招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司

CHINA MERCHANTS BANK CO., LTD.

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

(Stock code: 03968)

2011 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Merchants Bank Co., Ltd. (the "Company") hereby announces the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2011. This announcement, containing the full text of the 2011 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company's 2011 Interim Report will in due course be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at (www.hkex.com.hk) and the Company at (www.cmbchina.com).

Publication of Results Announcement

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

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

By Order of the Board
China Merchants Bank Co., Ltd.
Fu Yuning
Chairman

30 August 2011

As at the date of this announcement, the executive directors of the Company are Ma Weihua, Zhang Guanghua and Li Hao; the non-executive directors of the Company are Fu Yuning, Wei Jiafu, Li Yinquan, Fu Gangfeng, Hong Xiaoyuan, Sun Yueying, Wang Daxiong and Fu Junyuan; and the independent non-executive directors of the Company are Yi Xiqun, Wong Kwai Lam, Yan Lan, Chow Kwong Fai, Edward, Liu Yongzhang and Liu Hongxia.

2011
INTERIM REPORT

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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 20th meeting of the Eighth Session of the Board of Directors of the Company was held in Qingdao on 30 August 2011. The meeting was presided by Fu Yuning, Chairman of the Board of Directors. 14 out of 17 eligible Directors attended the meeting. Wei Jiafu, Vice-Chairman, appointed Sun Yueying, Director; Fu Junyuan, Director, appointed Wang Daxiong, Director, and Liu Yongzhang, Independent Non-executive Director appointed Chow Kwong Fai, Edward, Independent Non-executive Director to vote on their behalf respectively. 17 votes were valid. 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 2011 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.

Fu Yuning, Chairman of the Company, Ma Weihua, President and Chief Executive Officer, Li Hao, Executive Vice President and Chief Financial Officer, and 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.

I Company Information

1.1 Company Profile

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

1.1.2 Legal Representative: Fu Yuning
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)
Securities Representative: Wu Jianbing

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

1.1.4 Mailing Address:
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
Email: cmb@cmbchina.com
Website: www.cmbchina.com

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

1.1.6 Share Listing:

A 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: 03968

1.1.7 Domestic Auditor: KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

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

1.1.9 Depository for A Share: China Securities Depository & Clearing Corporation Ltd., Shanghai Branch

1.1.10 Share Registrar and Transfer Office as to H Share: Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

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

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

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

Interim report available at: Office of the Board of Directors of the Company

1.1.12 Other Information about the Company:

Initial registration date: 31 March 1987

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

Registered No. of business license for an enterprise as a legal person: 440301104433862

Taxation Registration No.: Shen Shui Deng Zi 44030010001686X

Organization Code: 10001686-X

2.1 Key Financial Data

Operating Results	**January – June 2011**	January – June 2010	Changes
	(in millions of RMB)		+/(-)%
Net operating income[1]	**46,221**	33,010	40.02
Profit before tax	**24,176**	17,030	41.96
Net profit attributable to the Bank's shareholders	**18,600**	13,203	40.88

Per Share	**January – June 2011**	January – June 2010	Changes
	(RMB)		+/(-)%
Basic earnings attributable to the Bank's shareholders	**0.86**	0.65	32.31
Diluted earnings attributable to the Bank's shareholders	**0.86**	0.65	32.31
Period-end net assets attributable to the Bank's shareholders	**6.74**	5.79	16.41

Financial Indicators	**As at 30 June 2011**	As at 31 December 2010	Changes
	(in millions of RMB)		+/(-)%
Total assets	**2,643,205**	2,402,507	10.02
of which: total loans and advances to customers	**1,554,792**	1,431,451	8.62
Total liabilities	**2,497,773**	2,268,501	10.11
of which: total deposits from customers	**2,092,758**	1,897,178	10.31
Total equity attributable to the Bank's shareholders	**145,432**	134,006	8.53

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

2.2 Financial Ratios

	January – June 2011 (%)	January – December 2010 (%)	January – June 2010 (%)	Changes over the corresponding period of last year +/(-)
Profitability ratios[1]				
Return on average assets (after tax) attributable to the Bank's shareholders	**1.47**	1.15	1.21	0.26
Return on average equity (after tax) attributable to the Bank's shareholders	**26.62**	22.73	24.27	2.35
Net interest spread	**2.89**	2.56	2.47	0.42
Net interest margin	**2.99**	2.65	2.56	0.43
As percentage of operating income				
– Net interest income	**77.27**	79.54	79.80	(2.53)
– Net non-interest income	**22.73**	20.46	20.20	2.53
Cost-to-income ratio (excluding business tax)	**32.51**	39.69	34.97	(2.46)

	As at 30 June 2011 (%)	As at 31 December 2010 (%)	As at 30 June 2010 (%)	Changes over the end of last year +/(-)
Asset quality ratios				
Non-performing loan ratio	**0.61**	0.68	0.67	(0.07)
Non-performing loan allowance coverage ratio[2]	**348.41**	302.41	297.59	46.00
Allowance-to-loan ratio[3]	**2.13**	2.05	1.98	0.08
Capital adequacy ratios				
Core capital adequacy ratio	**7.81**	8.04	8.05	(0.23)
Capital adequacy ratio	**11.05**	11.47	11.60	(0.42)
Total equity to total assets	**5.50**	5.58	5.47	(0.08)

Notes: (1) The ratios are annualized;

(2) Non-performing loan allowance coverage ratio = allowances for impairment losses/the balance of non-performing loan;

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

3.1 Analysis of General Operating Status

From January to June 2011, amidst the increase in uncertainties about the recovery of global economy as well as the steady growth of overall domestic economy, the Group continued to strengthen its assets and liabilities as well as its financial management, while further fostering the Second Transformation and maintaining a sound overall development trend, which was reflected in the following aspects:

Profitability was constantly being improved. In the first half of 2011, the Group accomplished a net profit attributable to shareholders of the Bank of RMB18.6 billion, a net interest income of RMB35.716 billion and a net non-interest income of RMB10.505 billion, representing an increase of RMB5.397 billion or 40.88%, an increase of RMB9.373 billion or 35.58% and an increase of RMB3.838 billion or 57.57% respectively as compared to the same period of the previous year. Annualized ROAA and ROAE attributable to the shareholders of the Bank were 1.47% and 26.62% respectively, representing an increase from 1.15% and 22.73% of 2010. Our operating efficiency was steadily improved, which was driven by i) a higher net interest income brought about by the significant increase in risk asset pricing given the tightening monetary policy and continuous rise in interest rate; ii) a lower cost-to-income ratio achieved by the enhancement in standardized and refined management; and iii) a rapid growth of net fee and commission income due to concentrated efforts on developing intermediate business.

The scale of assets and liabilities expanded steadily. As at the end of June 2011, the Group's total assets amounted to RMB2,643.205 billion, representing an increase of RMB240.698 billion, or 10.02%, as compared with the beginning of the year. Total loans and advances amounted to RMB1,554.792 billion, representing an increase of RMB123.341 billion, or 8.62%, as compared with the beginning of the year. Deposits from customers amounted to RMB2,092.758 billion, representing an increase of RMB195.580 billion, or 10.31%, as compared with the beginning of the year.

The quality of our assets remained sound. As at the end of June 2011, the Group had a total of non-performing loans of RMB9.506 billion, representing a decrease of RMB180 million as compared with the beginning of the year. The non-performing loan ratio was 0.61%, a decrease of 0.07 percentage point as compared with the beginning of the year. The non-performing loan allowance coverage ratio was 348.41%, an increase of 46 percentage points as compared with the beginning of the year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

	January to June 2011	January to June 2010
	(in millions of RMB)	
Net interest income	**35,716**	26,343
Net fee and commission income	**8,163**	5,346
Other net income	**2,106**	1,123
Insurance operating income	**181**	170
Operating expense	**(17,845)**	(13,454)
Provision for insurance claims	**(136)**	(132)
Share of profits in associates	**41**	24
Share of profits in joint ventures	**14**	4
Impairment losses on assets	**(4,064)**	(2,394)
Profit before tax	**24,176**	17,030
Income tax	**(5,576)**	(3,827)
Net profit attributable to the Bank's shareholders	**18,600**	13,203

From January to June 2011, the Group realized a profit before tax of RMB24.176 billion and an effective income tax rate of 23.06%, representing an increase of 41.96% and 0.59 percentage point respectively as compared with the same period in 2010.

3.2.2 Net operating income

From January to June 2011, the net operating income of the Group was RMB46.221 billion, representing an increase of 40.02% as compared with the same period in 2010. Among which, net interest income accounted for 77.27%, representing a decrease of 2.53 percentage points from the same period in 2010; net non-interest income accounted for 22.73%, representing an increase of 2.53 percentage points from the same period in 2010.

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

	January to June 2011 (%)	January to June 2010 (%)	January to June 2009 (%)
Net interest income	**77.27**	79.80	75.03
Net fee and commission income	**17.66**	16.20	16.28
Other net income	**4.56**	3.40	7.81
Insurance operating income	**0.39**	0.51	0.76
Share of profits in associates & joint ventures	**0.12**	0.09	0.12
Total	**100.00**	100.00	100.00

3.2.3 Net interest income

From January to June 2011, the Group's net interest income amounted to RMB35.716 billion, representing an increase of 35.58% from the same period in 2010, mainly due to (i) the steady expansion of the volume of interest-earning assets; (ii) the significant increase in the yield of interest-earning assets due to tightening monetary policy and interest rate increase as well as continuous rise in net interest spread as a result of controlling the costs for interest-bearing liabilities.

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

	January to June 2011			January to December 2010			January to June 2010		
	Average balance	**Interest income**	**Annualized average yield (%)**	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualized average yield (%)
	(in millions of RMB, excluding percentages)								
Assets									
Loans and advances	**1,494,998**	**42,455**	**5.73**	1,371,641	66,842	4.87	1,411,885	32,052	4.58
Bond investments	**345,883**	**5,665**	**3.30**	318,471	9,178	2.88	306,455	4,327	2.85
Balances with central bank	**327,538**	**2,446**	**1.51**	246,000	3,546	1.44	230,793	1,577	1.38
Placements with banks and other financial institutions	**241,257**	**4,516**	**3.77**	214,503	4,947	2.31	127,443	1,270	2.01
Total interest-earning assets and interest income	**2,409,676**	**55,082**	**4.61**	2,150,615	84,513	3.93	2,076,576	39,226	3.81

	Average balance	**Interest expense**	**Annualized average cost (%)**	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Annualized average cost (%)
	(in millions of RMB, excluding percentages)								
Liabilities									
Deposits from customers	**1,920,159**	**14,060**	**1.48**	1,672,500	20,724	1.24	1,613,411	9,804	1.23
Placements from banks and other financial institutions	**309,988**	**4,414**	**2.87**	295,820	4,842	1.64	283,423	2,137	1.52
Issued debts	**35,219**	**892**	**5.11**	40,082	1,871	4.67	41,290	942	4.60
Total interest-bearing liabilities and interest expense	**2,265,366**	**19,366**	**1.72**	2,008,402	27,437	1.37	1,938,124	12,883	1.34
Net interest income	**–**	**35,716**	**–**	–	57,076	–	–	26,343	–
Net interest spread	**–**	**–**	**2.89**	–	–	2.56	–	–	2.47
Net interest margin	**–**	**–**	**2.99**	–	–	2.65	–	–	2.56

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

	January to June 2011 compared with January to June 2010		
	Increase/(decrease) due to		Net increase/
	volume	Interest rate	(decrease)
	(in millions of RMB)		
Assets			
Loans and advances	2,360	8,043	10,403
Bond investments	646	692	1,338
Balances with central bank	722	147	869
Placements with banks and other financial institutions	2,130	1,116	3,246
Changes in interest income	5,858	9,998	15,856
Liabilities			
Deposits from customers	2,246	2,010	4,256
Placements from banks and other financial institutions	378	1,899	2,277
Issued debts	(154)	104	(50)
Changes in interest expense	2,470	4,013	6,483
Changes in net interest income	3,388	5,985	9,373

3.2.4 Interest income

From January to June 2011, the Group realized an interest income of RMB55.082 billion, an increase of 40.42% as compared with the same period in 2010, mainly due to the increase in the size of interest-earning assets and the rise in yields. Interest income from loans and advances still accounted for the majority of the interest income of the Group.

Interest income from loans and advances

From January to June 2011, the interest income from loans and advances of the Group was RMB42.455 billion, representing an increase of RMB10.403 billion or 32.46% as compared with the corresponding period of previous year. From January to June 2011, given the constant improvement of our credit risk pricing capability and the gradually emerging effect of interest rate rise, the annualised average yield of loans and advances of the Group increased by 1.15 percentage points to 5.73% as compared with the same period of last year.

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

	January to June 2011			January to June 2010		
	Average balance	**Interest income**	**Annualized average yield (%)**	Average balance	Interest income	Annualized average yield (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**915,108**	**25,488**	**5.62**	763,743	18,360	4.85
Retail loans	**511,760**	**14,734**	**5.81**	418,491	10,183	4.91
Discounted bills	**68,130**	**2,233**	**6.61**	229,651	3,509	3.08
Loans and advances	**1,494,998**	**42,455**	**5.73**	1,411,885	32,052	4.58

3.2.5 Interest expense

From January to June 2011, the interest expense of the Group was RMB19.366 billion, an increase of RMB6.483 billion or 50.32% as compared to the same period in the previous year, which was primarily attributable to the increase in volume of deposits from customers and the surge in cost ratios.

Interest expense on deposits from customers

From January to June 2011, the Group's interest expense on deposits from customers increased by RMB4.256 billion or 43.41% as compared to the same period in the previous year. It was because 1) average balance of deposits from customers increased by 19.01% from the same period of last year, and 2) annualized average cost for deposits from customers increased by 0.25 percentage point as compared to the same period in the previous year under the influence of continuous surge in interest rate.

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

	January to June 2011			January to June 2010		
	Average balance	**Interest expense**	**Annualized average cost (%)**	Average balance	Interest expense	Annualized average cost (%)
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**639,939**	**2,234**	**0.70**	531,197	1,623	0.62
Time	**578,625**	**6,970**	**2.43**	461,438	4,329	1.89
Subtotal	**1,218,564**	**9,204**	**1.52**	992,635	5,952	1.21
Deposits from retail customers						
Demand	**408,438**	**1,207**	**0.60**	345,748	898	0.52
Time	**293,157**	**3,649**	**2.51**	275,028	2,954	2.17
Subtotal	**701,595**	**4,856**	**1.40**	620,776	3,852	1.25
Total deposits from customers	**1,920,159**	**14,060**	**1.48**	1,613,411	9,804	1.23

3.2.6 Net interest spread and net interest margin

From January to June 2011, the net interest spread of the Group was 2.89%, up by 42 basis points as compared to the same period in 2010. The annualized average yield of the interest-earning assets was 4.61%, up by 80 basis points as compared to the same period in the previous year while the annualized average cost of interest-bearing liabilities was 1.72%, up by 38 basis points as compared to the same period in the previous year.

From January to June 2011, the net interest margin of the Group was 2.99%, up by 43 basis points as compared with the same period in 2010, which was mainly due to tightening monetary policy and continuous surge in interest rate, leading to a relatively fast growth in both the average yield of interest-earning assets and the net interest income.

3.2.7 Net fee and commission income

From January to June 2011, the net fee and commission income of the Group increased by RMB2.817 billion or 52.69% as compared to the first half of 2010. The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

	January to June 2011	January to June 2010
	(in millions of RMB)	
Fee and commission income	**8,746**	5,836
Bank card fees	**2,260**	1,701
Remittance and settlement fees	**952**	660
Agency services fees	**1,907**	1,550
Commissions from credit commitment and loan business	**837**	568
Commissions from custody and other trustee businesses	**1,409**	708
Others	**1,381**	649
Fee and commission expense	**(583)**	(490)
Net fee and commission income	**8,163**	5,346

Bank card fees increased by RMB559 million or 32.86% as compared to the same period in the previous year, which was primarily attributable to the steady increase in POS service charge driven by the increasing use of POS credit card terminals.

Remittance and clearing fees increased by RMB292 million or 44.24% as compared to the same period in the previous year, which was primarily attributable to the increase in remittance and settlement volume as a result of the steady expansion of business scale and customer base.

Agency services fees increased by RMB357 million or 23.03% as compared to the same period in the previous year, which was primarily attributable to the rapid growth of income from insurance agency, bond issue agency and fund agency services.

Commissions from credit commitment and loan business increased by RMB269 million or 47.36% as compared to the same period in the previous year, which was primarily attributable to the increase in commissions from retail loans and other commitment businesses.

Commissions from custody and other trustee businesses increased by RMB701 million or 99.01% as compared to the same period in the previous year, which was mainly due to the increase in income from entrusted wealth management business as well as fees for trustee agency services.

Other fee and commission income increased by RMB732 million or 112.79% as compared to the same period in the previous year, which was mainly due to the rapid growth of financial advisory service fee and precious metals trading commission.

3.2.8 Other net income

From January to June 2011, other net income of the Group increased by RMB983 million or 87.53% as compared to the same period in 2010, which was mainly due to the incomparable factor that bill spread income was incorporated into other net income.

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

	January to June 2011	January to June 2010
	(in millions of RMB)	
Net trading profit/(loss) arising from:		
– Foreign exchange	**764**	644
– Bonds, derivatives and other trading activities	**308**	461
Net profit/(loss) on financial instruments designated at fair value through profit or loss	**83**	(201)
Net profit/(loss) on disposal of available-for-sale financial assets	**(114)**	111
Distributions from investment in funds	**8**	10
Rental income	**133**	90
Bills spread income(Note)	**892**	–
Others	**32**	8
Total other net income	**2,106**	1,123

Note: We revised the accounting treatment of price spread of sellout bills in the bills system in June 2010. After the revision, when a buyout discounted bill is transferred out, the difference between the unamortized discounted interest income and re-discounting cost shall be treated as price spread, which was previously treated as interest spread before the revision. The revised accounting treatment more accurately reflects the nature of business.

3.2.9 Operating expenses

From January to June 2011, operating expenses of the Group were RMB17.845 billion, representing an increase of 32.64% as compared to the same period in 2010. The cost-to-income ratio was 32.51%, representing a decrease of 2.46 percentage points as compared to the corresponding period of the previous year. The decrease of cost-to-income ratio was primarily due to improving standardization and sophistication in expense management.

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

	January to June 2011	January to June 2010
	(in millions of RMB)	
Staff costs	**9,320**	6,767
Business tax and surcharges	**2,819**	1,910
Depreciation of fixed assets	**1,292**	1,171
Rental expenses	**1,051**	913
Other general and administrative expenses	**3,363**	2,693
Total operating expenses	**17,845**	13,454

3.2.10 Impairment losses on assets

From January to June 2011, impairment losses on assets of the Group were RMB4.064 billion, an increase of 69.76% as compared to the same period in 2010.

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

	January to June 2011	January to June 2010
	(in millions of RMB)	
Impairment losses on assets charged/(released) on		
– Loans and advances	**3,932**	2,451
– Other assets	**132**	(57)
Total impairment losses on assets	**4,064**	2,394

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In the first half of 2011, impairment losses on loans were RMB3.932 billion, representing an increase of 60.42% as compared to the same period of last year. This is mainly because the Group, with prudence as its principle, increased the collective provision for impairment losses on loans to local government financing platforms as well as loans to mainland real estate companies in the first half of 2011. Furthermore, in compliance with the requirements of CBRC, the Group has made provision for impairment losses on assets exposing to country risks and provision for impairment losses on off-balance sheet assets of bank trust wealth management cooperative business. For details of the provision for loan impairment, please refer to the section headed "Loan quality analysis" in this chapter.

Impairment losses on other assets consisted primarily of impairment losses in relation to designated countries. From January to June 2011, the provision for impairment losses on other assets of the Group was RMB132 million.

3.3 Analysis of Balance Sheet

3.3.1 Assets

As at 30 June 2011, the total assets of the Group amounted to RMB2,643.205 billion, representing an increase of 10.02% as compared to the end of 2010. The increase in total assets was primarily due to the increase in loans and advances to customers, investment held to maturity, cash and balances and placements with central bank.

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

	30 June 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, excluding percentages)			
Total loans and advances to customers	**1,554,792**	**58.82**	1,431,451	59.58
Allowance for impairment losses on loans and advances to customers	**(33,120)**	**(1.25)**	(29,291)	(1.22)
Net loans and advances to customers	**1,521,672**	**57.57**	1,402,160	58.36
Investments	**408,158**	**15.44**	394,176	16.41
Cash and balances with banks and other financial institutions	**51,388**	**1.95**	38,211	1.59
Balances with the central bank	**339,825**	**12.86**	285,705	11.89
Placement with banks and other financial institutions	**268,397**	**10.15**	235,464	9.80
Investment in associates and joint ventures	**455**	**0.02**	443	0.02
Fixed assets	**17,996**	**0.68**	18,397	0.77
Intangible assets	**2,655**	**0.10**	2,620	0.11
Deferred tax assets	**4,979**	**0.19**	3,706	0.15
Goodwill	**9,598**	**0.36**	9,598	0.40
Other assets	**18,082**	**0.68**	12,027	0.50
Total assets	**2,643,205**	**100.00**	2,402,507	100.00

3.3.1.1 Loans and advances to customers

As at 30 June 2011, total loans and advances to customers of the Group amounted to RMB1,554.792 billion, representing an increase of 8.62% as compared to the end of the previous year; the percentage of total loans and advances to customers to the total assets was 58.82%, representing a decrease of 0.76 percentage point 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.

	30 June 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, excluding percentages)			
Corporate loans	**953,383**	**61.32**	870,515	60.81
Discounted bills	**64,600**	**4.15**	64,948	4.54
Retail loans	**536,809**	**34.53**	495,988	34.65
Total loans and advances to customers	**1,554,792**	**100.00**	1,431,451	100.00

Corporate loans

As at 30 June 2011, the Group's total corporate loans amounted to RMB953.383 billion, representing an increase of 9.52% as compared to the end of the previous year. Total corporate loans accounted for 61.32% of the total loans and advances to customers, an increase of 0.51 percentage points as compared to the end of the previous year. In the first half of 2011, taking into account the regulatory requirements and limitations on internal capital, the Group granted loans in steady manner thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 30 June 2011, discounted bills amounted to RMB64.6 billion, representing a decrease of 0.54% as compared to the end of the previous year. Over the years, as the loss rate of discounted bills was relatively low and the capital consumption was relatively small, the Group has been expanding this business. Confronted with the tightening monetary policy in the first half of 2011, the Group developed its bill business in line with scale control and adopted diversified measures, including policy promotion, centralised operation and two-way market making. Thanks to these efforts, the Group managed to expand the business volume, accelerate circulation and achieve good results in a shrinking but still competitive market.

Retail loans

With the influence of the sustained tightening policy, the Group's retail loans showed a moderate growth in the first half of 2011. As at 30 June 2011, retail loans amounted to RMB536.809 billion, representing an increase of 8.23% as compared to the end of the previous year. As at 30 June 2011, retail loans accounted for 34.53% of the total loans and advances, down by 0.12 percentage point as compared to the end of the previous year. With the launch of the Second Transformation strategy, the Company upheld the diversified development of retail loans, and placed great emphasis on the development of the low capital-consuming personal residential mortgage loan business and the high-yielding personal operational loan business in the first half of 2011.

The following table sets forth, as at the dates indicated, the Group's retail loans by product type.

	30 June 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, excluding percentages)			
Residential mortgage loans	**306,232**	**57.05**	298,997	60.28
Credit card receivables	**59,319**	**11.05**	54,916	11.07
Personal operational loans	**84,461**	**15.73**	64,609	13.03
Other personal loans(Note)	**86,797**	**16.17**	77,466	15.62
Total retail loans	**536,809**	**100.00**	495,988	100.00

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

3.3.1.2 Investments

Analysis on investments in foreign currency debts

As at 30 June 2011, the Group had a balance of investments in foreign currency bonds of US$5.229 billion, among which US$3.024 billion was held by the Company and US$2.205 billion was held by Wing Lung Bank (hereinafter referred to as "WLB") and its subsidiaries (hereinafter referred to as "WL Group").

As at the end of June 2011, the investments in foreign currency bonds held by the Company are categorized by issuer as follows: 33.5% of the foreign currency bonds are issued by the PRC government and Chinese companies; 30.9% by overseas governments and institutions; 25.8% by overseas banks and 9.8% by overseas companies. The Company has made an allowance for impairment of US$95 million for its investments in foreign currency bonds, with an evaluated unrealized profit of US$35 million.

