitigate currency risks, the Group adjust its foreign currency positions according to the movements in the foreign exchange rate.

In the first half of 2009, the median price of the US dollar against RMB remained largely stable; with the spot rate of RMB mostly fluctuated within a narrow band of around 6.83. The Group used various measures including price leverage to adjust foreign-currencies denominated asset-liability structures as well as to manage foreign exchange exposures and exchange losses.

(iv) Interest rate risk

The Group's interest rate exposures are primarily those arising from the basis risk of its lending and deposit taking activities governed by the benchmark interest rate set by the PBOC, and the repricing of assets and liabilities.

The ALCO regularly monitors such interest rate risk positions. The Group regularly performs gap analysis, sensitivity analysis, scenario analysis and stress tests on these interest rate positions to measure and manage the risk in order to limit the potential adverse impacts of movements in interest rate on net interest income.

As the reference interest rates for RMB loans and deposits are determined by the PBOC, the Group follows the interest rates set by the PBOC when carrying out lending and deposit taking activities. The Group monetary assets and liabilities are mainly in RMB.

(v) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the Planning and Finance Department. The ALCO is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The liquidity of the Group is centrally managed by the Head Office using the internal funds transfer pricing mechanism.

(I) RISK MANAGEMENT *(continued)*

(v) Liquidity risk *(continued)*

The Group adopts a centralised liquidity management approach. Through the internal funds transfer pricing mechanism, branches are guided to adjust the durations and product structures of their assets and liabilities. The Group closely monitors its daily position, monthly liquidity ratio and liquidity gap ratio, and performs stress testing to verify the bank's ability to meet liquidity needs under extreme circumstances. In addition, the Group has a liquidity risk warning system and a liquidity contingency plan in place to tackle any liquidity crises.

In the first half of 2009, the Group adhered to the macro-economic loose monetary policies, and avoided the redundancy of capital and enhanced the efficiency in capital utilization by increasing its efforts in credit extension and encouraging different investment and financing businesses including interbank placements and repurchase of bills to be developed. At the end of the second quarter, with the PBOC slightly adjusted its monetary policies, market liquidity changed from extremely loose to moderately loose. The Group took into account the actual situation, and adjusted its liquidity management strategies well in advance according to the changes in monetary policies with a view to enhance the flexibility in capital utilization. The Group adjusted its liquidity management strategies based on macro-economic policies to ensure that its capital could be fully utilized with prudent liquidity management as a prerequisite.

The majority of the Group's assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. In addition, during last year, RMB30 billion was raised with the issue of subordinate debt to ensure stable funding. An analysis of the past three years' data shows that the Group's deposits from customers have been growing continuously, with a rising variety of deposit products with various maturities and have become a stable source of funds for the Group.

13.5% (2008: 13.5%) and 5% (2008: 5%) of eligible RMB deposits and foreign currency deposits respectively are deposits in PBOC as required.

The impact of market turmoil on liquidity risk

A significant aspect of the market turmoil continues to be its adverse effect on the liquidity and funding risk profile of the banking system in the US and Europe. The Group's interbank funding transactions were mainly with PRC banks, and China's money market was not significantly affected by the global financial crisis. As a result, the liquidity position of the Group remained stable.

(vi) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

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(Expressed in millions of Renminbi unless otherwise stated)

(I) RISK MANAGEMENT *(continued)*

(vi) Operational risk *(continued)*

The Group manages this risk through a controls-based environment by establishing a framework of policies and procedures to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, asset recovery and legal affairs. This has allowed the Group to identify and address the operational risk inherent in key products, activities, processes and systems.

(J) CAPITAL MANAGEMENT

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management.

The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. These guidelines may differ significantly from the relevant requirements in Hong Kong or other jurisdictions. The capital of the Group is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital of ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interest, after the deductions of dividends declared after the balance sheet date, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions, long-term subordinated debts, and reserves arising from changes in the fair value of available-for-sale debt securities.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on-and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.



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