As at the end of June 2011, the Company did not hold any national debts of the five European countries, i.e. Greece, Italy, Spain, Portugal and Ireland, which suffered most from the European Sovereign Debt Crisis. For the bonds issued by major European banks other than Greek banks which hold a large number of the Greek national bonds, the Company had a balance of US$96 million, which will be due in July 2017 at the latest.

Investments

Investments of the Group are comprised of financial assets at fair value through profit or loss, available-for-sale investments, held-to-maturity bonds and investment receivables.

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

	30 June 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, excluding percentages)			
Financial assets at fair value through profit or loss	**21,566**	**5.28**	16,967	4.31
Available-for-sale investments	**255,742**	**62.66**	272,370	69.10
Held-to-maturity bonds	**120,151**	**29.44**	97,614	24.76
Investment receivables	**10,699**	**2.62**	7,225	1.83
Total investments	**408,158**	**100.00**	394,176	100.00

Available-for-sale investments

As at 30 June 2011, the available-for-sale investments of the Group decreased by RMB16.628 billion or 6.10% as compared to the end of 2010, which nevertheless remained to be the largest investment category of the Group. The decrease in this category was mainly due to the need to allocate assets and liabilities and improve operating efficiency and performance.

In the first half of 2011, amidst the influence and changes of various factors, such as the moderate growth of macro-economy, tightening monetary policy and the demand and supply relationship within the bond market, the short-term yield increased substantially, the yield curve of the Renminbi bonds showed a moderate upward movement and all types of bonds showed different trends in terms of yield. Given the increasing risks in the bond market, the Company reduced the investment scale in this category by cashing in a large inventory of matured bonds in the first half of the year. New investments mainly comprised of short to medium term fixed rate national debts, policy banks' bonds and floating rate bonds. Under the strict control of credit risks, the Company participated in credit product investments in an appropriate manner.

As for the foreign currency debts, given the moderate economy recovery in Europe and the United States, the volatilities of European debt crisis as well as the implementation of the policy of quantitative easing by the US Federal Reserve, the yield of the U.S. bonds for the first half of the year remained at a low level. The Company put great emphasis on adjustment and optimization of structure for the Company's foreign currency investment in the first half of the year, and its existing bond portfolio mainly comprises of high-yield credit bonds associated with Chinese companies.

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

	30 June 2011	31 December 2010
	(in millions of RMB)	
PRC government bonds	**20,236**	27,533
Debts issued by the PBOC	**9,802**	18,970
Debts issued by policy banks	**42,309**	43,493
Debts issued by commercial banks and other financial institutions	**99,292**	105,388
Other debts	**82,809**	75,727
Equity investments	**1,271**	1,235
Fund investments	**23**	24
Total available-for-sale investments	**255,742**	272,370

Held-to-maturity investments

As at 30 June 2011, the net amount of held-to-maturity investments of the Group increased by RMB22.537 billion or 23.09% as compared to the end of the previous year. Held-to-maturity investments are held for the Group's strategic purpose on a long-term basis. Considering that the yield of most national debts and policy banks' bonds has already rebounded or is in close proximity to the highest level of the last cycle, the Group began to increase the investment in middle to long-term fixed rate bonds near the middle of the year, placing focus on PRC government bonds with a relatively high tax-free benefit, and leading to a significant growth of such kind of investment in a short time.

The following table sets forth, as at the dates indicated, the components of held-to-maturity investments of the Group.

	30 June 2011	31 December 2010
	(in millions of RMB)	
PRC government bonds	**57,951**	45,069
Debts issued by PBOC	**15,352**	12,945
Debts issued by policy banks	**5,313**	4,172
Debts issued by commercial banks and other financial institutions	**39,565**	32,988
Other debts	**2,144**	2,620
Total amount of held-to-maturity investments	**120,325**	97,794
Less: allowance for impairment losses	**(174)**	(180)
Net amount of held-to-maturity investments	**120,151**	97,614

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 30 June 2011, the Group's net investment receivables amounted to RMB10.699 billion, representing an increase of RMB3.474 billion as compared to the end of 2010.

The following table shows the components of the Group's investment receivables.

	30 June 2011	31 December 2010
	(in millions of RMB)	
PRC government bonds	**4,073**	5,291
Debts issued by commercial banks and other financial institutions	**1,685**	1,994
Other debts	**5,000**	–
Total investment receivables	**10,758**	7,285
Less: allowance for impairment losses	**(59)**	(60)
Net investment receivables	**10,699**	7,225

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 on 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.

	30 June 2011		31 December 2010	
	Carrying value	**Market/ Fair value**	Carrying value	Market/ Fair value
		(in millions of RMB)		
Held-to-maturity listed investment	**118,908**	**116,948**	94,513	93,429

3.3.1.3 Goodwill

As at 30 June 2011, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.598 billion.

3.3.2 Liabilities

As at 30 June 2011, the total liabilities of the Group amounted to RMB2,497.773 billion, representing an increase of 10.11% as compared to the end of 2010, which was primarily due to a steady growth in deposits from customers.

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

	30 June 2011		31 December 2010	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Deposits from customers	**2,092,758**	**83.78**	1,897,178	83.63
Deposits from banks and other financial institutions	**207,817**	**8.32**	203,011	8.95
Placements from banks and other financial institutions	**95,830**	**3.84**	79,012	3.48
Certificates of deposit issued	**14,296**	**0.57**	5,053	0.22
Subordinated debts issued	**31,212**	**1.25**	31,232	1.38
Current taxation	**4,209**	**0.17**	2,288	0.10
Other liabilities	**51,651**	**2.07**	50,727	2.24
Total liabilities	**2,497,773**	**100.00**	2,268,501	100.00

Deposits from customers

The Group has been focusing on expanding deposit business. Despite the increasingly fierce competition in the first half of 2011, deposits from customers maintained a steady growth. As at 30 June 2011, deposits from customers of the Group amounted to RMB2,092.758 billion, representing an increase of 10.31% as compared to the end of 2010. Deposits from customers accounted for 83.78% of the total liabilities of the Group and were the Group's major source of funds.

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

	30 June 2011		31 December 2010	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**708,174**	**33.84**	664,947	35.05
Time	**627,387**	**29.98**	528,632	27.86
Subtotal	**1,335,561**	**63.82**	1,193,579	62.91
Deposits from retail customers				
Demand	**441,940**	**21.12**	413,888	21.82
Time	**315,257**	**15.06**	289,711	15.27
Subtotal	**757,197**	**36.18**	703,599	37.09
Total deposits from customers	**2,092,758**	**100.00**	1,897,178	100.00

In the first half of 2011, with higher intention of asset allocation, the retail customer deposits flew to various investments as a result of domestic inflation and the launch of various high-yield wealth management products. As at 30 June 2011, the percentage of retail deposits to total deposits from customers of the Group was 36.18%, representing a decrease of 0.91 percentage point as compared to the end of 2010.

With continuous surge in interest rate, the percentage of demand deposit to total deposits from customers declined. As at 30 June 2011, the percentage of demand deposits to total deposits from customers of the Group was 54.96%, representing a decrease of 1.91 percentage points as compared to the end of 2010. Corporate demand deposits accounted for 53.02% of the corporate deposits, representing a decrease of 2.69 percentage points as compared to the end of 2010, and retail demand deposits accounted for 58.37% of the retail deposits, representing a decrease of 0.45 percentage point as compared to the end of 2010.

3.3.3 Shareholders' equity

	30 June 2011	31 December 2010
	(in millions of RMB)	
Paid-up share capital	**21,577**	21,577
Capital reserve	**37,508**	37,508
Surplus reserve	**10,880**	8,418
Investment revaluation reserve	**(1,955)**	(1,311)
Hedge reserve	**9**	3
Regulatory general reserve	**16,894**	16,812
Foreign exchange translation reserve	**(805)**	(526)
Retained profits	**61,324**	42,806
Proposed profit appropriations	**–**	8,719
Total shareholders' equity	**145,432**	134,006

3.3.4 Market share of major products or services

According to the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions published by the People's Bank of China ("PBOC") in June 2011, the market share and ranking of the Bank among the 32 small and medium-sized national banks in terms of loans and deposits at the end of the reporting period are as follows:

Items expressed in RMB	**Market share (%)**	**Ranking**
Total deposits	11.46	1
Total savings deposits	20.05	1
Total loans	10.09	2
Total personal consumption loans	22.67	1

Note: Since 2010, PBOC has applied new classifications for all financial institutions in the PRC based on their total assets in preparing the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions. The banks can be classified into large-sized banks, small and medium-sized national banks and small and medium-sized local banks. The small and medium-sized national banks are China Merchants Bank, Agricultural Development Bank, Export-Import 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, Bohai Bank, Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank,Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank and Bank of Chongqing.

3.4 Loan Quality Analysis

The Group's credit risk management for 2011 will continuously promote overall procedure optimization and actively enhance basic management, with accelerated building of a credit risk management system focusing on creating risk-adjusted value, aiming at building a credit risk management framework which has "a core culture, a strategic planning, a holistic perspective, a sustainable performance and pragmatic measures". During the reporting period, the credit assets of the Group grew with "steady scale expansion, stable asset quality and enhanced allowance coverage".

As at the end of June 2011, total loans and advances of the Group was RMB1,554.792 billion, representing an increase of 123.341 billion, or 8.62%, as compared to the end of the previous year; the non-performing loan ratio was 0.61%, representing a decrease of 0.07 percentage point as compared to the end of the previous year; and the non-performing loan allowance coverage ratio was 348.41%, representing an increase of 46 percentage points as compared to the end of the previous year.

In 2011, the Group adopted a general credit strategy of "supporting new product, promoting small enterprise loan business, strengthening portfolio management and accelerating structural transformation", emphasized efficient and reasonable allocation of credit resources, consolidated the multi-dimensional credit policy research on products, industries and regions and adhered to the core principles of "controlling old while promoting new products, controlling price reduction while adopting fixed pricing, controlling large loans while promoting small loans, controlling loans to "two-highs" industries while promoting loans to green industries, controlling long-term loans while promoting trade loans", so as to achieve the continuous optimization of our assets structure.

3.4.1 Distribution of loans by 5-tier loan classification

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

	30 June 2011		31 December 2010	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	**1,529,601**	**98.38**	1,407,546	98.33
Special Mention	**15,685**	**1.01**	14,219	0.99
Substandard	**2,892**	**0.18**	2,730	0.19
Doubtful	**2,314**	**0.15**	2,659	0.19
Loss	**4,300**	**0.28**	4,297	0.30
Total loans and advances to customers	**1,554,792**	**100.00**	1,431,451	100.00
Total non-performing loans	**9,506**	**0.61**	9,686	0.68

In the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. During the reporting period, asset quality of the Group remained stable as the balance and ratio of non-performing loans both dropped while those of special mention loans slightly increased. As at 30 June 2011, the amount of our non-performing loans was RMB9.506 billion, decreasing by RMB180 million from the end of the previous year, and the ratio of non-performing loans was 0.61%, a decrease of 0.07 percentage point as compared with the end of the previous year. Special mention loan balance was RMB15.685 billion, up by RMB1.466 billion as compared to the end of the previous year mainly due to the increase in special mention retail loans overdue for less than 1 month, whereas the special mention loan ratio was 1.01%, a slight increase of 0.02 percentage point as compared to the end of the previous year.

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

	As at 30 June 2011				As at 31 December 2010			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	**953,383**	**61.32**	**7,766**	**0.81**	870,515	60.81	8,016	0.92
Working capital loans	**564,445**	**36.30**	**5,469**	**0.97**	516,749	36.10	5,734	1.11
Fixed asset loans	**285,399**	**18.36**	**1,362**	**0.48**	273,056	19.07	1,326	0.49
Trade finance	**62,338**	**4.01**	**455**	**0.73**	48,563	3.39	465	0.96
Others(2)	**41,201**	**2.65**	**480**	**1.17**	32,147	2.25	491	1.53
Discounted bills(3)	**64,600**	**4.15**	**–**	**–**	64,948	4.54	–	–
Retail loans	**536,809**	**34.53**	**1,740**	**0.32**	495,988	34.65	1,670	0.34
Personal housing loans	**306,232**	**19.70**	**425**	**0.14**	298,997	20.89	428	0.14
Credit card receivables	**59,319**	**3.82**	**1,081**	**1.82**	54,916	3.84	1,040	1.89
Operating retail loans	**84,461**	**5.43**	**76**	**0.09**	64,609	4.51	62	0.10
Other personal loans(4)	**86,797**	**5.58**	**158**	**0.18**	77,466	5.41	140	0.18
Total loans and advances to customers	**1,554,792**	**100.00**	**9,506**	**0.61**	1,431,451	100.00	9,686	0.68

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

(2) Consists primarily of 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, automobile loans, home improvement loans, education loans and general consumption loans.

The Group maximizes returns through scientifically formulating credit policies and optimizing product pricing strategy. In 2011, the Group imposed a tighter control over the mid and long-term fixed assets loans while emphasizing match of cash flow with repayment plan, developing trade financing based on real transaction, diversifying retail loans, carefully implementing the "Three Rules and One Guideline" issued by CBRC and clarifying the control and monitoring measures for the key risks associated with our credit products. All these efforts generated positive results.

During the reporting period, the percentage of trade financing and working capital loans in the Group's corporate loans increased while that of fixed assets loans decreased, leading to optimized asset structure and quality. The percentage of operating retail loans in retail loans increased while that of personal housing loans decreased and the asset quality of all types of loans remained stable. As at 30 June 2011, the ratio of non-performing corporate loans was 0.81%, a decrease of 0.11 percentage point as compared to the end of the previous year. The ratio of non-performing retail loans was 0.32%, a decrease of 0.02 percentage point as compared to the end of the previous year.

3.4.3 Distribution of loans and non-performing loans by industry

	As at 30 June 2011				As at 31 December 2010			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	**953,383**	**61.32**	**7,766**	**0.81**	870,515	60.81	8,016	0.92
Manufacturing	**292,876**	**18.84**	**2,489**	**0.85**	253,454	17.71	2,680	1.06
Wholesale and retail	**145,455**	**9.36**	**1,550**	**1.07**	116,068	8.11	1,711	1.47
Transportation, storage and postal services	**139,504**	**8.97**	**1,201**	**0.86**	131,555	9.19	852	0.65
Property development	**118,338**	**7.61**	**844**	**0.71**	113,182	7.91	896	0.79
Generation and supply of electric power, gas and water	**64,163**	**4.13**	**381**	**0.59**	62,519	4.37	411	0.66
Construction	**39,172**	**2.52**	**124**	**0.32**	33,781	2.36	217	0.64
Leasing and commercial services	**37,960**	**2.44**	**356**	**0.94**	50,174	3.51	439	0.87
Water, environment and public utilities	**36,385**	**2.34**	**37**	**0.10**	31,894	2.23	61	0.19
Mining	**34,878**	**2.24**	**–**	**–**	28,702	2.01	–	–
Information transmission, computer service and software	**8,966**	**0.58**	**97**	**1.08**	7,290	0.51	162	2.22
Others(2)	**35,686**	**2.29**	**687**	**1.93**	41,896	2.90	587	1.40
Discounted bills	**64,600**	**4.15**	**–**	**–**	64,948	4.54	–	–
Retail loans	**536,809**	**34.53**	**1,740**	**0.32**	495,988	34.65	1,670	0.34
Total loans and advances to customers	**1,554,792**	**100.00**	**9,506**	**0.61**	1,431,451	100.00	9,686	0.68

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

(2) Consists primarily of education, culture, sports, and social welfare, etc.

Guided by the State's 12th Five-year Plan, the Group conducted a thorough research on the development of the industry in 2011. Considering its comparative advantages, the Group divided all industries into three categories, namely "entrance encouraged, entrance moderate and prudent control industries". The Group also designed explicit credit policies for 48 industries, so as to standardize industry-specific credit approval requirements and introduce differentiation management in terms of percentage limit, balance limit and name list management. For loans in the risky fields such as the local government financing platforms and real estate industry, the Head Office centralized the approval authority, which effectively prevented and controlled the risks. During the reporting period, the Group achieved the balanced growth and optimization of the credit structure by industry.

From January to June 2011, the increase in the loans by the Group was primarily attributed to the corporate loans granted to the manufacturing, wholesale and retail industries, and retail loans. The increase in the loans to the said industries accounted for 88.88% of the Group's total increase in loans. As at the end of the reporting period, the non-performing loan ratio for most of the industries declined as compared to the end of the previous year.

3.4.4 Distribution of loans and non-performing loans by region

	As at 30 June 2011				As at 31 December 2010			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)							
Head Office	**110,953**	**7.14**	**2,279**	**2.05**	94,149	6.58	2,238	2.38
Yangtze River Delta	**370,422**	**23.83**	**2,176**	**0.59**	350,522	24.49	2,140	0.61
Bohai Rim	**240,658**	**15.48**	**769**	**0.32**	225,999	15.79	833	0.37
Pearl River Delta and West Side of Taiwan Strait	**253,152**	**16.28**	**1,152**	**0.46**	232,236	16.22	1,226	0.53
North-eastern China	**89,736**	**5.77**	**363**	**0.40**	83,462	5.83	371	0.44
Central China	**171,249**	**11.01**	**1,359**	**0.79**	158,873	11.10	1,183	0.74
Western China	**194,197**	**12.49**	**1,068**	**0.55**	179,784	12.56	1,306	0.73
Overseas	**23,297**	**1.50**	**27**	**0.12**	21,076	1.47	32	0.15
Subsidiaries	**101,128**	**6.50**	**313**	**0.31**	85,350	5.96	357	0.42
Total loans and advances to customers	**1,554,792**	**100.00**	**9,506**	**0.61**	1,431,451	100.00	9,686	0.68

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

With the guidance of the bank-wide credit strategy, the Group formulated appropriate regional credit policies by fully taking into account variations in regional resources, industry clusters and financial environment, which helped achieve the maximum returns by balancing geographic risks. From January to June 2011, newly granted loans were mainly given to Pearl River Delta and west side of Taiwan Strait as well as Yangtze River Delta, while loans granted to Western China also increased, with special support to the pillar industries and quality customers of the region that have strong competitive strengths and healthy growth. All these efforts led to an optimized regional credit structure. During the reporting period, the non-performing loan ratios decreased in all regions except in Central China.

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

	As at 30 June 2011				As at 31 December 2010			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)							
Unsecured loans	**324,441**	**20.88**	**1,485**	**0.46**	306,669	21.42	1,540	0.50
Guaranteed loans	**391,830**	**25.20**	**3,919**	**1.00**	362,528	25.33	3,737	1.03
Collateralized loans	**660,519**	**42.48**	**3,477**	**0.53**	608,136	42.48	3,718	0.61
Pledged loans	**113,402**	**7.29**	**625**	**0.55**	89,170	6.23	691	0.77
Discounted bills	**64,600**	**4.15**	**0**	**–**	64,948	4.54	–	–
Total loans and advances to customers	**1,554,792**	**100.00**	**9,506**	**0.61**	1,431,451	100.00	9,686	0.68

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

With rising risks in macro-economy, the Group managed to alleviate the credit risks through a series of measures such as demanding more collaterals. As at the end of the reporting period, the percentage of pledged loans increased by 1.06 percentage points as compared to the end of the previous year whilst the percentage of collateralized loans remained consistent as compared to the end of the previous year. The percentage of unsecured and guaranteed loans declined by 0.54 and 0.13 percentage point respectively as compared to the end of the previous year. The non-performing loan ratios under different types of guarantees all dropped, which indicated the balanced optimization of our asset quality.

3.4.6 Loans to the top ten individual customers

Top ten borrowers	Industry	Loan balance as at 30 June 2011 (in millions of RMB)	% of net capital	% of total loans
A	Transportation, storage and postal services	6,492	3.54	0.42
B	Transportation, storage and postal services	5,000	2.72	0.32
C	Leasing and commercial services	3,562	1.94	0.23
D	Transportation, storage and postal services	3,084	1.68	0.20
E	Transportation, storage and postal services	2,805	1.53	0.18
F	Transportation, storage and postal services	2,700	1.47	0.17
G	Leasing and commercial services	2,586	1.41	0.17
H	Transportation, storage and postal services	2,550	1.39	0.16
I	Transportation, storage and postal services	2,420	1.32	0.16
J	Transportation, storage and postal services	2,350	1.28	0.15
Total		**33,549**	**18.28**	**2.16**

As at the end of the reporting period, the loan balances of the Group's largest single borrower amounted to RMB6.492 billion, representing 3.54% of the Group's net capital. The loan balances of top ten single borrowers totaled RMB33.549 billion, representing 18.28% of the Group's net capital and 2.16% of the Group's total loan balance respectively.

3.4.7 Distribution of loans by overdue term

	As at 30 June 2011		As at 31 December 2010	
	Amount	**Percentage of the total loans %**	Amount	Percentage of the total loans %
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	**6,847**	**0.44**	4,395	0.31
Overdue more than 3 months but within 1 year	**1,007**	**0.06**	947	0.06
Overdue more than 1 year but within 3 years	**2,494**	**0.16**	2,570	0.18
Overdue more than 3 years	**4,179**	**0.27**	4,247	0.30
Total overdue loans	**14,527**	**0.93**	12,159	0.85
Total loans to customers	**1,554,792**	**100.00**	1,431,451	100.00

As at the end of the reporting period, the percentage of the overdue loans of the Group was 0.93%, an increase of 0.08 percentage point as compared to the end of the previous year. And the percentage of loans overdue for less than 3 months increased by 0.13 percentage point as compared to the beginning of the year, while the percentage of those overdue for more than 3 months declined by 0.05 percentage point as compared to the beginning of the year.

3.4.8 Restructured loans

	As at 30 June 2011		As at 31 December 2010	
	Amount	**Percentage of the total loans %**	Amount	Percentage of the total loans %
	(in millions of RMB, excluding percentages)			
Restructured loans	**1,532**	**0.10**	1,531	0.11
Of which: restructured loans overdue more than 90 days	**764**	**0.05**	892	0.06

Note: Restructured loans refer to substandard and doubtful loans after restructuring.

The Group imposed strict and prudent control over restructuring of loans. As at the end of the reporting period, the percentage of the Group's restructured loans was 0.10%, decreasing by 0.01 percentage point as compared to that at the end of the previous year.

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the total repossessed assets of the Group amounted to RMB999 million. And after deduction of allowances for impairment losses of RMB957 million, the net repossessed assets amounted to RMB42 million.

3.4.10 Changes of allowances for impairment losses on loans

The Group 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 losses amount would be measured as the difference between the carrying amount 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 for which there were no objective evidence showing that an impairment has been incurred according to individual assessments were grouped in a pool of loans with similar credit risk characteristics for the purpose of impairment testing. Based on the result of testing, the Group 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 to customers of the Group.

	In the first half of 2011	2010
	(in millions of RMB)	
As at 1 January	**29,291**	24,005
Charge for the period	**4,490**	6,241
Releases for the period	**(558)**	(671)
Unwinding of discount[1]	**(69)**	(110)
Recoveries of loans and advances previously written off	**37**	48
Write-offs	**(12)**	(152)
Transfers in/out	**0**	34
Foreign exchange rate movements	**(59)**	(104)
As at the end of the period	**33,120**	29,291

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 Group continued to adopt a stable and prudent policy for making provisions. As at 30 June 2011, allowances for impairment losses on loans amounted to RMB33.120 billion, representing an increase of RMB3.829 billion as compared with that at the end of the previous year. The non-performing loan allowances coverage ratio was 348.41%, representing an increase of 46 percentage points as compared with that at the end of the previous year. The allowance-to-loan ratio was 2.13%, representing an increase of 0.08 percentage point as compared with that at the end of the previous year, which indicated that our capability to resist risks was further enhanced.

3.5 Analysis of Capital Adequacy Ratio

As at 30 June 2011, the capital adequacy ratio and core capital adequacy ratio of the Group were 11.05% and 7.81% respectively, representing a decrease of 0.42 percentage point and 0.23 percentage point respectively as compared with those at the beginning of the year, while the capital adequacy ratio and core capital adequacy ratio of the Bank were 10.80% and 8.37% respectively, representing a decrease of 0.41 percentage point and 0.33 percentage point respectively as compared with those at the beginning of the year. Such decreases in the capital adequacy ratio and the core capital adequacy ratio as compared with the beginning of the year were mainly due to the changes in regulatory policies such as the new requirements of CBRC on loans extended through the government's financing platforms and the regulations on the unused credit card commitment. As at the end of June 2011, the Group's net risk weighted assets amounted to RMB1,660.530 billion, an increase of 14.77% as compared with the beginning of the year. Excluding the effect of new regulatory requirements on platform loans and regulatory policies on unused credit card commitment, the Group's net risk weighted assets would be RMB1,552.397 billion, an increase of 7.29% as compared with the beginning of the year.

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

	As at 30 June 2011	As at 31 December 2010
	(in millions of RMB)	
Core capital		
Paid-up ordinary share capital	**21,577**	21,577
Reserves	**119,715**	106,402
Total core capital	**141,292**	127,979
Supplementary capital		
General provisions for loans and advances	**24,968**	21,180
Term subordinated debts	**30,000**	30,000
Other supplementary capital	**208**	–
Total supplementary capital	**55,176**	51,180
Total capital base before deductions	**196,468**	179,159
Deductions:		
Goodwill	**9,598**	9,598
Investments in commercial real estate	**1,833**	1,946
Other deductions	**1,473**	1,661
Total capital base after deductions	**183,564**	165,954
Risk-weighted assets	**1,660,530**	1,446,883
Core capital adequacy ratio	**7.81%**	8.04%
Capital adequacy ratio	**11.05%**	11.47%

3.6 Segment Operating Results

The following segment operating results are presented by business segments and geographical segments. As business segment information is more in line with the business operations of the Group, the Group chooses business segment information as the primary reporting format. Segment reporting data are principally derived from the multi-dimensional profitability report of the Bank's management accounting system.

The Group evaluated the performance of business segments through the internal funds transfer pricing mechanism ("FTP"). The internal FTP system has taken into account the structure and market rates of the assets and liabilities portfolio to suggest an interest rate for lendings and borrowings among business segments. Net interest income of respective segments, including interest income from loans to other segments and interest expense for borrowings from other segments, reflected the profits or losses of funding allocation to the business segments through the FTP system. Cost allocation was based on the direct cost of related business segments and appropriation of management overheads.

Business segments

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 section headed "Business Operations". The following table summarizes the operating results of the business segments of the Group for the periods indicated.

Items	**Jan-Jun 2011** Profit before tax from the segments	**Jan-Jun 2011** Percentage (%)	Jan-Jun 2010 Profit before tax from the segments	Jan-Jun 2010 Percentage (%)
	(in millions of RMB, excluding percentages)			
Corporate banking	**17,555**	**72.61**	12,683	74.47
Retail banking	**6,507**	**26.92**	4,226	24.82
Treasury business	**378**	**1.56**	234	1.37
Other businesses and adjustments	**(264)**	**(1.09)**	(113)	(0.66)
Total	**24,176**	**100.00**	17,030	100.00

Geographical segments

The major outlets of the Group are located in relatively affluent regions and some large cities in other regions of China. In the end of 2010, the Group revised the definition of geographical segments for the purpose of business operation and performance management.

The following table sets forth the segment results of the Group by geographical segments in the periods indicated (before revision).

	Jan-Jun 2011 Revenue	**Jan-Jun 2011** Percentage (%)	Jan-Jun 2010 Revenue	Jan-Jun 2010 Percentage (%)
	(in millions of RMB, excluding percentages)			
Eastern China	**18,003**	**39.00**	13,082	39.66
Southern and Central China	**13,619**	**29.50**	9,894	30.00
Western China	**4,498**	**9.74**	3,126	9.48
Northern China	**8,107**	**17.56**	5,566	16.88
Overseas	**1,939**	**4.20**	1,314	3.98
Total	**46,166**	**100.00**	32,982	100.00

The following table sets forth the segment results of the Group by geographical segments in the periods indicated (after revision).

	Jan-Jun 2011		Jan-Jun 2010	
	Revenue	**Percentage (%)**	Revenue	Percentage (%)
	(in millions of RMB, excluding percentages)			
Head Office	**6,611**	**14.32**	4,946	15.00
Yangtze River Delta	**9,874**	**21.39**	7,423	22.50
Bohai Rim	**7,155**	**15.50**	5,073	15.38
Pearl River Delta and West Side of Taiwan Strait	**8,168**	**17.69**	5,626	17.06
Northeastern China	**2,246**	**4.86**	1,546	4.69
Central China	**4,589**	**9.94**	3,208	9.73
Western China	**5,119**	**11.09**	3,523	10.68
Overseas	**338**	**0.73**	32	0.10
Subsidiaries	**2,066**	**4.48**	1,605	4.86
Total	**46,166**	**100.00**	32,982	100.00

3.7 Other Information

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

The Group's off-balance-sheet items include derivatives, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating lease commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and contingent liabilities. Credit commitments are the most important component. As at the end of June 2011, the balance of credit commitments was RMB836.012 billion. For details of the contingent liabilities and commitments, please refer to the section headed "Contingent Liabilities and Commitments" in "Notes to the Financial Statements" of this Report.

3.7.2 Outstanding overdue debts

As at the end of June 2011, the Group did not have any outstanding overdue debts.

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, bank cards, investment and wealth management services, agency sale of insurance products and forex trading, and foreign exchange services, of which "All-in-one Card", "credit card", "Sunflower Wealth Management", "personal online banking" and "i Wealth Management" have won widespread recognition. The Company provides the above-mentioned services and products via varied channels, including branches and sub-branches, self-service centers, online banking and direct banking.

During the reporting period, confronted with severe challenges in capital market and intensive business competition, the Company proactively implemented the strategy of the "Second Transformation" of the retail banking segment by enhancing its management, constantly optimizing operational procedures, strengthening the customer service, focusing on increasing the revenue and improving its pricing ability. As the transformation proceeds, retail banking businesses enjoyed a fast growth and our competitive edges were further consolidated.

Retail non-interest income business

During the reporting period, the Company has been committed further in developing wealth management business, and has been improving the wealth management system that is oriented towards "customer assets management". We aimed at achieving a rapid, yet steady growth in retail non-interest income through product innovation, expanding our product range, and improving customers' assets allocation and comprehensive wealth management services.

In the first half of 2011, the Company recorded a retail net non-interest income of 4,546 million, representing an increase of 33.04% as compared with the corresponding period in the previous year and accounting for 48.06% of net non-interest income of the Company. According to our record, commission income from bank cards (including credit cards) was RMB2,192 million, an increase of 32.85% as compared with the corresponding period in the previous year; income from fund agency services was RMB665 million, an increase of 13.10% as compared with the corresponding period in the previous year; income from bancassurance was RMB606 million, an increase of 34.97% as compared with the corresponding period in the previous year; income from entrusted wealth management was RMB340 million, an increase of 86.81% as compared with the corresponding period in the previous year; income from trustee agency services amounted to RMB472 million, an increase of 4,489.07% as compared with the corresponding period in the previous year; income from noble metals trading commission was RMB101 million, an increase of 1,652.13% as compared with the corresponding period in the previous year.

In the second half of 2011, the Company will continue focusing on wealth management, strengthening products innovation and expanding product range, so as to meet various investment demands from customers, maintain a steady growth in our mid to high-end customers mix and total customer assets under management, and further enhance our wealth management expertise, with an aim to maintain fast growth in retail non-interest income.

Bank card business

All-in-one cards

In 2011, the Company aggressively promoted the "Second Transformation" and proactively responded to market changes. With a view to achieving higher customer satisfaction, the Company expanded the product range and on the basis of the customer-oriented principle, we gradually revised the cardholders' mix, which resulted in a stable growth in the issuance volume of new cards. As at 30 June 2011, the Company had issued a cumulative total of 59.88 million All-in-one cards, including 2.94 million cards newly issued during the reporting period. Total deposit balance of All-in-one cards was RMB587.412 billion, accounting for 83.29% of the total retail deposits. Average balance per card was RMB9,810, increased by RMB380 as compared to that at the beginning of the year.

Credit Cards

In the first half of 2011, to implement the strategic objectives of the "Second Transformation", the Company continued to promote the reform on the management of its credit card business via the integration of resources, operation innovation and management enhancement, thereby striving to develop differentiation advantage of the Bank's credit cards as well as continuously establishing a value and efficiency-based business operation model.

In the first half of 2011, the Company continuously optimized its product structure to attract high net-worth customers. "完美世界聯名卡", (Perfect World Credit Card), "迅雷VIP聯名卡" (Thunder VIP Co-branded Card) and "凡客誠品聯名卡" (VANCL Co-branded Card) were launched, targeting young male customer group, active internet users and internet shoppers, respectively. Meanwhile, the "Extraordinary Tourism" marketing brand was vigorously promoted. Apart from the "Extraordinary Sanya", "Extraordinary Hong Kong" and "Extraordinary U.S." were also launched in foreign markets, bringing unique experience to card bearers. With these efforts, the Bank continuously improved the quality of services and raised customers' satisfaction level. During the reporting period, in addition to the award of the "Best Call Centre in China (Asian Pacific)" conferred by CCCS (Customer Contact Center Standard) and ICMI (International Customer Management Institute) for the seventh consecutive year, the Company was granted the "2010-2011 Best Customer Service Experience for Call Centre in China" award once again, and acquired the "Global Best Call Centre" award in the "2011 Global Call Centre Conference" held in the United States.

As at 30 June 2011, the Company had issued 36.87 million credit cards in total, including 2.10 million cards newly issued during the reporting period. The total number of cards in circulation was 17.97 million, while the cumulative transaction value via credit cards for the first half of the year was RMB228.5 billion and the average transaction value per month of each card in circulation was RMB2,170. The percentage of the revolving balances of credit cards increased to 37.73% from 35.35% as at the end of the previous year. Interest income from credit cards amounted to RMB1,940 million, an increase of 40.38% as compared to that in the corresponding period of the previous year. Non-interest income from credit card was RMB2,031 million, an increase of 35.85% as compared to that in the corresponding period of the previous year.

In the second half of 2011, following the principle of growing our retail business through resource integration and synergy development, the Company will continue to explore its potentials on customer development and customer management and raise its operation efficiency. In order to comply with the increasingly stringent regulatory requirements, the Company will take initiative to realize sustainable rise in operation efficiency through excellent execution and management. The following measures will be taken: press on with the integration of resources of other businesses of retail banking and cross-sell products to customers; keep on using marketing and sales platform, so as to enhance the loyalty and contribution of high net-worth customers; step up the development of new products and new functions in order to enrich product offerings; and strengthen risk management and operation to maintain the quality of our services.

Private banking business

In the first half of 2011, in light of enhancing efficiency of private banking centres and improving products system, we focused on strengthening our differentiation advantage in investment consultation service, uplifting management level and speeding up the development of private banking business.

As at the end of the reporting period, our private banking customer base has grown by 15.32% as compared to the beginning of the year and the total assets of private banking customers under management have grown by 16.82% as compared to the beginning of the year. The Company has established 22 private banking centres in 18 major cities across the country, which extends the coverage of private banking customer services.

During the reporting period, we were the first bank among the peers to introduce localized global assets allocation model for high-end customers, with a view to enrich and expand investment choices as well as enhance professional asset allocation for private banking customers. The Company issued "The Report on Chinese Private Wealth for 2011" jointly with Bain & Company, which is an in-depth and refined review of investment hotspots in various markets in the past two years, on a basis of our continued attention of the Chinese private wealth market.

Retail loans

In the first half of 2011, with continuous growth in retail loans of the Company and stable asset quality, we were able to raise the pricing which remains above industry average level. As at 30 June 2011, the total retail loans amounted to RMB522.551 billion, representing an increase of RMB39.815 billion as compared to that at the end of the previous year. During the year, the weighted average floating band of interest rates for the newly-granted retail loans increased by 14.02 percentage points from last year. Our newly-granted personal housing loans were higher than the average level of financial institutions in the PRC for 17 consecutive months since PBOC first disclosed related data. The non-performing loan ratio of the retail loans was 0.32%, representing a decline of 0.01 percentage point as compared to that at the beginning of this year.

In 2011, the Company devoted to accelerating the development of diversified personal loans business, and increased the ability of risk pricing of personal loans and the return on capital. While keeping our focus on the promotion of personal housing loans, the Company vigorously developed the non-housing loans, such as personal commercial properties loans, personal consumption loans and personal operational loans, so that our profitability of retail loans was significantly improved. To meet the customers' demands for integrated financial services, the Company devoted to promoting the cross selling targeting customers of personal loans, which significantly increased the comprehensive yield from retail loans. Meanwhile, our competitiveness in the market was enhanced through our effort in product innovation, speeding up retail resources integration and development of differentiation new products for personal loans aiming at various customer bases, which meet customers' diversified demands for loans.

The Company continued to optimize operating procedures of retail loans, centralize the middle and back office operational process for retail loans and reduce costs and enhanced efficiency. We have built an electronic loan service platform and, with our centralized after-lending service platform, customer satisfaction was further improved and operating cost was cut down. We continued to improve our risk management system, and through application of advanced tools in risk identification, measurement, control and management, further enhanced our risk management expertise.

In order to achieve coordinated growth in efficiency, quality and scale, the Company will further proceed with diversified expansion process of personal loans, improve the return on capital for personal lending business, reinforce the refined operation and management, further lower the operating cost and enhance the risk management expertise.

Retail customer deposits

The retail deposit products of the Company mainly consist of demand deposit, time deposit and call deposit. Retail customer deposit provided substantial low cost funds for the Company. In the first half of 2011, to cope with the complex and volatile financial market, the Company actively widened customer base, vigorously developed agency issuance, actively widened saving deposit channels and optimized the allocation of customer assets, and succeeded in maintaining a stable growth of retail customer deposits. As at 30 June 2011, the total retail customer deposits of the Company amounted to RMB705.235 billion, increasing by 8.44% from the end of the previous year. Demand deposits accounted for 59.79% of total retail customer deposits. The total retail customer deposits accounted for 35.23% of the total customer deposits, decreasing by 0.72 percentage point from the end of the previous year.

Customers

The Company keeps on cultivating quality customers, solidifying customer base, adjusting and optimizing customer structure and improving customer management, so as to provide support to our business development. In order to enhance customer experience, we were the first in the industry to establish multi-level customer service system embodied in "Sunflower Wealth Management" and "Diamond Wealth Management", which further improved the management of customers. As at the end of the reporting period, the Company established and opened 54 branch-level wealth management centers based on the existing Sunflower Wealth Management Centers and Sunflower VIP Rooms, thereby further improving its high-end customer service system.

During the reporting period, we achieved a balanced development between total customer assets and scale of customers by strengthening the expansion of customer base and deepening customer service work. As at 30 June 2011, the total number of retail deposit customers of the Company was 47.75 million. The total number of Sunflower or higher grade customers (i.e. high-end customers with daily average assets per month of RMB500,000 or above deposited at the Company) was 734,700, a growth of 9.64% compared with last year. Their total deposit balance was RMB294.7 billion. The balance of Sunflower or higher grade customers' total assets under management of the Company amounted to RMB1,298.3 billion, an increase of 126.6 billion or 10.80% from the end of the previous year, accounting for 68.18% of the balance of retail customers' total assets under management of the Company.

Brands and 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 seven consecutive years by *The Asian Banker* in 2011. Our private bank was awarded the honor of 2011 "Best Private Bank in China Domestic"in Greater China by a Singaporean magazine *Private Banker International*. In the seventh "Survey of Preferred Brand Names of Chinese Multimillionaires" conducted by Hurun Report, the Company was awarded the "Most Preferred Private Bank" Award for preferred brands among China's richest people. We were also awarded "Best Private Bank in China" hosted by Hexun.com.

In the first half of 2011, while consolidating the brand advantages of "All-in-one Card", "All-in-one Net", "Sunflower Wealth Management", "i 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, vigorously promoted the integration of sales and service processes, and strengthened the promotion of retail banking business and products. Major marketing campaigns in 2011, including "Sunflower" Cup National Teenager Piano Competition, fund investment simulation "i Wealth Management"and "The Fifth Wealth Management Education Community Tour in Universities" were launched and will be kept in future. 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.

3.8.2 Corporate banking business

The Company provides enterprises, financial institutions and government agencies with diversified quality corporate banking products and services. As at 30 June 2011, total corporate loans of the Company were RMB870.741 billion, an increase of 8.53% over the end of the previous year, accounting for 59.89% of the total customer loans; balance of total discounted bills were RMB60.538 billion, a decrease of 0.82% from the end of the previous year, accounting for 4.16% of the total customer loans; and total corporate customer deposits were RMB1,296.667 billion, an increase of 11.92% over the end of previous year, accounting for 64.77% of the total customer deposits.

While strengthening 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. Amidst the external market environment with both challenges and opportunities in 2011, the Company has realized a sustainable and stable development of non-interest income business. The Company made great efforts in promoting the development of the innovative businesses including underwriting of debt financing instruments, financial advisory services, asset custody, corporate wealth management, wealth management for financial institutions, third party custody, online corporate banking channels, cash management, business card, annuity, precious metal operations and leasing, 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. In the first half of 2011, non-interest net income of the Company was RMB5,234 million, representing an increase of RMB2,929 million or 127.07% over the corresponding period of the previous year.

Corporate Loans

Corporate loans products of the Company include working capital loans, fixed asset loans, trade finance and other loans such as corporate mortgage loans. In 2011, the Company actively implemented a customer strategy that gave equal attention to big and small customers. The Company gave full support to quality industries, such as those emerging strategic industries, modern service sector, renewable energy, environmental protection and high-tech industries. The Company restricted loans to industries under macroeconomic control, such as real estate, local government financing platforms and "high pollution, high energy consumption and excess capacity" industries. These all resulted in further optimization of the industry mix of corporate loans.

On this basis, the Company pushed forward the "Second Transformation" with emphasis on the development of small and medium enterprise (SME) business as its key strategy, realizing an overall healthy and stable development of business. According to the national classification standard for SMEs issued by National Bureau of Statistics of China, as at 30 June 2011, the total balance of our domestic SME corporate loans amounted to RMB433.796 billion, an increase of RMB45.378 billion over that at the end of last year. The Company's domestic SME corporate loans accounted for 51.19% of the total domestic corporate loans, an increase of 1.47 percentage points as compared with that at the end of the previous year. Meanwhile, the quality of our SME corporate loans assets was further improved. The non-performing loan ratio of SME corporate loans was 1.32%, a decrease of 0.14 percentage point over that at the end of the previous year. In order to promote the development of SME business, the Company has strengthened the following measures:

Firstly, the Company further intensified the building of specialized institution catering to SMEs. On one hand, the construction and business development of the credit centre for small-sized enterprises was accelerated. During the reporting period, 4 branches of the credit centre for small-sized enterprises have been established in China, reaching 34 in aggregate and extending its presence to the Yangtze River Delta, Pearl River Delta, Bohai Bay Rim and west side of the Taiwan Straits. As at 30 June 2011, the credit centre for small-sized enterprises had granted loans with a cumulative amount of RMB46.012 billion and had a loan balance of RMB28.023 billion, an increase of RMB9.498 billion or 51.27% as compared with that at the beginning of the year. The number of active customers was 4,769, an increase of 1,634 or 52.12% over that at the beginning of the year. The average rate of new loans during the reporting period was at a premium of 29.96% over the benchmark interest rate, and the non-performing ratio was only 0.18%, showing a stronger business expansion capability, market pricing capability and risk control capability. On the other hand, professional units for SME financing were continuously improved at the branch level. The Company has already established first-class SME financing department in 28 branches, adopting embedded risk management which can both promote business and control risk. Significant improvement in marketing ability and approval efficiency for the SME business was witnessed and the SME business of those branches was effectively promoted.

Secondly, the Company actively carried on product innovation to forge a finance brand for the SME business, formulating the innovative structure of SME financing products featured by interaction between the Head Office and branches. The Company strived to launch financing products that fit the market circumstances and operational features of SMEs through product innovation authorization, and research and development of general financing products to provide SMEs with personalized and full-range services. In 2011, the Company continued to optimize the product structure of "Zhu Li Dai (助力貸)", its key product for SME financing, which did not only contain 6 major general SME products designed by the Head Office, but also included over 40 regional products specifically designed according to the characteristics of SMEs in the regions designed by branches. Through continuous innovation, SMEs could overcome the bottle-neck of financing to realize rapid development. In the first half of 2011, the Company integrated the guidance of State's current "Twelfth-Five" Plan into its allocation of industrial resources within the service structure of "Qian Ying Zhan Yi" Plan (千鷹展翼), while actively co-ordinating with domestically renowned equity investment institutions. With focus on nurturing innovative and emerging enterprises, the "Qian Ying Zhan Yi" Plan (千鷹展翼) for SMEs has achieved progressive results with 1,431 customers, representing an increase of over 100% over the beginning of the year. Credit centre for small-sized enterprises put more efforts on product research and development in a bid to maintain the market leading position of it products. First it researched on means of "centralized product development and batch handling of products". Then it successfully developed high-quality products of "Clothing Loan (服裝貸) – Specialized Clothing Market in Changshu", "Equipment Loan (設備貸) – Mortgage Loan to Ci Xing Equipment" and "Speed Loan (保速貸) – Suzhou Guarantee Company". The Center also strengthened its "Xiao Dai Tong (小貸通)" brand through media campaigns to raise the public awareness of the brand.

Thirdly, the Company strengthened the risk management for SME loans. Based on our work in 2010, the Company continued to introduce and optimize various risk management measures, striving to control the SME loan risk. These measures include: the introduction of the policy on batch marketing and credit approval management for SMEs, optimization of risk manager's working procedures, implementation of the system for assigning loan granting officers to SME finance department, optimization of the workflow for a new generation of credit risk management system and optimization of the modules for the inspection and approval of loan applications and modules for after-lending reviews, hence tightening control over credit risks associated with SMEs.

Fourthly, the Company further improved its credit risk pricing ability for SME corporate loans. While expediting product innovation for SMEs and strengthening risk management, the Company placed great emphasis on improving its risk pricing ability for SME corporate loans. Product innovation for SMEs and effective risk management have not only reduced the credit risks, but also increased loan approval efficiency and shortened the loan-granting procedures, thus further expanding our competitive edges and improving our risk pricing ability for SME corporate loans. In the first half of 2011, our SME loan rates increased by 8.34 percentage points as compared with that in the same period of the previous year, and our pricing level for SME corporate loans has been higher than the overall level of the Company's corporate loans.

Syndicated loans

In 2011, for the purpose of enhancing inter-bank cooperation and information sharing, and diversifying risks associated with large amount loans, the Company vigorously promoted syndicated loan business. As at 30 June 2011, the balance of syndicated loans amounted to RMB64.012 billion, representing an increase of RMB4.695 billion or 7.92% as compared to the beginning of the year.

Discounted bills

In 2011, based on our combined measurement and management of total amount of loans, liquidity, yield and risks, the Company effectively drove the development of discounted bills. As at 30 June 2011, the balance of discounted bills loans was RMB60.538 billion.

Corporate customer deposits

The Company attaches great importance to enhancing the returns on corporate customer deposits and strives to increase the percentage of low cost demand deposits to total corporate customer deposits. With the expansion of innovative services such as online corporate banking and cash management, as well as higher quality marketing, cooperation between the Bank and corporate customers was effectively enhanced. As a result, large amounts of low cost demand deposits were obtained.

As at 30 June 2011, demand deposits accounted for 53.86% of the total corporate customer deposits, representing an decrease of 2.70 percentage points as compared to that at the end of the previous year, which was 7.72 percentage points higher than that of time deposits. The high proportion of demand deposits helped reduce interest expenses on deposits.

Clearing and cash management business

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 corporate and retail products. As at 30 June 2011, the number of customers using cash management services reached 159,489. The balance of proprietary corporate deposits from customers using cash management services exceeded RMB800 billion, while the balance of corporate loans exceeded RMB550 billion. Non-interest income from cash management business amounted to RMB240 million, an increase of 158.97% as compared to the corresponding period of last year.

With regard to exchange transaction settlement business, the Company seized the opportunities of the orderly development of bulk commodities exchanges and emerging exchange trading markets. With its strength in innovative products and professional services, the company has promoted the businesses of deposit taking, payments intermediary and bank-trader transfer, etc in a careful manner and has seen fast growth. As at the end of the reporting period, the Company has established operational relationship with a total of 52 bulk commodities exchanges and emerging exchange trading markets, with the balance of deposit in aggregate reaching RMB6.197 billion, representing an increase of RMB2.819 billion or 83.45% as compared to that at the beginning of the year. The business has realized revenues of RMB48.2274 million, up by RMB37.6959 million or 357.93% over the same period of last year. Among our products offered, payment intermediary business is our exclusive and innovative service, which opened up a new model for the depositary of the funds in exchange trading markets. It carries out closed-end monitoring of trading funds with advanced operating concept and technical means, effectively protecting the safety of the funds of customers and was highly endorsed by regulators and customers.

With regard to online corporate banking business, as at 30 June 2011, the number of customers increased rapidly to a total of 164,857, representing an increase of 11.62% as compared with the end of last year. The use of online corporate banking customers was improved and the number of value customers continued to increase. The Company continued to play a leading role in innovating online corporate banking in China with over 20,000 corporate mobile banking users. The online corporate banking business has acquired a relatively strong profitability and sales volume. It can effectively support the Company's overall development and fully demonstrate the Company's advantage and advancement in technology.

As for corporate card business, through public and private coordinated marketing activities, the Company issued a total of 56,347 corporate cards as at 30 June 2011. Revenue from corporate cards amounted to RMB62,587,100 for the first half of 2011, representing an increase of 64.39% over the same period of last year, among which the non-interest income from domestic transactions was RMB27,807,200, the non-interest income from overseas transactions was RMB7,433,000 and the income from recurring interest, the interest from cash advance loan and the overdue fine was RMB27,346,900.

Asset management business

With regard to corporate wealth management, the Company captured market trends timely by launching a series of new wealth management products. These products covers areas such as investments on treasury bonds traded in inter-bank bonds market, central bank notes, financial notes and other financial assets. The corporate wealth management business has become an important tool for us to expand non-interest income, market to new customers and enhance brand recognition. In the first half of 2011, the sales of our corporate wealth management products reached RMB328.6 billion, realizing an income of RMB168 million.

With respect to the asset custody business, in the first half of 2011, the Company enhanced its efforts in marketing high yield custody products to overcome the unfavorable conditions arising from high fluctuations in the domestic stock market. Income from custody fees, assets under custody and deposits under custody all reached record high. The Company's custody business recorded an income of RMB228 million, representing an increase of 55.10% over the same period of last year; the balance of assets under custody is RMB454.733 billion, representing an increase of 41.70% as compared to that at the beginning of the year; and daily average deposits under custody of RMB27.071 billion. The newly-added value of securities investment fund custody, trusted fund custody and equity investment fund custody all ranked first in the industry. In terms of custody indicators and respective market shares the Company remained the best among all mid-size and small custody banks. The Company has passed the SAS70 international standard certification for 4 years in a row, and was named the "Best Professional Custody Bank in China" by international authoritative magazine *The Asset* for the second time.

As for annuity business, the total number of individual accounts of newly contracted annuity customers was 79,000 in the first half of 2011, the entrusted assets of the newly contracted reached RMB2.014 billion, newly added ancillary entrusted assets reached RMB3.329 billion and the newly added custody assets reached RMB3.401 billion. Non-interest income from annunity business was RMB15.05 million, representing an increase of 165.35% over the same period of last year.

International business and offshore business

As for the international business, the Company responded to the uncertainties arising from the uneven economic recoveries of different countries in the post financial crisis period. The Company took the active role in handling severe challenges brought about by the restriction of internal and external resources and successfully realized significant growth in operation efficiency. In the first half of 2011, the Company's "Cross-Border Finance" branded service introduced globally won the Golden Classic Award – "Best Innovative Bank for Cross-Border Financial Services in China" by "Economics (《經濟》)" Magazine. Our international factoring business won the FCI "2010 Champion of Growth for Global Export Factoring Operator" award, which is our third consecutive year to rank first in terms of the quality of national services. The export loan acquisition business of Huawei-Cambodia CamGSM project was conferred the annual transaction award by the international renowned "Trade Financing (《貿易融資》)" Magazine. In the "2010 Assessment on the Implementation of Foreign Exchange Management Requirements by Bank", the Company was ranked one of the top 5 A-category banks. In the first half of the year, the Company completed international settlements of US$75.503 billion, an increase by 13.03% from the same period last year; collaborated international settlements amounted to US$67.112 billion, an increase of 70.29% from the same period last year; cross-border Renminbi settlements amounted to RMB55.008 billion, an increase of almost 21 times from the same period last year; foreign exchange settlements amounted to US 49.861 billion, an increase of 25.38% from the same period last year; accumulated trade financing amounted to US$10.088 billion, an increase of 40.85% from the same period last year; and international factoring business amounted to US$1.334 billion, an increase by 40.57% from the same period last year. As a result, accumulated non-interest income from international business is RMB861.68 million, representing an increase of 5.13% over the same period last year.

With regard to offshore business, the Company continued to rank first in terms of market share in many business indicators. As at 30 June 2011, deposits from offshore customers amounted to US$7.827 billion, representing an increase of 63.30% as compared to that at the beginning of the year; while credit assets of offshore customers reached US$ 2.814 billion, representing an increase of 15.90% as compared to that at the beginning of the year; credit assets continued to be of good quality, with new non-performing loan and new overdue assets remained zero. Cumulative net incomes from non-interest businesses reached US$34.2062 million, representing an increase of 65.08% over the corresponding period of the previous year.

Inter-banking business

With regard to businesses with financial institutions, non-interest income reached RMB235 million for the first half of 2011. As at 30 June 2011, the balance of inter-bank placements from other financial institutions reached RMB204.150 billion, representing an increase of RMB5.630 billion or 2.84% as compared to that at the beginning of the year. The balance of over-the-counter asset business with other financial institutions such as inter-bank placements and credit assets transfer of repurchase nature amounted to RMB39.818 billion as at the end of the reporting period, representing an increase of RMB12.992 billion or 48.43% as compared to that at the beginning of the year. As for third party custody business, the Company had 3.93 million clients, including 228,600 new clients. The balance of funds under third-party custody amounted to RMB88.288 billion. The Company sold wealth management products in a total amount of RMB51.8 billion through inter-bank channels. The accumulated amount of cross-border RMB agency clearing service from and to other financial institutions amounted to RMB80.084 billion, while the total number of clearing accounts reached 29. The margin trading and short selling business was carried out in partnership with 22 pilot securities firms.

Investment banking business

With respect to investment banking business, as at 30 June 2011, the revenue of investment banking business was RMB1.119 billion, representing an increase of 99.11% over the same period of last year. The Company strengthened its marketing efforts and strongly expanded the underwriting business of debt financing instruments. A total income of RMB329 million of the underwriting business of debt financing instruments was achieved, representing an increase of 39.17% over the same period of last year. Besides, the Company also focused on expanding the distinctive financial consulting business on mergers and acquisitions and reorganization, IPO, PE and government financial advisory services. As a result, the Company achieved a total revenue of the exclusive financial consulting business of RMB790 million, representing an increase of 142.17% over the same period of last year.

Customer base

Over the past 24 years, the Company has developed 414,700 corporate depositors and 25,900 corporate borrowers, including domestic industry leaders and large enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinationals. Meanwhile, the Company has been striving to develop small and medium-sized enterprises to form a balanced customer mix with large, medium and small customers reasonably proportioned. In addition, the Company's corporate banking products and services have been widely recognized by our customers who maintain a high level of satisfactions with our services.

3.8.3 Treasury

Operating strategy

As for the RMB business, in the first half of 2011, given the expected changes on the upward adjustment of interest rates as well as the frequent introduction of tightening policies by the central bank, the Company predicted that domestic inflation will remain at a relatively high level, while the market will still be situated on the tightening path. Based on the above judgment, the Company has formulated the "short duration" investment strategy, that is, limiting the pace of investment in the first quarter and increasing the amount of investment in the second and third quarter when the prospects of interest rate movement becomes certain and opportunities arises. Meanwhile, middle to long term categories with higher risks should be avoided, with new investment focused on floating-rate financing and loans. In addition, more efforts are put into adjusting stock position and strict control on the credit risks of bonds is maintained. Bonds with short maturity and low yield are sold and changed to categories with the same maturity and higher yield. As at the end of the reporting period, the average duration of the debt investments denominated in RMB was 2.56 years.

As for the foreign currency investment business, in the first half of 2011, the yield of the US national debts has moved upwards continuously driven by the expectation for inflation, but it was also pressed down by risk-averting capital fleeing with Europe sinking in severe sovereign debt crisis. At the same time, the interest margin of European sovereign credit default swap (CDS) was widened continuously and bulk commodity market also experienced volatile movement. In view of the above conditions, the newly added foreign currency investment would mainly consist of Chinese enterprises' credit debts with higher safety level, and the Company will actively participate in the interest margin transaction of new debt issuance and wave band operation. As at the end of the reporting period, the average duration of the debt investments denominated in foreign currencies was 1.95 year. Besides, the Company also seized market opportunities to actively commence derivative business therefore new profit points could be found.

Operating results

From January to June 2011, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio was 3.32%, up by 43 basis points as compared with the corresponding period of 2010. The increase in investment yield was mainly due to the increase in the yield of newly conducted bond investments and repricing of floating rate bonds at new benchmark rates since the phase of interest hike in the fourth quarter of 2010. From January to June 2011, the Company's annual yield on financial assets under reverse repo agreement and placements to other financial institutions was 4.01%, up by 178 basis points as compared with the corresponding period of 2010.

As at the end of June 2011, the Company's proprietary investment portfolio reached RMB390.451 billion, up by 4.32% from the end of the previous year. In addition, assets under management on behalf of customers denominated in both foreign currencies and RMB reached RMB257.134 billion, up by 43.05% from the end of 2010. From January to June 2011, the Company's income from wealth management on behalf of customers reached RMB559 million, an increase of 64.90% over the corresponding period of 2010.

Business development

In respect of debt business, in the first half of 2011, the Company has formulated the Agreement and Operational Procedures for Settlement and Agency Business of Foreign Financial Institutions upon the approval of central bank on the domestic RMB bond investment by foreign financial institutions, and completed the clearing, agency and account opening workflows for foreign banks such as WLB, and assisted WLB to complete partial investment in RMB bonds. Meanwhile, the Company also entered into the debt market in the stock exchanges. For financial management business, the Company has launched innovative wealth management products such as senior subordinated debts and mix of stocks and debts. As at 30 June 2011, the number of wealth management products issued by the Company reached 1,461, representing an increase of 93.00% as compared with the same period of last year, while the scale of issuance reached RMB1,298.6 billion, representing an increase of 78.70% as compared with the same period of last year. In respect of precious metal operation, the Company launched the gold warrant business, making it the first bank to launch such business in China.

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 is not permitted to be lower than 90% of the PBOC benchmark rate. The interest rate of residential mortgage loans is not allowed to 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 borrower's financial condition, value of collaterals, the intended use and term of the loan, cost of loan, credit risk and other risks, expected return, comprehensive income status, the Company's market position and the quotations of competitors. The Company uses the self-developed risk pricing calculator, the consolidated yield analysis statement system for corporate customers and the self-compiled Product Pricing Manual to guide the pricing of various loans. The branches are allowed to set prices at their own discretion within the established ranges of these internal benchmark prices so as to compete in the market with greater flexibility.

Deposits

Under current PRC laws and regulations, interest rates of the Company's RMB-denominated demand deposits and general term deposits shall not be higher than relevant PBOC benchmark rates. However, the Company is permitted to provide negotiated term deposits to insurance companies and the National Council for Social Security Fund in accordance with the assets and liabilities management policies and the market rate conditions. The PBOC has liberalized the control on the interest rates of inter-bank RMB-denominated loans and of deposits between financial institutions, so that the Company is permitted to negotiate such interest rates at its own discretion with other financial institutions. In addition, the Company is permitted to negotiate the interest rates of the foreign currency deposits (other than those denominated in U.S. dollars, Euros, Japanese Yen or HK dollars that are with an amount less than US$3 million). Interest rates of inter-bank foreign currency deposits and the foreign currency deposits of non-PRC residents are generally not subject to PRC regulatory restrictions.

Pricing for non-interest based products and services

The Company prices its various intermediary business services based on properly 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 will fulfill relevant procedures on reporting and public announcement, and provide available channels for inquiries on counters, by telephone and via internet and so on. In addition to formulating the "China Merchants Bank's Regulations on the Price Management of Intermediary Business Services", the Company has established the price management committees of intermediary business services at its Head Office and branches respectively, with subordinated service price management offices, taking charge of daily service price management. Furthermore, the Company has also established a relatively complete multiple-layer supervision and inspection mechanism.

3.8.5 Distribution channels

The Company provides products and services via multiple distribution channels, which is mainly divided into physical distribution channel and electronic banking channel.

Physical distribution channel

The efficiently operated physical distribution channels of the Company are mainly distributed in relatively affluent regions in China, such as Yangtze River Delta, Pearl River Delta and Bohai Rim Area, as well as several major and medium cities in other regions. As at 30 June 2011, in 96 cities across Mainland China, the Company had 82 branches, 763 sub-branches, 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 1,917 self-service centers and 1 wholly-owned subsidiary, CMB Financial Leasing Co., Ltd.; 2 wholly-owned subsidiaries, namely Wing Lung Bank Limited and CMB International Capital Corporation, Ltd., and 1 branch in Hong Kong; a branch in New York and a representative office in the United States; and a representative office in London and Taipei.

In particular, as at 30 June 2011, the small enterprise credit center of the Company has set up a total of 34 sub-centers, amongst which, 11 are first-tier centers, 10 are second-tier centers and 13 are third-tier centers, while 3 on-site teams have been established in places such as Shanghai, and sub-centers were in the launching stage in Foshan and Zhenjiang. These subcenters have built nearly 70 marketing teams in total, and owned a small enterprise service network in major cities in Yangtze River Delta, which is expanding to second and third-tier cities. Meanwhile, financial service bases for small enterprises were set up in major cities in Pearl River Delta and Bohai Rim Area, exploring the feasibility of exclusive operation service model therein. Besides, the small enterprise credit center launched a "Partnership Project" service channel that displays the characteristics of small businesses through the cooperation with local governments, federation of industry and commerce, chambers of commerce and associations. The Project is built as "a channel to explore customers, "a barrier to prevent risk, a platform to develop customers and a vehicle of service brand", and had achieved initial results. In the first half of 2011, over 50 promotion events associated with "Partnership Project" were commenced in cities such as Suzhou, Beijing, Qingdao, Dongguan and Nantong, in which over 4,500 direct sales staff were involved.

Electronic banking channel

The Company also makes efforts in expanding and improving e-banking channels such as online banking, direct banking and mobile banking, which is highly recognized and has effectively relieved the pressure on the business outlets of the Company. In the first half of 2011, the integrated counter-replacement ratio in respect of retail e-banking channels reached 85.38%; whereas it was 47.85% in respect of corporate e-banking channels.

Online banking

In the first half of 2011, the retail online banking of the Company continued its rapid development. On one hand, the functions of transaction replacement of online banking are becoming more significant, thereby playing a key role in reducing the retail human resources cost and the pressure on the service desk of outlets. On the other hand, the Company places high concern on the construction of safety system for online banking. Under the complex domestic network safety environment, the Company has timely lowered part of the online payment limit for transactions with high risk, which did not only guarantee the safety of the capital of its customers, but also sustained the rapid growth of the volume of online payment transactions. In the first half of 2011, the replacement ratio for online retail banking was 77.55%. The total cumulative number of retail online banking transactions was 227,238,700, up by 35.08% as compared to that in the previous year; and the accumulated amount of these transactions was RMB7,072.254 billion, up by 62.76% as compared to that in the previous year. In particular, the accumulated number of online payments was 158,214,600, up by 64.76% as compared to that in the previous year; and the accumulated online payment amount was RMB65.160 billion, up by 49.53% as compared to that in the previous year.

In recent years, the Company's online corporate banking has developed in a comprehensive and rapid manner with continuous consolidation of customer basis and sustainable increase in channel efficiency, making it a highly effective operation channel for wholesaling banks to connect with extensive groups of customers. Also, the online corporate banking is developing into a platform of customer operation, value extraction, cross-selling and industrial extension. As at 30 June 2011, U-BANK, our online corporate bank, has a total of 16.66 million transactions, up by 30.97% from the same period of last year; accumulated transaction amount reached RMB8,990 billion, up by 10.04% from the same period of last year.

Direct banking

The direct banking service provided by the Company is an innovation on the service model of banks. The Company integrates the convenience of direct channels and face-to-face customized service of counters, thus providing customers with real-time, comprehensive, rapid and professional services to customers by remote customer managers in respect of all types of bank transactions, consulted investment and wealth management, one-stop loan services as well as sale of products. Direct banking currently provides services of remote transactions, remote assistance, remote wealth management, remote loan and remote direct selling.

In the first half of 2011, the number of newly opened accounts for Quick & Easy Wealth Management (快易理財) reached 801,200 with the number of active customers reaching 2.37 million. In the first half of the year, the accumulated number of transaction was 4.1647 million, an increase of 118.81% from the same period last year; the transaction amount was RMB222.932 billion, an increase of 79.64% from the same period last year. The accumulated amount of fund sold was RMB5.848 billion, an increase of 428.31% from the same period last year, and the accumulated wealth management products sold was RMB48.136 billion, an increase of 70.13% from the same period last year.

Mobile banking

In the first half of 2011, the Company experienced significant growth in its personal mobile banking business. After launching the iPhone version in November last year, the Company has launched the Android version in March this year. As at 30 June 2011, the number of downloads broke 350,000, and was well-received by customers. Currently, the three mobile banking platforms of iPhone version, Android version and website version have been established, covering all middle to high end smart phone users. The number of mobile banking users and trading volume has maintained rapid growth, and the development of mobile payment business is also tremendous. As at 30 June 2011, the total number of contracted mobile banking customers has reached 2.111 million. The number of cumulative transaction (excluding mobile payment) was 709,400, up by 237.81% as compared with the same period last year; and the accumulated transaction amount reached RMB44.947 billion, up by 574.17%. The aggregate number of mobile payment transaction amounted to 4.1254 million, and the cumulative transaction amount was RMB891 million.

3.8.6 Overseas businesses

Hong Kong Branch

The Company established its Hong Kong Branch in 2002, which principally engages in corporate and retail banking. In particular, corporate banking service provided by our Hong Kong Branch includes loans and deposits, remittance, factoring, international trade facilities and settlement, initiating or participating in syndicated loans, and participating in inter-bank transaction of funds, bonds and foreign exchange. Retail banking mainly includes providing cross-border electronic banking services for individual customers between Hong Kong and Mainland China. The featured products are the "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express". The cardholder of "Hong Kong All-in-one Card" can withdraw cash from ATM and pay with their cards via POS through "China UnionPay", "Hong Kong JETCO" and "EPS" in Hong Kong, Mainland China and overseas, and enjoy the counter and online remittance services of those places. The cardholder of "Hong Kong Bank-Securities Express" may trade Hong Kong stocks through online banking and direct banking, enjoying unparalleled ease and convenience in investment and wealth management.

In 2011, amidst vigorous changes of the external environment, Hong Kong Branch firmly and fully implemented the Second Transformation development strategy of the Head Office. With full promotion of various operation and management work, satisfactory results have been achieved in the first half of the year, which has laid a solid foundation for the completion of all tasks for the entire year.

New York Branch

The New York Branch of the Company was established in 2008, which is positioned as a bank committed to facilitating economic cooperation between China and the U.S. It is committed to offering tailored services for Chinese companies "going global" and US enterprises investing in China. The services provided by the New York Branch include corporate deposits, corporate loans, project financing, trade financing, merger and acquisition financing, financial advisory, cash management, US dollar clearing and online banking.

The year 2011 is the third year of operation of the New York Branch. It actively explored asset business, placed focus on the development of debt business and had stable development of treasury business. Services such as clearing and payment, US dollar clearing and trade transaction were further improved, and business operation has also become more mature with reinforced risk management. With the increasing diversification of business categories and services and the increase in the capability of self-sufficiency, income of this year has been significantly increased.

3.8.7 Information technology and research & development

The Company highly stresses the importance of building and investments in IT infrastructure. In the first half of 2011, while maintaining the operation safety of the information system, we focused on strengthening the IT infrastructure building and accelerated the team establishment to raise the systematic capability of the IT system in supporting business development.

As for the performance on fortifying IT system protection, our overall operation of the information system was stable and the performance indicators of the UnionPay system continued to stand out from our peers in China. The operation safety protection capability has been raised via modification on system safety and improvement on operation system. Efforts have been made in streamlining bank-wide workflows, promoting management reform, and enhancing IT infrastructure management, which supported the "Second Transformation". In the first half of the year, 671 development projects were completed, which provided support to our core business operation and met the needs for management and development.

With respect to further deepening the scope of IT management reform, we have further optimized the operation procedures management system and risk management system, which in turn improved the professional capability and achieved finer level of IT management.

In strengthening IT infrastructure building, we accelerated the planning and establishment of the third generation of IT system, increased our system and pushed forward the transfer of the new core system for credit card. The Company completed the planning of the Shanghai Data Center as well as the all ancillary works, laying a good foundation for the commencement of operation in the second half of the year. The development capability of the Hangzhou Software Center has also been raised to safeguard the sustainable IT development and backup force for business.

3.8.8 Businesses of Wing Lung Group

3.8.8.1 Profile of Wing Lung Bank Limited

Wing Lung Bank Limited ("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 personalized and sincere service to the public. The principal operations of WLB and its subsidiaries ("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. As of 30 June 2011, the registered capital of WLB was HK$1.5 billion.

3.8.8.2 Business operation overview of Wing Lung Group

For the period ended 30 June 2011, WL Group recorded an unaudited consolidated profit after tax of HK$973 million, representing a significant increase of 52.78% as compared with the corresponding period of previous year, which was mainly driven by the net interest income. Non-interest income also increased substantially. In the first half of 2011, the net interest income amounted to HK$884 million, representing an increase of 21.63% as compared with the corresponding period of previous year. Loan-to-deposit ratio was 62.59%, which was lower by 3.74 percentage points than that at the end of 2010. The net interest margin for the first half of 2011 was 1.33%, and that for the corresponding period of previous year was 1.34%. Non-interest income was HK$815 million, representing an increase of 72.65% as compared with the corresponding period of previous year. Net fees and commission income amounted to HK$230 million, representing an increase of 26.79% as compared with the corresponding period of previous year. The insurance business achieved a net operating income of HK$53.91 million, representing an increase of 23.04% as compared with the corresponding period of previous year. Overall revenue from foreign exchange trading amounted to HK$199 million, representing a sharp increase of 100.61%. Impairment losses for loans and advances were HK$1.08 million, representing a sharp decrease of 85.82% as compared with HK$7.64 million in the corresponding period of previous year. In the corresponding period last year, the impairment losses for loans and advances were offset by the write-back of other credit losses of HK$13.53 million. Operating expenses amounted to HK$589 million, representing an increase of 24.45% as compared with the corresponding period of previous year. The cost-to-income ratio for the first half of 2011 was 34.66%, representing a decrease of 4.81 percentage points as compared with the corresponding period of previous year.

As at 30 June 2011, the total assets and net assets of WL Group increased by 11.48% and 7.52% to HK$152.808 billion and HK$13.708 billion respectively when compared to the end of 2010. As at 30 June 2011, the capital adequacy ratio and core capital adequacy ratio of WL Group were 14.10% and 9.41% respectively, and the average liquidity ratio for the reporting period was 44.60%, all above statutory requirements.

For detailed financial information on WL Group, please refer to the interim report of WLB for the first half of 2011, which is published at the website of WLB (www.winglungbank.com).

Deposits

As at 30 June 2011, total deposits of WL Group grew by 5.09% to HK$109.558 billion as compared with that at the end of 2010.

Among the various kinds of deposits, compared with that at the end of 2010, Hong Kong Dollar deposits decreased by HK$697 million or 1.10%; US Dollar deposits after translation increased by HK$1,973 million or 11.90%; and deposits in other foreign currencies after translation surged by HK$4,031 million or 16.53%, among which Renminbi ("RMB") deposits after translation rose substantially by HK$3,620 million or 45.59%.

WLB will continue the preferential policies on fixed deposit rate of Hong Kong Dollar and US Dollar to cope with the funding demand, and continue to closely monitor market developments and formulate corresponding measures, such as offering RMB deposits products to meet market demand. Meanwhile, WLB will further collaborate with the Company so as to automate the process of "Account Opening Witnessed by CMB Manager" service, step up business promotion and continuously provide customers with quality services, aiming at widening the customer base and increasing the collaboration efficiency.

Advances to customers

As at 30 June 2011, WL Group's total advances to customers, including trade bills, grew by 15.72% to HK$81.601 billion as compared with that at the end of 2010. Overall loan quality remained sound with a non-performing loan ratio of only 0.46%.

With respect to corporate banking business, the balance of loans amounted to HK$35.423 billion as at 30 June 2011, an increase of 8.67% over that at the end of 2010. During the reporting period, WLB devoted efforts to obtaining loans for overseas enterprises which were secured by guarantee from China enterprises, syndicated loans, corporate loans to enterprises in China and Hong Kong as well as bilateral loans and the result was remarkable. In order to expand the revenue base, WLB actively explored non-interest income business, including promoting overseas RMB bonds issue and wealth management products, acting as the initial public offering receiving bank and the dividend paying bank for listed companies.

As to commercial banking business, the balance of loans amounted to HK$3,007 million as at 30 June 2011, representing an increase of 9.55% as compared to that at the end of 2010, which was mainly contributed by construction loans and mortgage loans. Trade bills related business also had a remarkable increase. To cater for the funding needs of the SMEs, WLB is committed to continuously supporting the SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited. Moreover, WLB places emphasis on promoting Usance Letter of Credits and Renminbi Non-delivery Forward Contract, so as to achieve growth in business volume and loan balance. WLB will continue to launch Cross-border Renminbi/Discount Notes Financing Guarantee business actively in order to further promote cross-border trade settlement in Renminbi. With respect to the hire purchase and leasing business, WLB focused on expanding equipment financing due to stiff competition in vehicles financing business and expectation of the increase in demand of machinery by the manufacturers, aiming at improving overall capital returns. In the first half of the year, leveraging on the stable growth in equipment financing business, other banking products were promoted through cross-selling. WLB will continue to keep abreast on market trends and make timely adjustment according to the market rate in order to maintain its business volume and enhance its market recognition.

As for the mortgage and personal loan business, as at 30 June 2011, total loans amounted to HK$26.349 billion, representing an increase of 2.17% from the end of 2010. Of the total, residential mortgage loan balance amounted to HK$8,762 million, representing a decrease of 1.68% as compared with that at the end of 2010. WLB will closely monitor the market development and take flexible measures and competitive lending strategy to secure its market share. During the reporting period, since the introduction of wine financing service, there was enthusiastic response from the market. Meanwhile, in order to meet different demands from customers, WLB provided various retail lending services, including Reverse Mortgage Program, Small Enterprise Unsecured Overdraft Facility and personal loans services to professionals and individuals.

Investments

As at 30 June 2011, WL Group's debt securities investment amounted to HK$21.824 billion, representing a decrease of 8.96% from that at the end of 2010. As at the end of the reporting period, WL Group's foreign currencies (including Hong Kong Dollar) debt securities investment amounted to HK$17.163 billion. Within which debt securities investment amounted to HK$545 million representing debt securities related to PIIGS (Portugal, Italy, Ireland, Greece and Spain), the related debt securities will be matured on or before the year end of 2011. More than 90% of the foreign currencies (including Hong Kong Dollar) debt securities were rated A3 or above and their risks were comparatively low.

Treasury business

During the reporting period, WL Group benefited from RMB offshore business, RMB non-deliverable forward contracts and related businesses, income from WL Group's foreign exchange trading business amounted to HK$85.43 million, representing a significant increase of 135.33% as compared with the corresponding period of 2010. Revenue from foreign money exchanges amounted to HK$25.48 million, representing an increase of 24.30% as compared with the corresponding period of 2010. In addition, income from foreign exchange swaps achieved remarkable growth. Total revenue from foreign exchange business has been more than doubled.

Strongly supported by the Company, WLB seized the opportunities in RMB related business through actively participating in RMB related transactions and expanding non-trading RMB accounts, so as to increase transaction volume and related revenue. With the growth of RMB business and increase of commercial customers, new RMB products will be introduced with a view to attracting more commercial customers. Since April 2011, corporate customers within China are permitted to purchase options which enables WLB to seize the opportunity to expand options business with commercial customers. WLB also strived to invest in on-shore RMB bond market and develop proprietary trading business by introduction of spot and options proprietary transactions, thereby increasing income streams. In order to acquire corporate clients, "Corporate Desk" provided corporate customers with various treasury products in line with the prevailing market conditions.

Wealth management

WL Group's wealth management business realised a revenue of HK$18.29 million in the first half of 2011, representing an increase of 27.42% as compared with the corresponding period of 2010.

WLB will continue to focus on developing its wealth management service branded "Sunflower", with a view to providing a comprehensive financial service platform to customers. During the reporting period, wealth management business actively launched promotion activities. Transaction volume of investment funds, currencies linked deposits and debt securities increased significantly. The promotion activities successfully attracted new and existing customers to conduct investment activities with WLB. WLB is committed to diversifying the types of wealth management products. For the service of Capital Investment Entrant Scheme, WLB will continue to provide more qualified funds and security products available for customers to choose.

Credit card

WLB issued more than 240,000 credit cards as at 30 June 2011, about the same level as that at the end of 2010. The credit card receivables amounted to HK$283 million, 26.58% down from the prior year-end. This was primarily due to fierce competition from other personal loans. Merchant business turnover was HK$1,592 million, representing a sharp increase of 20.55% as compared to the first half of 2010, reflecting the rigorous efforts in promoting the merchant business and the continuous growth of the Hong Kong consumption market.

Since WLB issued the world's first diamond credit card "Luxe Visa Infinite" and the first "World MasterCard for Business" in the Greater China, high-end individual and corporate customers have been in a steady growth. In order to attract and retain customers, WLB will launch "CUP (China UnionPay) Dual Currency Credit Card", as well as a number of flexible cash revolving and spending reward programs.

Securities broking

In the first half of 2011, Wing Lung Securities Limited ("Wing Lung Securities") realised a brokerage commission and related income of HK$98.16 million, representing an increase of 5.20% as compared with the corresponding period of 2010. During the period, given the uncertain external economic environment and concerns over the sovereign debt problem in Europe, investors in Hong Kong market maintained a prudent attitude. In spite of that, Wing Lung Securities increased the trading volume by stimulating customers through its electronic channels and promotion plans related to securities business and expanded the customer base through cross-selling, so as to boost commission income.

Insurance

Wing Lung Insurance Company Limited ("Wing Lung Insurance") realised a gross premium income of HK$376 million in the first half of 2011, representing an increase of 18.33% as compared with the corresponding period of 2010. Total insurance claims increased by 7.50% to HK$162 million. Underwriting business recorded a profit of HK$20.38 million, indicating an improvement as compared with the corresponding period of 2010. The gross premium income was higher than the budget due to large construction projects underwritten by Wing Lung Insurance. Significant increase in contractors all risks and employees' compensation businesses also contributed to the increase.

Branch network

At present, WLB has a total of 42 banking offices in Hong Kong. WLB is speeding up the construction and renovation of branches to extend the branch network. Kowloon City Branch was officially opened in mid-June 2011, and WLB plans to open another branch at Hong Kong Science Park, Shatin in the third quarter.

Currently, WLB has 4 branches and representative offices in the PRC, a branch in Macau and two overseas branches, located respectively in Los Angeles, the United States and Cayman Islands respectively.

Human resources

As at 30 June 2011, the total number of employees of WLB is 1,673 (31 December 2010: 1,726), of which 1,510 are in Hong Kong, 116 are in the PRC, 30 are in Macau and 17 are overseas.

3.8.8.3 Progress of Integration with WLB

In the first half of 2011, the Company continued to promote the integration of WLB in an active and steady manner. Based on the achievements in 2010, the Company further enforced integration measures to facilitate the sustainable and healthy development of all businesses of WLB and enhance its profitability.

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and WLB jointly put great efforts in and focused on the main business opportunity arising from demand from cross-border financial market. Sharing customer resources and connecting domestic and overseas businesses brought new breakthroughs to us and obtained sound effect. The Company and WLB worked together in various areas, such as accepting guarantees from domestic enterprise as security for loans granted to overseas entity (內保外貸, 外保內貸), accepting guarantees from overseas entity as security for loans granted to domestic enterprise, syndicated loan within the Group, transfer of assets, international settlement, financial market trading business, business of acting as receiving bank for IPOs, dividend paying bank for listed companies, express remittance, trade finance, cross-border Renminbi trade settlement, sharing and exchanging credit card merchant offers (信用卡優惠商戶互換), Account Opening Witnessed by CMB Manager (見證開戶) and Sunflower Wealth Management. As at the end of the reporting period, for the wholesale business, our branches within China have successfully recommended corporate customers to WLB with loans of HK$24.813 billion and corporate deposits of HK$4.484 billion. For retail business, the Company has successfully recommended to WLB individual loans of HK$245 million, with total assets under management amounting to HK$507 million and a securities trading volume of HK$472 million in the first half of the year. During the reporting period, WLB has duly been admitted with the qualification for making investment in the interbank bond market in China, while successfully completed the issuance of 3 batches of Renminbi bonds, and extended the service of "Account Opening Witnessed by CMB Manager" to other areas outside the Pearl River Delta which improved the cross-border financial products and service system of WLB.

Secondly, operational management was continually strengthened and key competencies were gradually enhanced. During the reporting period, the construction and management of business channels of WLB has been improved continuously, while the streamlining of the operational procedures relating to deposits, documentary bills, Account Opening Witnessed by CMB Manager and internal audit has achieved progress. WLB has kept on enhancing its electronic channels and services capability, with the second phase construction of its new "call center" project as well as the development of mobile banking and online corporate banking achieving smooth progress. At the same time, WLB and China Merchants Bank have continued to reinforce co-operation in respect of risk management, and commenced a test of group modeling of credit risk and market risk evaluation. During the reporting period, WLB has made progress on the construction of outlets with the commencement of operation of its Kowloon City branch and the active planning on the branch in Hong Kong Science & Technology Park in Shatin. The IT system building is being rolled out with the goal to "establish an integrated service platform featuring cross-border services". The replacement of core system has completed its first stage target. Encouraging results were obtained in the upgrading of business system and IT-based management system.

3.8.9 Business of CMB Financial Leasing

CMB Financial Leasing Co., Ltd. (CMBFL) is one of the first five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and provides financial leasing of large-and-medium scale equipment in transportation, construction, power, mining and manufacturing sectors as well as financial leasing for SMEs as its direction of development. It satisfies different needs from all over the country in respect of procurement of equipment, promotion of sales, activation of assets, balance of tax liabilities and improvement of financial structure. CMB Financial Leasing also provides new financial leasing services such as capital and commodity finance (融物融資), asset management and financial advisory.

CMBFL actively explores a professional business development model, as well as constructs a comprehensive risk management system and strengthens the building of a talented team. After three years of hard work, CMBFL has achieved good operating results with stable and rapid developments across all the business lines. As at 30 June 2011, CMBFL had a registered capital of RMB2 billion and 97 employees; total assets of RMB30.504 billion, up by 33.85% from the end of the previous year; net asset of RMB2.596 billion, up by 8.39% from the end of the previous year. In the first half of 2011, CMBFL has realized net profit of RMB201 million in aggregate, representing a growth of 87.85% as compared with the same period last year.

3.8.10 Business of CMB International Capital

CMB International Capital Corporation Limited (CMBIC) is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage, assets management and direct investment business. As at 30 June 2011, CMBIC had a registered capital of HK$250 million and 76 employees.

In the first half of 2011, CMBIC went forward with the spirit of innovation, steadiness and achieved faster pace in business development. CMBIC successfully sponsored the listing of two companies in Hong Kong in the first half of the year, explored the possibility of other IPO projects, undertook various financial and compliance advisory businesses and recorded a rapid growth in brokerage business. Breakthrough was achieved in the asset management business. Across the board, business grew in a stable manner while achieving significant growth compared with last year. As at 30 June 2011, total assets of CMBIC were HK$855 million, and net assets were HK$392 million. Realized operating income amounted to HK$60.0749 million in aggregate in the first half of 2011, an increase of 70.89% over the corresponding period of the previous year. Realized net profits were HK$14.3952 million, an increase of 3,234% over the corresponding period of the previous year.

3.8.11 Business of China Merchants Fund Management

China Merchants Fund Management Co., Ltd. (CMFM) was the first sino-foreign joint venture fund manager approved by China Securities Regulatory Commission (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 interests in CMFM. The businesses of CMFM include fund establishment, fund management business and other operations approved by CSRC.

As at 30 June 2011, CMFM reported total asset of RMB832 million and net asset of 599 million with 180 employees. CMFM operated 21 open-ended mutual funds, 3 social security portfolios, 19 annuity portfolios, 30 private wealth management portfolios and 2 QFII portfolios. The total assets under management were nearly RMB59.6 billion. In the first half of 2011, CMFM realized an operating income of RMB345 million, an increase of 33% as compared to the same period of last year; and a net profit of RMB134 million, an increase of 58% as compared to the same period of last year.

3.9 Risk Management

3.9.1 Credit risk management

Credit risk refers to risk arising from failure to fulfill the obligations by the borrowers or the counterparties under the negotiated terms and conditions. Credit risk borne by the Company was mainly from credit business, investment business and financing business and other businesses on and off balance sheet. The Company endeavors to formulate an independent and balanced risk management system for credit risk management and implements bank-wide policies and processes regarding credit risk identification, measurement, monitoring and management to maintain a balance between risk and profit of the Company.

Risk Control Committee of the Head Office is the highest authority of the Company in credit risk management. Under the framework of all the risk management strategy, policies and authorizations that has been approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. Based on different credit risk conditions, the company reviews different risks at different authorization levels. The decision-making entities include: the Committee of Loan Assessment of Head Office, the Professional Committee of Loan Assessment of Head Office, the Risk Control Committee of Branch and the Professional Committee of Loan Assessment of Branch. Based on the following five steps of business origination, due diligence, review and approval of credit, loan granting and post-loan management, the Company has established a credit risk management system with clear procedural requirements. By utilizing a number of management measures, including formulating credit policies, access approval, reviewing and approval of credit at different levels, credit inspection, risk warning, management of institutional clients, accountability investigation in non-performing assets settlement, categorized loan provision and internal rating, the Company developed and introduced advanced quantitative modeling tools for risk management and risk management systems to ensure an effective implementation of the risk management procedures. The Company managed risk assets in accordance with the classification specified by regulations. With the requirements of regulation and based on the following factors of borrowers' ability to repay, guarantor's position, conditions of pledges and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under a sophisticated internal classification system. A certain category was first assigned by an account manager or risk control officer and then reviewed by credit risk management departments of the Head Office and branches according to their respective authorizations.

In the first half of 2011, the Bank's management of credit assets business was faced with significant challenges in view of the subdued world economy and prospect of further policy tightening in China. The Company fully recognized the current complexity and severity of credit risks, with the goal to realize the Second Transformation by conducting management reform, by closely adhering to the guidelines of "Setting targets, Optimizing process, Overall management and advancement" for the upgrade of credit risk management, the Company promoted a culture of active risk management, and focused on the overall risk management procedure optimization scheme and the upgrade of overall credit risk management plan, enhanced the transparency and consistency of risk management, so that an improvement in capital efficiency was achieved. During the reporting period, by carrying out the refined credit policies, improving the relevant credit systems and regulations of issuing loans, the Company set up a risk pricing management system, pushed forward the risk managers' collaboration and team building, improved centralized credit granting procedures and risk management on Group customers, tightened the management of large loan risk exposures, enhanced the risk pre-warning system, strengthened classification management, raised provision level, promoted quantitative tools for risks and refined the functions of new generation of credit risk management system, thus laying a solid foundation for credit risk management. Meanwhile, the Company complied with regulatory requirements and enhanced the supervision and monitoring on risks of key aspects. The Company acted strictly according to the requirements by the CBRC in three major points, being "Three rules and one guideline" adjusting repayment modes of mid and long term loans, and revising the policy towards local government financing platforms". Accordingly, the Company continued to enhance the supervision on uses of fund, sped up the categorized management of loans extended through local government financing platforms, and tightened, made rectifications to and, even reduced and stopped the extension of such loans. Furthermore, the Company implemented strict credit policies towards the real estate industry and closely monitored the loan growth rate and total amount of loans granted to it. The Company also actively reduced and terminated loans to "High pollution, high energy consumption and excess capacity" sectors and other risky and sensitive sectors. As a result, the collection and settlement issues attached to risk assets were effectively resolved, and the credit structure and asset quality of the Company continuously improved -during the reporting period.

3.9.2 Country risk management

Country risk represents risk of business loss or other losses suffered by banks due to changes and incidents occurred in the economy, politics and society in a specific country or region, which result in the borrowers or debtors in that country or region incapable of or unwilling to pay for their debts owed to the banks. Country risks may be triggered by conditions, such as deterioration in the economy, chaos in the politics and society of a country or region, assets being nationalized or confiscated, governments refusing to pay their foreign debts, foreign exchange control or currency depreciation, etc..

Pursuant to the Guidelines on Country Risk Management by Financial Institutions in Banking Industry issued by CBRC, the Company formulated the Administration of Country Risks by China Merchants Bank and the Implementation Rules for Limit and Provision for Country Risks by China Merchants Bank in the first half of 2011, aiming at general regulation of internal control over country risks in terms of organizational structure, management responsibilities, risk measurement and evaluation, risk rating, limit management, provision making, statistics and monitoring as well as system support. Currently, the Company carries out the grading evaluation for country risks with reference to the external grading information while taking into account the social and economic conditions of the relevant countries, and makes impairment provision according to the results and adjusts its credit policies, limit policies, overseas institutions development strategies and risk monitoring policies, so as to effectively prevent country risks. As at the end of 2011, the assets of the Company exposed to the country risks remained limited, which indicated low country risk ratings. Moreover, we have made adequate provision for country risks according to the regulatory requirements, as a result, country risks will not have any material effect on our operations.

3.9.3 Liquidity risk management

Liquidity risk refers to the risk that the Company is unable to satisfy its customers' needs of application for new loans, repayment of debts due and reasonable financing, or the risk that the Company is not able to satisfy these funds at reasonable cost. The Company's liquidity is in general managed by the Planning and Finance Department of the Head Office. The Planning and Finance Department is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The Head Office carried out unified management on liquidity through the internal funds transfer pricing mechanism ("FTP"). The Company closely monitors its daily position, reserve ratio, monthly liquidity ratio and liquidity gap ratio, and performs stress test to verify the Company's ability to meet liquidity needs under extreme circumstances. In addition, the Company has a liquidity risk warning system and a liquidity contingency plan in place to tackle any liquidity crises.

The Company's major funding source is customer deposits, mainly deposits from companies, retail customers and other financial institutions. The Company's deposits have been growing continuously in recent years, with a rising variety of deposit products with diversified terms of maturity, while the stability of such funding source has also improved constantly.

In the first half of 2011, the Company optimized the risk limit system and further strengthened the establishment of the liquidity risk management system, which laid a solid foundation for the further improvement of the liquidity management of the Company.

In the first half of 2011, results have been made in the Company's consolidated liquidity risk management and the liquidity risks of WLB were managed under our consolidated liquidity risk management system.

In the first half of 2011, the market witnessed low liquidity due to the tightening monetary policy in China. Therefore, the Company adopted a series of measures to strengthen the proactive management on liquidity risks to ensure that the liquidity of the Company in terms of local and foreign currencies was in a safe and stable state. Specific measures include: in-depth analysis on policy direction and market trends, management of scale of assets, attracting liability and optimizing the match of assets and liabilities. The Company also strengthened real time monitoring on liquidity, kept a good grip on the market trends, better executed our financing operations, improved the test scenario and methods of stress tests and beefed up the ability to deal with extreme financial difficulties.

In the first half of 2011, PBOC raised the required reserve ratio of RMB deposits for six times. As at the end of June 2011, 19.5% (2010: 16.5%) and 5% (2010: 5%) of the total RMB deposits and foreign currency deposits of the Company were required to be placed in PBOC respectively.

3.9.4 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 Company is exposed to market risk primarily through its proprietary trading activities. The Company considers that any market risk arising from its proprietary trading book is not material.

In the first half of 2011, fluctuations were seen in the RMB and foreign currency markets. In China, due to high inflation, the government further tightened its monetary policies, including hiking interest rates twice and raising the statutory deposit reserve ratio for six times by the PBOC. As a result of tightening policies, we were confronted with severe shortage of RMB liquidity and rising interest rates in money market with a few sharp spikes during the period. Meanwhile, fluctuation in RMB bond market intensified and the yield curve was generally flattened and rising, indicating a substantial fall in the bond market. Worldwide, in the first half year, global financial market was shocked by drastic events, including warfare in Middle East and North Africa, violent earthquake in Japan and the lift of the U.S. national debt ceiling. Although rescue measures were introduced by the European Central Bank to tackle the European sovereign debt crisis, it remained a major worry for the global market. In the first half year, European debt crisis still has a tendency to spread while systemic risk of the European market is likely to stay high in the long term. Under the complicated financial environment, hedging funds around the world drove capital flows frequently, which exacerbated market fluctuations. Against other foreign currencies, the RMB continued to appreciate in the first half of the year.

The Company has formulated investment strategies based on the detailed studies and close monitoring it conducted on the situations of the domestic and worldwide macroeconomies, monetary policies, market liquidity and the trend of CPI. Currently, the investment portfolio of the Company mainly comprises PRC government bonds, bonds issued by PBOC, debt securities issued by policy banks, large domestic enterprises of high credit ratings and commercial banks. Consequently, we maintained a satisfactory level of various market risk indicators.

3.9.5 Interest rate risk management

Interest rate risk refers to the risk of unfavorable fluctuation of interest rates, maturity structure etc. which results in losses of gross profit and economic value of bank accounts. The interest rate risk faced by the Company includes the benchmark risk, re-pricing risk, yield curve risk and option risk. In particular, benchmark risk and re-pricing risk are the primary risks faced by the Company. 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 and economic value under acceptable range of interest rate risk exposure.

The Company mainly adopts the scenario simulation analysis, re-pricing gap analysis, duration analysis, stress test and other methods to measure and analyze interest rate risk. Under its limit framework, the Company monitors and reports interest rate risk on a monthly basis. The Company strengthened its treasury operation mechanism by streamlining work procedures and specifying roles and responsibilities clearly through regular meetings on the analysis of treasury decisions, which serves as an efficient platform to effectively analyze the causes of interest rate risk, and propose and implement controlling measures.

In the first half of 2011, the Company continued to manage its interest rate risk in a proactive and forward-looking manner and improved the risk limit system. It further specified and implemented the management strategy of adjusting the duration of loans and bonds on balance sheet items, while hedging interest rate risk on the off-balance sheet front. For balance sheet items, the Company carried out organic combined management of the interest rate risk management and FTP and the pricing of products and adjusted the business structure of balance sheet assets and the characteristics of interest rate risks. On the off-balance sheet part, the Company deepened the hedging operation and expanded the scale of hedging.

In the first half of 2011, results have been made in the Company's consolidated interest rate risk management and the interest rate risks of WLB were managed under our consolidated risk management system.

In the first half of 2011, PBOC had raised the RMB benchmark deposit and loan interest rates twice, in which one-year term deposit benchmark interest rate increased by 0.5%. In light of the characteristics of our interest rate risk, the rise of benchmark deposit and loan interest rates is more likely to have positive impact on the net interest income of the Company. We always take a long-term perspective and will further enhance interest rate risk management to realize a steady growth of net interest income and economic value.

3.9.6 Exchange rate risk management

Exchange rate risk refers to the risk of the bank losing its gross profit caused by foreign exchange and foreign exchange derivatives due to the unfavorable fluctuation in exchange rate. The Company's functional currency is RMB. The Company's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar. The Company is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities. Through strict management of exchange rate risk exposure, the Company manages to control the exchange rate risk exposure under acceptable range.

The Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, Value at Risk ("VaR") and other methods to measure and analyze exchange rate risk. The Company measures and analyzes changes in its foreign exchange exposure and monitors and reports exchange rate risk on a monthly basis under its limit framework. Based on the trend of foreign exchange movements, the Company adjusts its foreign exchange exposure accordingly to mitigate the relevant foreign currency risk.

In the first half of 2011, the Company improved the methods and tools for measuring exchange rate risk and strengthened the control over the foreign exchange risk exposure and adjusted the structure of foreign currency assets and liability. Progressive results have been made in the Company's consolidated exchange rate risk management and the exchange rate risks of WLB were managed under our consolidated risk management system.

In the first half of 2011, the central parity rate of RMB against US dollars appreciated by more than 2%. The Company managed to control the exchange loss within acceptable range through various measures.

3.9.7 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, incompetent personnel or IT systems, or external events. The Company regards the facilitation of the effective implementation of the operational risk management system as its core action, and consolidates and fosters the operational risk management via strengthening the construction of management infrastructure, raising risk management techniques, enhancing risk monitoring and reporting as well as commencing risk management training, so as to enhance the capability and effectiveness of operational risk management of the Company. Major measures taken during the reporting period were as follows:

1. The Company further optimized the framework for its operational risk management;

2. The Company launched the promotion and utilization of operational risk management tools and operational risk management system within the entire bank;

3. Pursuant to the requirements of the section "Standard Measurements" under the "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by the CBRC, quantitative measurements were conducted on the group and legal person basis in respect of capital subject to operational risk regulation.

3.9.8 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation diminishing as a result of their failure to obey the laws, rules and guidelines. The board of directors of the Company is ultimately responsible for the compliance of the operating activities, and authorizes the Risk and Capital Management Committee under the Board to undergo supervision on the compliance risk management. The Compliance Management Committee of the Head Office is the top management organization within the compliance risk management function of the whole company under the senior management of the Company.

By complying with the principles and requirements under "Guidelines on Compliance Risk Management of Commercial Banks" promulgated by CBRC and "Banks and Internal Compliance Departments of Banks (銀行與銀行內部合規部門)" promulgated by Basel Committee, the Company, after implementing its "compliance policies", has established a complete and effective compliance risk management framework and completed an organizational risk management structure which comprises compliance management committees, heads of compliance matters, compliance officers, legal and compliance departments of head office and branches, management departments of branches and compliance supervisors of sub-branches. The Company has improved three defense lines of compliance risks management and double-line reporting mechanism, and is continually enhancing and improving management mechanism, as well as raising risk management techniques and procedures, so as to ensure effective management of compliance risk.

The Company continuously promoted a compliance culture within the whole bank, and conducted regular compliance education in an attempt to raise its staff's awareness of compliance via compliance training and themed education programs integrated with business flow. The Company improved the functions of its compliance risk management system, and reinforced of the fundamental management of compliance risk based on technical modification, firmly optimized the compliance risk database and established the monitory and cautionary indicators for compliance risks. More efforts were also put on the reading and interpretation of laws and regulations and monitory policies, so as to strengthen our legal compliance work as well as the risk management in preparing businesses and products, especially innovative products and material projects. The Company completely reviewed the compliance risk points, actively commenced compliance checks and tests, and continuously promote the identification and assessment of compliance risk within the whole bank.

3.9.9 Reputation risk management

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

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

In the first half of 2011, the Company took the following steps to improve its reputation risk management. Firstly, the Company launched the reputation risk management system throughout the bank which based on the structure of overall reputation risk management. It covers all the units and risk points associated with the reputation risk events, thus ensuring continuity among all units, lines and business sectors and procedures to effectively prevent reputation risk. Secondly, the Company improved the "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd." and further improved the bank-wide reputation risk system to raise the level of handling for reputation risk related events. Thirdly, advanced prevention on reputation related events has been enhanced, and accordingly contingency plans are prepared in advance for businesses or events which could cause reputation risks, thereby lowering the loss of reputation to the greatest extent.

3.9.10 Anti-money laundering management

The Company takes anti-money laundering as its social responsibility and legal responsibility. It has attached great importance to anti-money laundering through establishing a professional anti-money laundering team, launching sound anti-money laundering system and procedures, developing and operating database of name list and filtering system, as well as monitoring and reporting system for significant transactions and suspicious transactions.

During the reporting period, adhering to the principle of "knowing your customer", the Company upheld the philosophy of prioritizing risk in business to optimize the information on the identity of customers, and thus raised the accuracy on the classification of the level of risks for its customers. The Company conducted the pilot program of centralized monitoring and analyzing of suspicious transactions, therefore improved the analysis of people involving in unusual transactions. The Company also focused on effectiveness of reports on suspicious transactions by consistently conducting anti-money laundering training.

3.9.11 Implementation of Basel II

In February 2007, the CBRC released the "Guidelines on the Implementation of Basel II Framework by China's Banking Sector", which decided that the first batch 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 operation and management, the Company strives to become one of the first batch of banks to be approved by the CBRC to adopt Basel II. Currently, the Company is planning for the overall finalization of the CBRC's Opinion on the preliminary appraisal and the implementation of Basel II for several subsidiaries pursuant to the requirements under the "Notice of the CBRC on Issuing Opinion on Preliminary Appraisal of Basel II Implementation by CMB", and actively prepares various documents necessary for the official application of adopting Basel II, and will submit this application in due course.

3.10 Changes in External Environment and Responding Measures

3.10.1 Operating environment, the impacts of changes in macroeconomic policies and key concerns in the course of business

During the first half of 2011, with the inflationary pressure building up, the Chinese Government rolled out a series of austere macroeconomic policies, as a result of which the economy was evolving steadily. In order to alleviate the concern on inflation and soak up liquidity, the PBOC raised the deposit reserve ratio for six times and increased the interest rate twice during the first half of 2011. As for credit loan, the amount of which was restrained, the granting pace was balanced, the structure is adjusted. The liquidity of the banking system was obviously tightened and pressure for deposit growth was building up.

Facing such evident changes in the macro-economic environment, the Company remained determined in advancing the strategic adjustment of the Second Transformation and actively optimized assets and liabilities structure, striving to overcome the adverse influences from the external environment. Our operating scale was growing steadily for the first half of 2011, with the asset quality remaining reliable and overall operation developing in a balanced manner.

1. *The effect of raising interest rates and deposit reserve ratio on net interest margin of the Company*

During the first half of 2011, facing the complicated macro-economic situation, especially the liquidity of the banking industry obviously deteriorating as the monetary policies continuing to tighten up, the Company remained determined in advancing the strategic structure adjustment under the guidance of the Second Transformation while taking full advantage of its superior assets and liabilities structure as well as interest rate hikes. Therefore a fast recovery of net interest margin has been achieved. Firstly, in anticipation of the interest rate rises, the Company clearly defined the direction and targets of assets and liabilities management for the whole year, accelerated the optimization of assets and liabilities structure, reasonably revised business structure and maturity profile. The results of these efforts are satisfactory. Secondly, the Company strengthened interest rate management and continuously enhanced its loan pricing capability for higher comprehensive return while striving to reduce the liability costs, thus achieved continuous expansion of interest spread. Thirdly, the Company strengthened treasury management to cope with the trend of tightened liquidity caused by raising deposit reserve ratio, etc., opened up multiple channels for available funds and improve the efficiency and benefits of fund utilization through flexible and active deployments. As at the end of June, the Company achieved a net interest margin of 3.07%, a significant increase of 36 basis points as compared to the previous year.

2. *Loans extended through local government financing platforms*

Since the end of 2010, the CBRC had introduced a series of new regulatory policies on the loans extended through local government financing platforms. The Company attached great importance to and strictly complied with the requirements, and applied various measures to prevent risks connected with such platform loans. Following the new principle of "Four Loans Granted and Four Loans Restricted" introduced by CBRC, aiming at reducing the existing projects and controlling the new projects, the Company adopted a quota-and-namelist dual track control system, set up a combined objective which restricts the quotas and balances of loans extended through local government financing platforms, so as to have a strict categorized management of government platforms customers. To strictly control our lending criteria, the right to approve government platform credit and loans has been taken back by the Head Office, which has the centralized authority to review and approve the grant of loans through dual review system. The company proactively carried out comprehensive reform regarding to the management of government financing platforms, as well as their collaterals and guarantees, maturity period, means of loan repayment and rates of borrowings, so as to identify the general corporate loans in a prudent and secure manner. The Company strived to mitigate underlying risk by reducing or exiting potentially risky loans, enhancing risk classification, expanding the coverage of allowance for impairment loss and preventing dormant risks. During the reporting period, the total volume of loans granted through local government financing platforms has declined, which further optimized the loan structure and maintained a high level of assets quality.

3. *Risk management and control on loans for real estate development and affordable housing*

In light of the strict regulatory policy and high market prices, our housing loan business faced great challenges. The company adopted various controlling measures to avoid risks. "Two Limits" principle, i.e.,the growth of housing loans must not exceed the average growth rate of corporate loans, and the portion of housing loans must not exceed 7% of our total loans were adopted to control the total amount of housing loans. Higher criteria were introduced for approval of loans to real estate development projects, while the Head Office is responsible for the examination, approval and selection of the projects. The Company also maintained a list for qualified developers in order to strictly control risks from our customers. Defaulting developers are not allowed to obtain loans. Loans for the development of commercial properties and related mortgage loans are put under high restrictions. Meanwhile, supports offered to affordable housing are placed majorly in the municipalities, capital cities and cities specifically designated in the state plan around the Bohai Rim, Yangtze River Delta and the Pearl River Delta. The projects should be included in the government annual plan for affordable housing construction, should have completed examination and approvals process and should possess relevant repurchase agreements with the government that could ensure timely repayment of all principals and interests. A closed-end management has been applied to these loans. During the reporting period, the growth of the Bank's housing loans was substantially reduced and both the amount and ratio of related non-performing loans were lowered, so that the risks involved are basically under control. In addition, the total size of affordable housing loans was small, representing 0.18% of total loan amount of the Company. The loans are mainly for the reconstruction projects for slum areas, reclamation regions and dangerous buildings. There has been no special mention loan or non-performing loan in this respect.

4. *Risk management for the SMEs corporate loans*

The expansion of loans to SMEs is an important part of the Bank's strategy of the Second Transformation. Our operation strategy was supported with series of preferential policies in connection with SMEs loans launched by the government. As at the end of the reporting period, the SMEs corporate loans amounted to 433,796 million, representing 51.19% of the total amount of corporate loans granted to domestic companies, an increase of 1.47 percentage points as compared to the end of the previous year and the relevant non-performing loan ratio was 1.32%, a decrease of 0.14 percentage point as compared to that at the end of 2010. In the next several years, the Company will act in line with the regional economy development plan under the 12th "Five-year Plan" and will focus on the development of SMEs corporate loans in the Eastern China coastal regions where the economy is more developed, and extend the strategies to the central and western regions. To achieve the objective, the Company will accelerate the formulation of the restructuring and development plan for our SMEs loan business, push forward the product innovation system featured by batch development, reform the credit risk management model, and improve the assessment mechanism that would link one's performance with one's interest. We will speed up the development of SMEs corporate loans business by enhancing the system, workflow, mechanism, assessment, institutions and management fundamentals at the same time.

Meanwhile, the Company promoted risk prevention through improving loan grant procedures for small enterprises: firstly, develop products in batches to shift forward the risk exposure; secondly, form coordinated working system for risk managers; thirdly, form a standardized model for reviewing small enterprises' credit status, with highlights on non-financial aspects such as "three performances" and "three qualities"; optimize the score card system for credit ratings of small enterprises; fourthly, separate approval channels and apply time limits to enhance efficiency and quality of loan approval; fifthly, set up an event-triggered post-lending management system. Accordingly, whenever there is a warning event, inspection will be triggered to monitor cash flow and control the utilization of loans. The Bank will also strengthen the collaterals management, push forward the post-lending management, coordinate procedures such as risk warning, on-site inspection, five-grade loan classification and credit rating. The Post-lending Management Module for Small Enterprise will be formulated and standardized key indicators will be refined. Moreover, comprehensive control will be carried out and differentiation inspection indicators for different institutions will be applied. Main concern will be put on the integrated risk and systematic risk of loans. The sixth is to improve the tolerance system and the liability exemption system for non-performing small enterprise loans.

5. *Regulation on loan-to-deposit ratio*

In the first half of 2011, as CBRC continued to exercise strict control on loan-to-deposit ratio and as PBOC consecutively raised the statutory deposit reserve ratio alongside with the increase in benchmark interest rate of deposits and loans, commercial banks were faced with pressure on assets and liability management and liquidity management. The measures adopted by the Company are: (1) placing high regard to the implementation of regulatory requirements on loan-to-deposit ratio and achieving coordinated growth in deposits and loans business through comprehensive measures including optimizing business plan and allocation, improving assets and liability management, budget management and capital management. (2) sticking to the operation principle that funds utilization would be restricted by the source of funds, so as to enhance the evaluation and incentive mechanism for deposits marketing by the branches, securing a stable growth in deposits business. (3) leveraging tools such as management accounting to further analyze and study the growth potential of deposits from different types of customers, and using the results as a guidance for branches to adjust the customer structure and raise their overall contribution. (4) implementing regulatory requirements on credit granting, such as rationalizing the size and speed of granting loans, granting loans according to plans and restraining the growth rate of loans at an appropriate level.

6. *Capital management*

In the first half of 2011, the Company was resolved to carry on with the strategic transformation in capital management. The Company improved its capital measurement, optimized economic capital allocation and strengthened capital control. As a result, the growth rate of risk assets has slowed down significantly and the capital strength of the Company was enhanced. As at the end of June, excluding the effect caused by new requirements on platform loans, the Company's risk weighted assets increased 7.43% as compared to that at the beginning of this year, lower than the growth rate of total assets and net capital by 2.27 percentage points and 3.36 percentage points respectively. The capital adequacy ratio and core capital adequacy ratio was 10.80% and 8.37% respectively, representing a decline of 0.41 percentage point and 0.33 percentage point as compared to that at the beginning of the year. Excluding the effect caused by new regulatory requirements on platform loans and regulatory policies on unused credit card commitment, capital adequacy ratio of the Company maintained stable in the first half of the year. In the second half of the year, the Company will make sure that the rights issue of A Shares and H Shares go smoothly and further strengthen capital management and improve risk identification and measurement, perfect the measurement and monitoring of capital, keep optimizing asset structure and profit structure to improve the capital endogenous ability. We will also strengthen the capital performance management and optimize allocation of internal economic capital and enhance the guiding effect of economic capital on our business.

7. *Net non-interest income*

The Company's net non-interest income has maintained its healthy development momentum. Since 2011, in spite of complicated changes in macroeconomic environment, the Company had been seeking opportunities in challenges, and shifted the focus timely to achieve breakthroughs in the business of wealth management, investment banking services and bills spread, resulting in a rapid growth in net non-interest income. In the first half of year, the Company realized net non-interest income of RMB9,459 million, representing an increase of RMB3,423 million or 56.71%. The wealth management and investment banking services recorded RMB2,522 million and 1,119 million respectively, representing an increase of 64.40% and 99.11% respectively as compared with the corresponding period of the previous year. The net non-interest income accounted for 21.43% of net operation income, representing an increase of 2.32 percentage points as compared with the corresponding period of the previous year. In the second half of the year, the Company will further strengthen our competitive edges, closely monitor and analyze the trend of macroeconomic environment and actively foster new growth areas, to realize a continuous and rapid increase in net non-interest income.

3.10.2 Analysis on outcome of the Second Transformation

Since it was fully carried out in 2010, the Second Transformation has met with encouraging success in the current phase, which is reflected in the following: (1) continuous improvement on capital efficiency. As at 30 June 2011, the return on average equity ("ROAE") counted on the Parent Company level was 24.20%, representing an increase of 3.79 percentage points as compared to the previous whole year; the RAROC was 22.68%, representing an increase of 2.45 percentage points as compared to the previous year; (2) significant improvement on loan risk pricing. The weighted average floating band of interest rates of new granted general corporate loans (weighted at actual amounts, same as below) increased by 8.55 percentage points as compared to the previous whole year; the weighted average floating band of interest rates of newly granted retail loans increased by 14.02 percentage points as compared to the previous whole year; (3) continuous improvement on operational efficiency. The cost-to-income ratio of the Company was 32.40%, representing a decrease of 7.23 percentage points as compared to the previous whole year; profit before tax per person was RMB1.074 million, representing an increase of 40.2% as compared to the previous whole year; profit before tax per branch increased by RMB14.20 million, or 35.0% as compared to the previous whole year; (4) continuous increase in proportion of high net-worth customers. As at 30 June 2011, the number of our Sunflower and above grade customers (retail customers having average daily total asset per month of RMB500,000 or above) was 734,700, representing an increase of 9.64% as compared to the beginning of the year; the number of our Diamond customers and private banking customers increased by 12.4% and 15.32% respectively, whose combined contribution to the profit of the retail sector was an increase of 5.9% as compared to the whole year of 2010.

3.11 Outlook and Measures

In the second half of the year, domestic and foreign economic and financial conditions will remain complex. While facing new developing opportunities, the Company will also encounter severe challenges. For instance, tightening macro-economic adjustment and control would continue to pose a relatively high pressure on the Company to adjust loan structure. The past practice of heavy reliance on asset business, particularly the loans business in exploring customers, expanding profit, raising deposits and earning intermediate income is increasingly difficult thus needs critical changes. Regulatory controls become more and more stringent, with CBRC raised the regulatory benchmarks for capital adequacy ratio, leverage ratio, liquidity and loan loss provision across the board, while further strengthening its regulation on loan and deposit ratios and also on wealth management business. These measures impose significant pressure on the operation and management of the Company. Shrinking liquidity within the banking sector together with the intense competition for debt financing as well as tightened liquidity from the money market will increase difficulties for the liquidity management of the Company.

Amidst the new environment and challenges, the Company will explore new concepts and accelerate transformation to ensure the sustainable development in the second decade of the new century. Therefore, the Company will focus on the following works: firstly, accelerate the development of SME business via formulating the reform plan on SME business, improve and optimize relevant assessment mechanism and credit risk management model to enhance the product innovation with market competitiveness; secondly, strictly implement the targets of lending control, stable extension of loans and optimization for loan structure, while adopting various measures to develop debt business and facilitate the balanced growth of assets and liabilities; thirdly, further reinforce capital management via measures such as stringent budget control, reasonable arrangement for asset structure and pace of growth, while enhancing pricing assessment and transfer as well as optimizing the workflow for pricing approval; fourthly, strongly develop wealth management business such as fund under custody and insurance, strengthen the operation of credit card business and further explore new growth points for business in respect of international business, industry peers, offshore, financial market, investment bank, asset custody, cash management and annuity finance to foster the sustainable and healthy development of intermediate business; fifthly, step up efforts on client management with the target for raising RAROC level, placing focus on corporate accounts with loan balance and enhancing the expansion and maintenance of middle-and-high-end retail customers; sixthly, strictly prevent different risks, such as credit risk, liquidity risk, market risk, operation risk, wealth product risk and reputation risk, and strengthen internal compliance, litigation prevention and audit supervision; seventhly, integrate resources with focus on workflow optimization and implementation of the action plan for each project; eighthly, further enhance the level of human resources management as well as IT development and safety management; ninthly, accelerate the integration of WLB to stably foster international and comprehensive operation.

4.1 Changes in Shares of the Company during the Reporting Period

		31 December 2010 Quantity (share)	31 December 2010 Percentage (%)	Changes in the reporting period	30 June 2011 Quantity (share)	30 June 2011 Percentage (%)
I.	**Shares subject to trading moratorium**	**0**	**0**	**0**	**0**	**0**
II.	**Shares not subject to trading moratorium**	**21,576,608,885**	**100.00**	**0**	**21,576,608,885**	**100.00**
	1. Common shares in RMB (A Shares)	17,666,130,885	81.88	0	17,666,130,885	81.88
	2. Foreign shares listed domestically	0	0	0	0	0
	3. Foreign shares listed overseas (H Shares)	3,910,478,000	18.12	0	3,910,478,000	18.12
	4. Others	0	0	0	0	0
III.	**Total shares**	**21,576,608,885**	**100.00**	**0**	**21,576,608,885**	**100.00**

As at the end of the reporting period, the Company had a total of 583,998 shareholders, including 41,168 holders of H Shares and 542,830 holders of A Shares, and all the shares are not subject to trading moratorium.

Based on the public information available to the Company and its directors, as at 30 June 2011, the Company had met the public float requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

4.2 Top Ten Shareholders and Top Ten Shareholders whose Shareholdings are not subject to Trading Moratorium

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of Shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.(1)	/	3,851,448,694	17.85	H shares	5,077,355	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal persons	2,675,612,600	12.40	A Shares not subject to trading moratorium	–	–	–
3	China Ocean Shipping (Group) Company	State-owned legal persons	1,341,336,551	6.22	A Shares not subject to trading moratorium	57,196,395	–	–
4	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	636,788,489	2.95	A Shares not subject to trading moratorium	–	–	–
5	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	631,287,834	2.93	A Shares not subject to trading moratorium	–	–	–
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	556,333,611	2.58	A Shares not subject to trading moratorium	–	–	–
7	China Communications Construction Company Ltd.	State-owned legal persons	383,445,439	1.78	A Shares not subject to trading moratorium	–	–	–
8	Shanghai Automotive Industry Corporation	State-owned legal persons	368,079,979	1.71	A Shares not subject to trading moratorium	–	–	–
9	CNOOC Investment Co., Ltd.	State-owned legal persons	301,593,148	1.40	A Shares not subject to trading moratorium	–	–	–
10	Shandong State-owned Assets Investment Holdings Company Ltd.	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	–	–	–
10	China Shipping (Group) Company	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	–	–	–
10	Hebei Port Group Company Ltd.	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	–	–	–

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

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Ltd., Shenzhen Yan Qing Investment and Development Company Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd.. 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.

4.3 Substantial Shareholders' and other Persons' Interests and Short Positions in Shares and underlying Shares under Hong Kong Laws and Regulations

As at 30 June 2011, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the 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 (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	3,886,912,452#	1	22.00	18.01*
China Merchants Steam Navigation Company Ltd.	A	Long	Beneficial owner	2,675,612,600	1	15.15	12.40
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	18,177,752#	1		
		Long	Interest of controlled corporation	1,193,122,100	1		
				1,211,299,852#		6.86	5.61
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	636,788,489	1		
		Long	Interest of controlled corporation	556,333,611	1		
				1,193,122,100		6.75	5.53
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,284,140,156#		7.27	5.95
China Shipping (Group) Company	A	Long	Beneficial owner	258,470,781			
		Long	Interest of controlled corporation	695,697,834			
				954,168,615	2	5.40	4.42
JPMorgan Chase & Co.	H	Long	Beneficial owner	52,378,942			
		Long	Investment manager	291,504,468			
		Long	Custodian	86,962,344			
				430,845,754	3	11.02	2.00
		Short	Beneficial owner	14,875,178	3	0.38	0.07
BlackRock, Inc.	H	Long	Interest of controlled corporation	253,192,911	4	6.47	1.17
		Short	Interest of controlled corporation	21,819,075	4	0.56	0.10
Templeton Asset Management Limited	H	Long	Investment manager	277,080,880		7.09	1.28

* As at 30 June 2011, China Merchants Group Ltd. indirectly held an aggregate of 18.63% of the total issued shares of the Company, consisting of 18.43% of the A shares of the Company and 0.20% of the H shares of the Company, respectively.

\# The above numbers of shares were recorded in the interests disclosure forms completed by the relevant substantial shareholders before 30 June 2011. During the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2011, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation in accordance with SFO.

Notes:

(1) China Merchants Group Ltd. held interest in a total of 3,886,912,452 A shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Co. Ltd. held 2,675,612,600 A shares (Long position) in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..

(1.2) China Merchants Finance Investment Holdings Co. Ltd. held 18,177,752 A shares (Long position) in the Company. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Co. Ltd., referred to (1.1) above, respectively.

(1.3) Shenzhen Yan Qing Investment Development Co. Ltd. held 636,788,489 A shares (Long position) 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., referred to (1.2) above, and China Merchants Group Ltd., respectively.

(1.4) Shenzhen Chu Yuan Investment Development Co. Ltd. held 556,333,611 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to (1.2) above, and Shenzhen Yan Qing Investment Development Co. Ltd., referred to (1.3) above, respectively.

(2) China Shipping (Group) Company held interest in a total of 954,168,615 A shares (Long position) in the Company by virtue of its direct interest in 258,470,781 A shares (Long position) in the Company and interest in 695,697,834 A shares (Long position) in the Company by virtue of its wholly-owned subsidiaries, which held direct interests in the Company:

(2.1) Guangzhou Maritime Transport (Group) Company Limited directly held 631,287,834 A shares (Long position) in the Company; and

(2.2) Shanghai Shipping (Group) Company directly held 64,410,000 A shares (Long position) in the Company.

(3) JPMorgan Chase & Co. held interest in a total of 430,845,754 H shares (Long position) and 14,875,178 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 113,943,538 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co..

(3.2) JF Asset Management Limited held 2,000,000 H shares (Long position) in the Company. JF Asset Management Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.3) J.P. Morgan Whitefriars Inc. held 33,507,717 H shares (Long position) and 3,039,545 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.4) J.P. Morgan Investment Management Inc. held 80,932,907 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.5) JPMorgan Asset Management (UK) Limited held 173,614,450 H shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.6) JPMorgan Asset Management (Taiwan) Limited held 4,912,782 H shares (Long position) in the Company. JPMorgan Asset Management (Taiwan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.7) J.P. Morgan Securities Ltd. held 17,176,396 H shares (Long position) and 10,008,016 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 was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.8) JPMorgan Asset Management (Singapore) Limited held 2,528,400 H shares (Long position) in the Company. JPMorgan Asset Management (Singapore) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.9) JPMorgan Asset Management (Japan) Limited held 426,735 H shares (Long position) in the Company. JPMorgan Asset Management (Japan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.10) J.P. Morgan Whitefriars (UK) held 132,788 H shares (Short position) in the Company. J.P. Morgan Whitefriars (UK) was owned as to 99.99% by J.P. Morgan Whitefriars Inc., which was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.11) China International Fund Management Co Ltd. held 108,000 H shares (Long position) in the Company. China International Fund Management Co Ltd. was owned as to 49.00% by JPMorgan Asset Management (UK) Limited, which was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.12) J.P. Morgan Markets Limited held 1,694,829 H shares (Long position) and 1,694,829 H shares (Short position) of the Company. J.P. Morgan Markets Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 86,962,344 H shares. Besides, 14,669,535 H shares (Long position) and 7,314,333 H shares (Short position) were held through derivatives as follows:

2,436,000 H shares (Long position) and 4,629,500 H shares (Short position)	–	through physically settled derivatives (on exchange)
30,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
8,112,602 H shares (Long position) and 2,264,635 H shares (Short position)	–	through physically settled derivatives (off exchange)
4,120,933 H shares (Long position) and 390,198 H shares (Short position)	–	through cash settled derivatives (off exchange)

(4) BlackRock, Inc. held interest in a total of 253,192,911 H shares (Long position) and 21,819,075 H shares (Short position) in the Company by virtue of its control over the following corporations:

(4.1) BlackRock Investment Management, LLC held 2,230,432 H shares (Long position) in the Company. BlackRock Investment Management, LLC was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.2) BlackRock Financial Management, Inc. held 250,962,479 H shares (Long position) and 21,819,075 H shares (Short position) in the Company. BlackRock Financial Management, Inc. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.3) BlackRock Fund Advisors held 156,447,505 H shares (Long position). BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company, N.A., which in turn held 181,704,055 H shares (Long position) and 713,000 H shares (Short position) in the Company. BlackRock Institutional Trust Company, N.A. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.4) BlackRock Advisors, LLC. held 10,710,300 H shares (Long position) and 2,405,500 H shares (Short position) in the Company. BlackRock Advisors, LLC. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.5) BlackRock Capital Management, Inc. held 128,700 H shares (Long position) in the Company. BlackRock Capital Management, Inc. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.6) BlackRock Asset Management Canada Limited held 251,000 H shares (Long position) in the Company. BlackRock Asset Management Canada Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.7) BlackRock Asset Management Australia Limited held 62,000 H shares (Long position) in the Company. BlackRock Asset Management Australia Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.8) BlackRock Asset Management North Asia Limited held 11,584,033 H shares (Long position) and 10,119,688 H shares (Short position) in the Company. BlackRock Asset Management North Asia Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.9) BlackRock Investment Management (LUX) held 188,700 H shares (Long position) in the Company. BlackRock Investment Management (LUX) was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.10) BlackRock Asset Management Ireland Ltd held 24,502,530 H shares (Long position) in the Company. BlackRock Asset Management Ireland Ltd was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.11) BlackRock Advisors UK Limited held 16,003,191 H shares (Long position) and 8,580,887 H shares (Short position) in the Company. BlackRock Advisors UK Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.12) BlackRock International Ltd held 2,238,011 H shares (Long position) in the Company. BlackRock International Ltd was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.13) BlackRock Fund Managers Ltd held 295,459 H shares (Long position) in the Company. BlackRock Fund Managers Ltd was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.14) BlackRock Asset Management Deutschland AG held 414,000 H shares (Long position) in the Company. BlackRock Asset Management Deutschland AG was an indirect wholly-owned subsidiary of BlackRock, Inc..

Among the entire interest of BlackRock, Inc. in the Company, there was a total of 3,118,500 H shares (Short position) which were held through physically settled derivatives (on exchange).

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2011 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5.1 Directors, Supervisors and Senior Management

Name	Gender	Date of birth	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Fu Yuning	Male	1957.3	Chairman & Non-Executive Director	2010.6-2013.6	0	0
Wei Jiafu	Male	1950.1	Vice Chairman & Non-Executive Director	2010.6-2013.6	0	0
Li Yinquan	Male	1955.4	Non-Executive Director	2010.6-2013.6	0	0
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8-2013.6	0	0
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2010.6-2013.6	0	0
Sun Yueying	Female	1958.6	Non-Executive Director	2010.6-2013.6	0	0
Wang Daxiong	Male	1960.12	Non-Executive Director	2010.6-2013.6	0	0
Fu Junyuan	Male	1961.5	Non-Executive Director	2010.6-2013.6	0	0
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2010.6-2013.6	0	0
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2010.6-2013.6	0	0
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2010.6-2013.6	0	0
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2010.6-2013.6	0	0
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-2013.6	0	0
Yan Lan	Female	1957.1	Independent Non-Executive Director	2010.6-2013.6	0	0
Chow Kwong Fai, Edward	Male	1952.8	Independent Non-Executive Director	2010.6-subject to the requirements of policies and regulations	0	0
Liu Yongzhang	Male	1956.12	Independent Non-Executive Director	2010.6-subject to the requirements of policies and regulations	0	0
Liu Hongxia	Female	1963.9	Independent Non-Executive Director	2010.6-subject to the requirements of policies and regulations	0	0
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors	2010.8-2013.6	0	0
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2010.6-2013.6	0	0
Hu Xupeng	Male	1975.10	Shareholder Supervisor	2010.6-2013.6	0	0
Li Jiangning	Male	1959.4	Shareholder Supervisor	2010.6-2013.6	0	0
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2010.6-2013.6	0	0
Pan Ji	Male	1949.4	External Supervisor	2011.5-2013.6	0	0
Shao Ruiqing	Male	1957.9	External Supervisor	2010.6-subject to the requirements of policies and regulations	0	0
Yang Zongjian	Male	1957.4	Employee Supervisor	2010.6-2013.6	0	0
Zhou Qizheng	Male	1964.11	Employee Supervisor	2010.6-2013.6	0	0
Tang Zhihong	Male	1960.3	Executive Vice President	2010.6-2013.6	0	0
Yin Fenglan	Female	1953.7	Executive Vice President	2010.6-2013.6	0	0
Ding Wei	Male	1957.5	Executive Vice President	2010.6-2013.6	0	0
Zhu Qi	Male	1960.7	Executive Vice President	2010.6-2013.6	0	0
Tang Xiaoqing	Male	1954.8	Secretary of Party Discipline Committee	2008.12 up to now	0	0
Wang Qingbin	Male	1956.12	Executive Vice President	2011.6-2013.6	0	0
Zhang Minghui	Male	1956.2	Executive Assistant President	2011.6 up to now	0	0
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 up to now	0	0
Lan Qi	Male	1956.6	Secretary of Board of Directors	2010.6-2013.6	0	0

5.2 Appointment and Resignation of Directors, Supervisors and Senior Management

Pursuant to the resolution considered and passed at the 11th meeting of the Eighth Session of the Board of Directors and the 2010 Annual General Meeting, as Mr. Wu Jiesi, an independent non-executive director of the Company, completed his terms of office, Mr. Wu resigned from the position, and Mr. Wong Kwai Lam was appointed as an independent non-executive director of the Eighth Session of the Board of Directors to fill the vacant position. Mr. Wong's qualifications were approved by China Banking Regulatory Commission ("CBRC") Shenzhen Office on 19 July 2011, and his appointment as independent non-executive director of the Eighth Session of the Board of Directors became effective from the date of approval of the qualifications by CBRC. Save for the adjustment as required by relevant applicable policies and regulations, Mr. Wong's tenure of office will expire as at the conclusion of the Eighth Session of the Board of Directors of the Company.

The announcements in relation to the change of directors of the Company were published on China Securities Journal, Shanghai Securities News and Securities Times on 1 April 2011, 31 May 2011 and 20 July 2011 respectively and such announcements were also published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

During the reporting period, given that Mr. Han Mingzhi, an external Supervisor of the Company, transferred his job and Party membership to the Company, it would be inapplicable, under the regulatory requirements, for Mr. Han to continue to perform his duties in capacity as an external supervisor. Accordingly, Mr. Han Mingzhi submitted his resignation from the position as external supervisor to the Board of Supervisors of the Company on 29 March 2011. On the same day, the Company convened employee representative meeting where Mr. Han was recommended to serve as the Employee Supervisor of the Eighth Session of the Board of Supervisors. Mr. Shi Shunhua resigned from the position as the Employee Supervisor due to job-related reasons.

The proposal of the "Election of Han Mingzhi to Continue to be the Chairman of the Eighth Session of the Board of Supervisors" and the "Resolution on Appointment of an External Supervisor" were considered and passed at the 5th meeting of the Eighth Session of the Board of Supervisors of the Company held on 30 March 2011. Mr. Han Mingzhi was elected to continue to be the Chairman of the Eighth Session of the Board of Supervisors of the Company. Mr. Pan Ji was appointed as the external supervisor of the Company to fill the vacant position. On 30 May 2011, the 2010 Annual General Meeting held by the Company passed the "Resolution on Appointment of an External Supervisor" and approved the appointment of Mr. Pan Ji as the external supervisor of the Company.

During the reporting period, there were no other changes to other shareholder supervisors and external supervisors of the Board of Supervisors of the Company.

The announcements in relation to the change of members of the Board of Supervisors were published on China Securities Journal, Shanghai Securities News and Securities Times on 1 April 2011 and 31 May 2011 respectively and were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

The resolution was passed at the 11th meeting of the Eighth Session of the Board of Directors to appoint Mr. Wang Qingbin as the Executive Vice President of the Company and his qualifications were approved by CBRC, Shenzhen Office in June 2011. For details, please refer to announcements published on China Securities Journal, Shanghai Securities News and Securities Times on 21 June 2011 and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Fan Peng, Chief Audit officer of the Company, had reached the retirement age under the state law of China on 6 February 2011. The 11th meeting of the Eighth Session of the Board of Directors agreed on Fan Peng's resignation from the office of Chief Audit Officer of CMB. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News and Securities Times on 1 April 2011 and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Mr. Zhang Minghui's appointment qualifications were approved by CBRC, Shenzhen Office, and the Company appointed Mr. Zhang as the Executive Assistant President in June 2011.

5.3 Changes of Occupations of Directors and Supervisors

1. Mr. Fu Yuning, Chairman and Non-Executive Director of the Company has ceased to be a member of Hong Kong Securities and Futures Commission.

2. Mr. Wei Jiafu, Vice Chairman and Non-Executive Director of the Company, has ceased to be the President of China Ocean Shipping (Group) Company and the Director of the Board of Boao Forum for Asia. He now serves as the Chairman of the Board of China Ocean Shipping (Group) Company and a member of the Advisory Council of Boao Forum for Asia.

3. Mr. Li Yinquan, Non-Executive Director of the Company, serves as the Chairman of China Merchants Finance Holdings Company Limited.

4. Mr. Fu Gangfeng, Non-Executive Director of the Company, has ceased to be a supervisor of China Merchants Property Development Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and serves as a director of China Merchants Property Development Co., Ltd. (a company listed on the Shenzhen Stock Exchange).

5. Mr. Fu Junyuan, Non-Executive Director of the Company, has ceased to be a director of Shanghai Zhenhua Heavy Industry Co., Ltd. (a company listed on the Shanghai Stock Exchange).

6. Mr. Ma Weihua, Executive Director of the Company, serves as an independent non-executive director of Winox Holdings Limited (a company listed on the Hong Kong Stock Exchange).

7. Mr. Yi Xiqun, Independent Non-Executive Director of the Company, has ceased to be the head of Beijing Equity Investment & Development Fund Management Co., Ltd and the Chairman of Bowei Capital, and serves as an independent director of Asian Capital (Corporate Finance) Limited.

8. Mr. Wong Kwai Lam, Independent Non-Executive Director of the Company, has ceased to be a member of the Advisory Committee of the Hong Kong Securities and Futures Commission and serves as an independent non-executive director of the manager of Prosperity Real Estate Investment Trust and an independent non-executive director of K. Wah International Holdings Ltd..

9. Ms. Yan Lan, Independent Non-Executive Director of the Company, has ceased to be the arbitrator of China International Economic and Trade Arbitration Commission and one of the legal counsels of ICC CHINA and the Chairwoman of the International Advisory Committee of Beijing Music Festival, and serves as an independent director of Anhui Tianda Oil Pipe Company Limited and the Vice Chairwoman of Chinese Arts Fund.

10. Mr. Zhou Qizheng, Employee Supervisor of the Company, has ceased to be the general manager of the Risk Control Department of the Head Office of the Company and serves as the head of Audit Department of the Company (general manager grade, Head Office) and would be formally appointed as the general manager of the Audit Department under the Head Office subject to the approval of CBRC.

5.4 H Share Appreciation Rights Incentive Scheme

To further establish and enhance its incentive system for the combined interest of shareholders, the Company and senior management, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 2007 First Extraordinary General Meeting. On 30 October 2007, 7 November 2008, 16 November 2009, the Board of Directors of the Company granted Phases I, II and III under the Scheme respectively. Please refer to the announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company for details.

Following the rights issue of H Shares in 2010 and Profit Appropriations Scheme for 2009, the Company adjusted the number of granted shares and the exercise prices under the H Share appreciation rights for Phases I, II and III in accordance with relevant regulations. For details of the adjustment, please refer to the announcement dated on 18 February 2011 in respect of the resolutions passed at the 9th meeting of the Eighth Session of the Board of Directors, published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

On 18 February 2011, pursuant to the approvals of the 9th meeting of the Eighth Session of the Board of Directors, the Company granted H Share appreciation rights for Phase IV, and made public announcements. The specific allocation targets and amounts are as follows:

Aggregate Number and Allocation of H Share Appreciation Rights at Phase IV

No.	Name	Title	No. of share appreciation rights granted (ten thousand)	Percentage of subject shares in respect of granted appreciation rights to total shares	Percentage of granted appreciation rights to total appreciation rights for the period
1	Ma Weihua	President	30	0.0014%	15.87%
2	Zhang Guanghua	Director, Executive Vice President	19.5	0.0009%	10.32%
3	Li Hao	Director, Executive Vice President	19.5	0.0009%	10.32%
4	Tang Zhihong	Executive Vice President	18	0.0008%	9.52%
5	Yin Fenglan	Executive Vice President	18	0.0008%	9.52%
6	Ding Wei	Executive Vice President	18	0.0008%	9.52%
7	Tang Xiaoqing	Secretary of Party Discipline Committee	15	0.0007%	7.94%
8	Wang Qingbin	Executive Assistant President	15	0.0007%	7.94%
9	Xu Lianfeng	Chief Technology Officer	12	0.0006%	6.35%
10	Fan Peng	Chief Audit Officer	12	0.0006%	6.35%
11	Lan Qi	Secretary of Board of Directors	12	0.0006%	6.35%
	Total		**189**	**0.0088%**	**100.00%**

The H Share appreciation rights at Phase IV are granted at HK$19.24 and will remain valid for ten years from 18 February 2011. Two years from 18 February 2011 are defined as the restricted period during which appreciation rights cannot be exercised. The effective exercising period is 8 years after the expiry of the restricted period. During the first 4 years of the effective exercising period, the annual exercisable rights are 25% of the total granted rights. The effective rights are exercisable from the effective date till the end of the exercising period; rights bearers may exercise their effective rights in a lump sum or in lots. The share appreciation rights shall only be exercised within the exercising period. As at 30 June 2011, the closing price of the Company's H Shares was HK$18.80.

5.5 Information about Employees

As at 30 June 2011, the Company had 42,784 employees, including 13,506 management staff, 27,314 ordinary staff and 1,964 administration staff. Of these staff, 41,672 employees had associate bachelor education or above, accounting for 97.4%. Currently, the Company has 181 retirees.

5.6 Branches and Representative Offices

The Company continued to develop network building in the first half of 2011. During the reporting period, 9 domestic branches were approved to commence business, namely Maanshan branch, Dongying branch, Shangrao branch, Tianjin Binhai branch, Luzhou branch, Zhangzhou branch, Zhuhai branch, Liuzhou branch and Xuzhou branch. The Company received approvals for the setting up of 2 branches, namely Hulun Beier Branch and Shiyan Branch. The Company's Taipei Representative Office was officially established on 15 March 2011.

In 2011, the Company will carry on its organic expansion plan by adhering to the principles of "controlling the speed, focusing on efficiency, securing high quality and emphasizing key points", and will develop its second-tier branches and sub-branches in county level, continuously expand the coverage of sub-branches and self-service machines in the same city and steadily pursue its organic expansion. In establishing its regional framework, the Company will further develop the three major regional markets in Yangtze River Delta, Pearl River Delta and Bohai Rim, and will strengthen its advantages and enhance its regional competitiveness in these major regions.

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

The following table sets out the branches and representative offices as at 30 June 2011:

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,948	732,418
	Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,449	58,259
	Credit Center for Small Sized Enterprises	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	607	27,547
Yangtze River Delta	Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	57	2,535	144,384
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	23	1,143	43,449
	Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	429	20,834
	Changzhou Branch	120 Heping Road North, Changzhou	213003	7	229	8,662
	Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	5	168	6,551
	Zhenjiang Branch	Block 3, 18 Dianli Road, Zhenjiang	212000	1	70	2,452
	Taizhou Branch	28-8 Yinchun Road East, Taizhou, Jiangsu Province	225300	1	56	1,883
	Xuzhou Branch	6 Jiefang Road, Xuzhou	221000	1	54	1,447
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	27	1,144	61,874
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Wenzhou	325000	10	373	19,360
	Shaoxing Branch	357 Shengli Road East, Shaoxing	312000	8	298	15,639
	Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	4	142	6,534
	Ningbo Branch	938 Baizhang Road East, Ningbo	315041	16	655	34,715
	Taizhou Branch	535 Shifu Road, Taizhou	318000	4	155	8,358
	Suzhou Branch	128 Sanxiang Road, Suzhou	215004	14	622	52,907
	Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	3	128	6,171
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	7	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	55	2,661	190,897
	Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	17	808	35,735
	Weihai Branch	19 Qingdao Road North, Weihai	264200	2	78	3,271
	Zibo Branch	A1, 12 Renmin Road West, Zibo	255000	2	78	2,774
	Jining Branch	136 Guhuai Road, Jining	272000	1	50	1,320
	Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	27	816	33,792
	Tianjin Binhai Branch	33 Second Avenue, Economic and Technology Development Zone, Tianjin	300457	1	166	7,057
	Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	746	40,670
	Yantai Branch	237 Nanda Street, Yantai	264000	8	277	7,705
	Weifang Branch	Building No. 1, Financial Service Zone, Shengli Street East, Weifang	261041	4	153	5,078
	Linyi Branch	9 Xinhua No. 1 Road, Linyi	276000	1	65	2,259
	Dongying Branch	47 Jinan Road, Dongying	257000	1	51	603
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	1	80	3,824

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	42	1,538	61,589
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	70	2,839	146,095
	Huizhou Branch	3 Wenming No. 1 Road, Jiangbei, Huizhou	516000	1	36	486
	Zhuhai Branch	1263 Jiuzhou Avenue, Zhuhai	519000	1	32	355
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	15	694	25,010
	Quanzhou Branch	301 Fengze Street, Fengze District, Quanzhou	362000	8	281	10,600
	Xiamen Branch	862 Xiahe Road, Xiamen	361004	13	476	24,867
	Zhangzhou Branch	70 Nanchang Road Central, Xiangcheng District, Zhangzhou	363000	1	50	743
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	16	555	20,890
	Foshan Branch	Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	13	450	26,994
	Zhongshan Branch	Building A3, Phase 3, Shengjing Garden, Zhongshan 4th Road, East District, Zhongshan	528400	1	55	2,046
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	994	38,028
	Dandong Branch	Block 11, Nanjinqiao Estate, Zhenxing District, Dandong	118000	4	94	2,793
	Anshan Branch	Qianshan Road Central, Tie Dong District, Anshan	114000	1	26	1,564
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	16	626	25,588
	Yingkou Branch	19 Bohai Street East, Zhanqian District, Yingkou	115000	2	79	2,433
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	14	532	21,462
	Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	4	195	15,438
Central China	Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	24	1,170	43,567
	Huangshi Branch	76 Hangzhou Road West, Development District, Tuanchengshan, Huangshi	435000	5	125	3,930
	Yichang Branch	70 Yiling Road, Yichang	443002	5	138	5,607
	Xiangyang Branch	20 Changhong Road, Xiangyang, Hubei Province	441100	1	44	898
	Nanchang Branch	162 Bayi Avenue, Nanchang	330003	20	750	27,956
	Ganzhou Branch	66 Hongqi Street, Zhanggong District, Ganzhou	341000	1	50	2,353
	Shangrao Branch	71 Zhongshan Road West, Xinzhou District, Shangrao	334000	1	40	968
	Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	24	900	34,287
	Hengyang Branch	Huijing Garden, Hengyang	421000	1	41	2,896
	Hefei Branch	436 Changjiang Road Central, Hefei	230061	14	546	30,217
	Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	4	125	4,367
	Huainan Branch	Central Plaza, Xintiandi, Longhu Road, Huainan	232000	1	56	3,005
	Ma'anshan Branch	20 Hudong Road Central, Ma'anshan	243000	1	56	1,044
	Zhengzhou Branch	39 Huyuan Road, Zhengzhou	450000	16	570	28,637
	Luoyang Branch	Xiyuan Building, 7 Nanchang Road, Jianxi District, Luoyang	471000	1	57	1,866
	Anyang Branch	30 Jiefang Avenue, Anyang	455000	1	39	2,105
	Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	9	329	16,999
	Jincheng Branch	249 Zezhou Road, Jincheng	048000	1	25	1,431

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	27	1,057	37,538
	Leshan Branch	90 Boyang Road Central, Shizhong District, Leshan	614000	1	40	1,086
	Luzhou Branch	39 Jiangyang Road West, Jiangyang District, Luzhou	646000	1	32	468
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	610	19,873
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	24	1,011	36,527
	Yulin Branch	1-2/F, Changfeng Building, Hangyu Road Central, Yulin	719000	1	42	1,266
	Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	27	997	37,395
	Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	402	16,720
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	20	694	32,349
	Qujing Branch	Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	2	55	2,056
	Lijiang Branch	222 Changshui Road, Gucheng District, Lijiang	674100	1	37	1,868
	Honghe Branch	279 Renmin Road, Gejiu, Yunnan Province	654400	1	35	281
	Hohhot Branch	56 Xinhua Street, Hohhot	010010	7	341	20,679
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	4	185	11,336
	Liuzhou Branch	26 Wenchang Road, Liuzhou	545000	1	49	593
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	1	92	6,863
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	1	79	4,983
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	105	44,699
	USA Representative Office	509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A	–	1	1	1
	New York Branch	535 Madison Avenue	–	1	36	6,287
	London Representative Office	39 Cornhill EC3V 3ND, London,UK	–	1	2	–
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	1	–
Other assignments					27	
Total		**–**	**–**	**854**	**42,784**	**2,510,412**

6.1 Overview of Corporate Governance

During the reporting period, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the specialized committees under the Board of Directors and the Board of Supervisors of the Company functioned proactively and effectively, played an active role in ensuring compliant operation and sustainable growth of the Company. Particulars of which are set out as follows:

1. During the reporting period, the Company held a total of 27 meetings among which, there was 1 general meeting, 7 meetings by the Board of Directors (1 on-site meeting, 6 meetings voted by correspondence), 12 meetings by the specialized committees under the Board of Directors (1 by Strategy Committee, 1 by the Nomination Committee, 2 by the Remuneration and Appraisal Committee, 2 by the Risk and Capital Management Committee, 3 by the Audit Committee and 3 by the Related-Party Transactions Control Committee), 4 meetings by the Board of Supervisors (1 on-site meeting and 3 meetings voted by correspondence), 3 meetings by the specialized committees under the Board of Supervisors (2 by the Supervision Committee and 1 by the Nomination Committee).

2. All specialized committees under the Board of Directors and Board of Supervisors carried out their duties in a compliant and effective manner. During the reporting period, specialized committees under the Board of Directors held 12 meetings at which 34 proposals were reviewed and 8 special reports were delivered; specialized committees under the Board of Supervisors held 3 meetings with 5 proposals reviewed. The majority of the proposals submitted to the Board of Directors and the Board of Supervisors for decision-making were reviewed by the specialized committees. At the aforesaid meetings, the specialized committees considered a variety of proposals significant to business development and corporate governance. The principal activities of committees in the first half of the year were as follows:

   The Nomination Committee under the Board of Directors considered and approved the Proposal on Change of Independent Directors and the Proposal on Appointment of Wang Qingbin as Executive Vice President of China Merchants Bank.

   The Remuneration and Appraisal Committee under the Board of Directors considered and approved the proposals in relation to: the grant of appreciation rights of the H Share of China Merchants Bank to senior management for Phase IV; the adjustment to the number of shares and the exercise prices of the H Share appreciation rights for phase I, II and III after the completion of 2010 H Shares rights issue and distribution of dividends; and the amendment to Management Measures for Remuneration of Senior Management.

   The Risk and Capital Management Committee under the Board of Directors integrated comprehensive risk management, which includes capital planning and management of risks other than credit risk, and the implementation of New Basel II Capital Accord. The committee also conducted reviews and made decisions on capital policies, such as profits allocation, bond issue and capital increase in CMBFL, as well as risk management policies such as market risk management and limit adjustment, report on comprehensive risk management for 2010, risk management strategy for 2011 and write-offs of large non-performing loan.

   The Audit Committee under the Board of Directors considered and approved 2010 Annual Report, Auditor's Review Reports for 2010, Proposal on the re-appointment of accountants' firm, placement and use of raised fund for 2010, Self-assessment Report by the Board of Directors on the Internal Control for 2010, Plan for Implementation of the Internal Control Standards of China Merchants Bank. The committee also received reports on Internal Audit of the Bank for 2010 and Case Arrangement and Work Plan of Audit Department for 2011.

The Related-Party Transactions Control Committee under the Board of Directors considered and approved Report on Related-Party Transactions in 2010, Auditor's Report on Related-Party Transactions in 2010, 2011 Work Plan for Related-Party Transactions, 2011 related-party list, Regulations on Related-Party Transactions (Third Version) and the project on significant related-party transactions with China Ocean Shipping (Group) Company.

The Supervision Committee under the Board of Supervisors considered and approved the Appraisal Report on the Duty Performance of Directors in 2010, The Proposal on the Auditing Conclusion Regarding Resignation of Fan Peng as Chief Audit Officer and the Proposal on the Auditing Conclusion Regarding Resignation of Wang Qingbin as Executive Assistant President.

The Nomination Committee under the Board of Supervisors considered and approved the proposal on the appointment of one external supervisor and the Appraisal Report on the Duty Performance of the Supervisors for the year 2010.

3. Investigations and surveys by the Board of Directors and the Board of Supervisors

In March 2011, the independent directors of the Company attended 2010 Annual Report Meeting and visited Dongguan branch where the directors went to the office building and private bank center. They also held a meeting with heads of branch who reported on general business operation, especially on the loan business involving small and medium-sized enterprises. Extensive communication was carried out between independent directors and heads of branch in respect of how the local economic environment affects branch business, and issues concerning performance assessment, personnel training and management as well as regulation of deposits and loans volume.

In May 2011, the Risk and Capital Management Committee under the Board of Directors received special training on comprehensive risk and capital assessment based on New Basel II Capital Accord. The committee received report on the implementation progress of New Basel II Capital Accord and held a training session on risk and capital assessment under the New Accord.

In June 2011, members of the Board of Supervisors conducted a survey in the U.S.. The Board of Supervisors visited New York branch, the U.S. representative office and carried out extensive discussion with officials of the Federal Reserve Bank of New York and the New York State Banking Department, and the leaders of several Chinese financial institutions based in the U.S., including PBOC, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications. The discussion covered issues of Chinese and American economies, financial regulation and the operation of Chinese financial institutions in the U.S.. The visit provided the Board of Supervisors with more information of foreign economy and its financial environment and enable supervisors to learn from its foreign counterparts about governance and operation.

During the reporting period, Chairman of the Board of Supervisors visited direct banking center and branches in Guangzhou, Dongguan, Zhengzhou and Tianjin.

Having conducted a careful self-inspection, the Company was not aware of any non-compliance of its corporate governance practice with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies. There was no disclosure of information to its major shareholders or the beneficial controlling shareholders before such information being published. Nor were there any other irregularities in the Company's corporate governance.

6.2 Information about Shareholders' General Meetings

During the reporting period, the Company convened its 2010 Annual General Meeting in Shenzhen on 30 May 2011. The notice and the convening, holding and voting procedures of the meeting 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 the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and on China Securities Journal, Shanghai Securities News and Securities Times on 31 May 2011.

6.3 Information about the Meetings of the Board of Directors and its Specialized Committees

During the reporting period, the Company convened 7 meetings of the Board of Directors (1 on-site meeting, 6 meetings voted by correspondence), considered and approved 33 proposals, received 6 special reports. The specialized committees under the Board of Directors convened 12 meetings (1 by the Strategy Committee, 1 by the Nomination Committee, 2 by the Remuneration and Appraisal Committee, 2 by the Risk and Capital Management Committee, 3 by the Audit Committee and 3 by the Related-Party Transactions Control Committee), studied and reviewed 34 proposals and received 8 special 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 ended 30 June 2011.

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

6.5 Board of Supervisors

During the reporting period, the Eighth Session of the Board of Supervisors held its 4th, 5th, 6th and 7th meetings. Specialized Committees under the Board of Supervisors convened 3 meetings, of which 1 was convened by the Nomination Committee and 2 by the Supervision Committee. The Board of Supervisors also organized 1 overseas investigation and survey trip.

6.6 Internal Control and Internal Audit

6.6.1 Description of the completeness, reasonableness and effectiveness of the internal control system

1. *Internal Control System*

Adhering to the guiding principles of law observance, rule compliance and prudent operation, the Company attached great importance to the establishment and perfection of its internal control system while developing various business lines. Pursuant to the laws and regulations such as the "Basic Principles for Internal Control of Enterprises" and the "Internal Control Guidelines for Commercial Banks", as well as the requirements of the stock exchanges in Shanghai and Hong Kong, the Company has set targets and principles of its internal control. The Company has established an internal control system consisting of five elements, namely: internal environment, risk evaluation, controlled activities, information and communication and internal supervision. With such system, the Company has control over the whole procedures of various management activities. It also keeps improving the sufficiency and effectiveness of the internal control system in the course of business operation, so as to ensure prudent operation and facilitate long-term development of the Company.

2. *The Internal Control Structure and its Responsibilities*

Under the requirements of the relevant laws, regulations and rules, the Company has established a relatively complete corporate governance structure of checks and balances across the Board of Directors, the Board of Supervisors and the senior management. The Board of Directors is responsible for ensuring the Company established and implemented adequate and effective internal control system. The Board of Supervisors is responsible for supervising the Board of Directors and senior management to establish and implement internal control. The senior management is responsible for the daily operation of internal control of the Company.

In consideration of the needs for internal management and risk management, the Company established an internal control management structure with clear accountability, diversified specification and well-defined responsibility, which involves management at various departments and at all levels and all employees of the Company. Through this structure, the Company established internal control committees under the Head Office and the branches as the platform for conducting studies, decision-making and negotiations in terms of the significant matters and management measures relating to the Company's internal control. All departments of the Company are responsible for the establishment and execution of internal control system under their respective business lines. The Company's Audit Department is responsible for comprehensive monitoring and assessment on the implementation of internal control in all business lines and branch institutions. The Company's management at all levels is responsible for implementation and monitoring of internal control system under their respective responsibilities. All the staff are responsible for feedback of significant information regarding the measures of internal control and their implementation.

3. *The Internal Control System of the Company and its Operation*

The Company has put in place an effective internal control system, which ensures that risks arising from business operation and relating to the realization of internal control targets are well managed. During the reporting period, the Company organized education programs with the theme of occupational ethics and honesty, to prompt staff to study and implement the "Guidance on the Professional Conduct of Practitioners of Banking Financial Institutions". The purpose was to maintain its well-established compliance culture and internal control environment. By adhering to the principle of putting systems and internal control first, the Company strived to optimize its systems and improve management of operation systems. During the reporting period, the Company issued and implemented 62 regulations throughout the Bank, including the "Administrative Measures on Strategic Risk Management of China Merchants Bank Co., Ltd.", "Measures on Country Risk Management of China Merchants Bank" and "Policies of China Merchants Bank on IT Risk Management".

During the reporting period, the Company continued to rationalize compliance risks, facilitate the regular identification and assessment of compliance risks and standardize the data collection for compliance risk management. The Company also promoted the bank-wide application of operational risk management system, which in turn facilitated the gradual transition to a regular risk management operation. Management and examination of suspicious acts of staff were reinforced to prevent internal cases. In addition, governmental financing platform and real estate loans were better managed with increased efforts to facilitate the sophisticated management on those two types of loans within the entire bank. According to the requirements of CBRC, internal investigation was conducted with material inventory pledge as the focus to prevent and control related credit risk. Pursuant to the principle of separation among the front, middle and back offices, the Company continued to streamline the workflows in such business lines as credit, accounting and retailing. With the continuous upgrade of hardware facilities and software systems, IT better supports various business activities and risk management.

During the reporting period, the Company's Head Office and branches were required to evaluate internal control and comprehensively review the status of internal control for 2010. As reviewed by the Board of Directors of the Company, no significant defects have been identified in the Company's internal control system in terms of completeness, reasonableness and effectiveness. KPMG Huazhen issued an assurance report on "Self-Assessment of Internal Control by the Board of Directors of China Merchants Bank Co., Ltd. 2010".

With the standardization of audit and review, the Company guarantees the truthfulness and completeness of its accounting information as well as the truthfulness and fairness of its financial statements. During the reporting period, the Company complied with the principles of truthfulness, accuracy, completeness, timeliness and fairness in information disclosure, ensuring effective communication within the Company and that between the Company and external parties. There was no material mistake in information disclosure.

With the improvement of State legal system and the sophistication of the Company's corporate management and business development, the Company will continue to improve the completeness, reasonableness and effectiveness of its internal control.

4. The implementation of the "Basic Rules for Internal Control" and its Practice Guidelines

The Company places great emphasis on the implementation of the "Basic Rules for Internal Control" and its Practice Guidelines. During the reporting period, the Company conducted comprehensive examination, analysis and research on the existing internal control system and internal control results. In addition, upon thorough and extensive communication and exchange with various consulting firms and accounting firms, the Company formed an overall plan on how to optimize the internal control and decided to employ consulting firms on a case-by-case basis to strengthen internal control.

Pursuant to the requirements of the notice from CSRC and Shenzhen Securities Regulatory Bureau, and with the internal control situation in consideration, the Company has prepared and disclosed "Standardization and Implementation Plan on Internal Control of China Merchants Bank". Leading team and working team of the standardization and implementation project on internal control of the Head Office have been established to clearly define task obligations and deadlines by specific department-in-charge. During the reporting period, the Company commenced the standardization and implementation projects of internal control, and conducted training on the method and requirements of "Basic Rules for Internal Control" and its Practice Guidelines for relevant management of the Head Office and branches. Upon selection among various consulting firms, Deloitte Touche Tohmatsu CPA Ltd. was engaged to provide consultation for internal control projects for the Company, and the commencement meeting for the standardization and implementation of internal control was convened.

Under the arrangements of "Standardization and Implementation Plan on Internal Control of China Merchants Bank", the Company should complete the employment of consulting firm by the end of May and convene the commencement meeting for the standardization and implementation of internal control. To effectively utilize and integrate its established internal control foundation, during the process of consulting firm selection, the Company underwent thorough communication with various consulting firms and made numerous improvements and adjustments to the consultation proposal, which postponed the completion of the above two tasks to June. In the opinion of the Company, sufficient preliminary work is a prerequisite for quality performance on standardization and implementation of internal control. During the implementation of the project, the Company will strictly follow the timetable set by "Standardization and Implementation Plan on Internal Control of China Merchants Bank" and implement projects as scheduled.

6.6.2 Internal audit

The internal Audit Department of the Company is responsible for inspecting and assessing the operational and management activities of the Company and providing improvement suggestions to the senior management. In response to problems identified in such audits, the Internal Audit Department will require the audited entities to conduct rectification.

The Company has established a complete internal auditing mechanism and set up independent auditing departments in the Head Office and each branch. The Company has also established a complete auditing mechanism covering general rules, operation rules and working standards based on the Internal Auditing Memorandum of China Merchants Bank. In addition, the Company has set up an inspection system that combines on-site auditing with off-site auditing and coordinates Head Office auditing with branch auditing. The audit on the whole Bank is directly under the management of the Head Office. Among which, the Audit Department under the Head Office reported its audit findings directly to the Board of Directors, the Board of Supervisors and the management team, and the appointment of its officers is subject to the approval by the Board of Directors. The Audit Department under the Head Office has four audit divisions in Beijing, Shanghai, Shenzhen and Xi'an. Internal audit departments at each branch are running on a dual-management and dual-reporting mechanism, with any audit findings reported directly to the Audit Department under the Head Office.

In the first half of 2011, the internal audit departments combined regular audits with special audits, utilized both on-site and off-site means to conduct audit on the status of the credit business, treasury business, international operations, intermediary business, accounting, retail banking and information technology system of the Company. The scope of audit included: any non-compliance with the applicable laws and regulations and internal policies and procedures of the Company; effectiveness of its risk management policies and procedures, completeness and effectiveness of its internal control system; and follow-up observation of whether rectification on the shortcomings identified in the audits was conducted. During the audit process, the internal audit department prioritized concrete results, increased the audit and examination intensity and actively propelled the building of self-regulatory mechanism, which remarkably improved our management. Meanwhile, through linking rectification with accountability, connecting self-examination with internal steering, the internal control and compliance system of the Company was further optimized.

7.1 Implementation of Profit Appropriation of the Year 2010

The annual general meeting of 2010 held on 30 May 2011 passed the Company's Profit Appropriation Plan for the Year 2010.

The Company's profit after tax as stated in the audited financial statement (domestic section) of 2010 amounted to RMB24.618 billion, and was appropriated, in accordance with the availability and the relevant regulatory requirements, as follows: 1) RMB2.462 billion was appropriated to the statutory surplus reserve, pursuant to the PRC Company Law. 2) 1% of the total amount of the increased risk assets, totalling RMB1.7 billion, was appropriated to the general reserve. 3) Based on the total share capital of A Shares and H Shares on the record date for profit appropriation, the Company declared a cash dividend (tax included) of RMB2.90 for every 10 shares, payable in RMB for A shareholders and in HKD for H shareholders. The actual profit appropriations amount in HKD would be calculated based on the average rate of PBOC's RMB/HKD benchmark exchange rates one week before the date of general meeting (inclusive). The retained profits would be carried forward to the next year.

The Board of Directors of the Company had already implemented the above-mentioned dividend distribution scheme. For further information relating to the implementation, please refer to the announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 3 June 2011 and 7 July 2011, respectively.

7.2 Interim Dividend Appropriation for the Year 2011

The Company would not distribute 2011 interim dividend, nor would it capitalize the capital reserve (for January-June 2010: Nil).

7.3 Companies in which the Company Holds Controlling Interests and other Investee Companies

Shareholdings in non-listed financial companies

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/(losses) for the reporting period[1] ('000)	Changes in owners' equity for the reporting period ('000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	660,638	648,351	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	12,080	12,821	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	2,000,000	100.00	N/A	2,000,000	201,382	200,966	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914	33.40	70,000,000	258,291	40,226	10,470	Equity investment
Taizhou Bank Co., Ltd.	306,671	10.00	180,000,000	345,708	–	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.75	110,000,000	155,000	–	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2	HK$8,400	–	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	189,620	–	–	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	20,000,000	HK$64,686	HK$6,832	HK$11	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	2.88	20,000	HK$8,889	HK$527	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$77,815	HK$8,228	HK$ (162)	Equity investment

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/(losses) for the reporting period[1] ('000)	Changes in owners' equity for the reporting period ('000)	Origination of shares
BC Reinsurance Ltd.	HK$21,000	21.00	21,000,000	HK$44,795	HK$1,167	–	Equity investment
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$3,673	HK$917	HK$43	Equity investment
Equity Underwriters Ltd.	HK$2,173	40.00	1,580,000	HK$0[2]	HK$0	–	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$3,140	HK$(28)	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$7,195	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment

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

2. In 2009, impairment losses for such investment were provided in full.

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Percentage of total investment at end of period (%)	Profits/(losses) for the reporting period ('000)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	2,689	996,042	162,454	29.95	–
03988.HK	Bank of China Ltd.	HK$	39,153	13,200,000	50,028	9.22	–
01288.HK	Agricultural Bank of China Ltd.	HK$	32,323	10,000,000	40,900	7.54	–
00941.HK	China Mobile Ltd.	HK$	39,683	522,300	37,579	6.93	–
V	Visa Inc	HK$	15,948	54,361	33,158	6.11	–
00005.HK	HSBC Holdings plc	HK$	30,698	374,674	28,850	5.32	–
02778.HK	Champion Real Estate Investment Trust	HK$	31,755	6,164,000	26,937	4.97	–
00939.HK	China Construction Bank Corporation	HK$	8,059	3,210,000	20,705	3.82	–
01398.HK	Industrial and Commercial Bank of China Ltd.	HK$	15,246	3,135,000	18,497	3.41	–
00883.HK	CNOOC Limited	HK$	11,338	876,000	15,908	2.93	–
Other securities investments at end of period		HK$	71,260	13,216,415	107,342	19.80	(195)
Total		**HK$**	**298,152**	**51,748,792**	**542,358**	**100.00**	**(195)**

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 referred to those other than the top 10 holdings.

7.4 Shareholdings and Trading in Equity Interest of other Listed Companies

During the reporting period, 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 the Raised Fund

Use of fund raised from the Rights Issue of A Shares and H Shares in 2010

Pursuant to the "Proposal on the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd. (Revised)" which was considered and passed at the 2009 Second Extraordinary General Meeting, the 2009 First A Shareholders Class Meeting and the 2009 First H Shareholders Class Meeting of the Company, the proposal regarding the Rights Issue of A Shares and H Shares had been carried out smoothly, and the A Shares and H Shares issued under the Rights Issue were listed and traded on 19 March 2010 and 9 April 2010 respectively. Total funds raised under the A Share Rights Issue and the H Share Rights Issue were RMB17,764,081,690.65 and HK$4,525,772,680 (equivalent to approximately RMB3,980,417,072) respectively. The expenses incurred in connection with the A Share Rights Issue and the H Share Rights Issue, including fees on financial consultancy, underwriting commission, legal and accounting charges, printing, registration and translation expenses, etc., amounted to RMB82,654,295.77 and HK$108,233,784.48 (equivalent to approximately RMB95,191,613.45) respectively. The net amount of raised funds after deducting the issuing expenses was fully used to replenish the working capital of the Company for further business development.

Major investment not financed by the raised fund

As of 30 June 2011, the total investment in Shanghai Lujiazui Project was RMB1.215 billion, and no fund was invested during the reporting period.

7.7 Interests and Short Positions of Directors and Supervisors

As at 30 June 2011, none of the directors, supervisors and senior management of the Company held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company and 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 as set out in Appendix 10 of the Hong Kong Listing Rules, 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 prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, prohibited from engagement in the securities markets, given public notice of criticism, nor determined as unqualified. None of them was 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 during the reporting period were those conducted between the Company and China Merchants Group Ltd. and its subsidiaries and associates, subject to the requirements of non-exempt continuing connected transactions set by the Hong Kong Stock Exchange.

7.10.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company during 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.

On 5 January 2009, with the approval of the Board of Directors, the Company announced the continuing connected transactions between the Company and CIGNA & CMC Life Insurance, CMFM and CM Securities respectively. The Company approved the cap for each of the years of 2009, 2010 and 2011 to be RMB500,000,000 (for CIGNA & CMC Life Insurance), RMB800,000,000 (for CMFM) and RMB1,000,000,000 (for CM Securities) respectively. Further details were disclosed in the Announcement on Continuing Connected Transactions issued by the Company on 6 January 2009.

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 is one of the substantial shareholders of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company and currently holds approximately 18.63% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). CM Group is an indirect controlling shareholder of Shenzhen Dingzun Investment Advisory Company, Ltd. (Dingzun), which in turn holds 50% equity interest of 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 entered into between the Company and Dingzun 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, the Company's circular dated 13 May 2008 and the Company's announcement issued on 4 June 2011). The principal business of CIGNA & CMC Life Insurance includes life insurance, accidents and health insurance products. The completion of the acquisition was subject to the approval 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 relating to the sales of insurance products of CIGNA & CMC Life Insurance constitute continuing related-party transactions of the Company under the Hong Kong Listing Rules.

On 5 January 2009, the Company entered into the service co-operation agreement 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 fees as prescribed by the State government; or

(2) where there are no prescribed fees but there are applicable State guided fee rates, to follow the State guided fee rates; or

(3) where there are no prescribed fees or State guided fee rates, 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 2011 was set at RMB500,000,000 which was less than 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 2011, the aggregate value of connected transactions between the Company and CIGNA & CMC Life Insurance amounted to RMB86,080,000.

CMFM

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

The Company held 33.4% of the equity interest in CMFM. The remaining equity interest in CMFM was equally held by CM Securities and ING Asset Management B.V, namely 33.3% of the equity interest each. Pursuant to the Hong Kong Listing Rules, CMFM is an associate of the connected person (CM Securities) of the Company and therefore a connected person of the Company.

The Company entered into a service co-operation 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 co-operation 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 2011 was set at RMB800,000,000 which was less than 5% of the relevant percentage ratio calculated in according with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these 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 2011, the aggregate value of related transactions between the Company and CMFM amounted to RMB52,930,000.

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, a wholly owned subsidiary of CM Group, is a substantial shareholder of the Company. CM Group currently holds approximately 18.63% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). As CM Group also holds 45.88% equity interest in CM Securities, 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.

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 should be determined in accordance with the following pricing policies:

(1) to follow the fees as prescribed by the State government; or

(2) where there are no prescribed fees but there are applicable State guided fee rates, to follow the State guided fee rates; or

(3) where there are no prescribed fees or State guided fee rates, 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 2011 was set at RMB1,000,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these 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 2011, the aggregate value of related transactions between the Company and CM Securities amounted to RMB32,280,000.

The independent non-executive directors of the Company had reviewed the above-mentioned non-exempt continuing connected transaction 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 related to the 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 more favorable than those to or from independent third parties; and

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

7.11 Material Litigation and Arbitration

As at 30 June 2011, the Company was involved in the following litigation cases in its ordinary course of business: the number of pending litigation and arbitration cases (including the case with the Company as a third party, same as below) in which the Company was involved totaled 1,637, with a total principal amount of approximately RMB5,883,590,000 and total interests of approximately RMB534,275,000. Of which, there were a total of 144 pending litigation and arbitration cases with the Company as defendant, with a total principal amount of approximately RMB808,441,800 and total interests of approximately RMB4,461,400. There were five pending cases each with a principal amount exceeding RMB100,000,000, involving a total principal amount of approximately RMB934,601,300 and total interests of RMB12,850,000. The Company does not expect any of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

7.12 Material Contracts and their Performances

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

During the reporting period, none of the material contracts of the Company is involved in custody, contracting or hiring or leasing any assets of other companies and vice versa outside the Company's normal business scope.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the PBOC and the CBRC, there was no significant guarantee which is discloseable, nor was the Company aware of any illegal guarantee for its subsidiaries.

Significant entrustments in respect of fund and asset management

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

7.13 Major Activities in Asset Acquisition, Disposal and Reorganization

7.13.1 Progress of the 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 interest 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 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 disclosable 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. Currently, the Company had made submissions concerning the acquisition to relevant regulatory authorities in accordance with the Pilot Administrative Measures for Commercial Banks to Make Equity Investment in Insurance Companies, and is still pending for the approval from relevant regulatory authorities.

Further details of the above acquisition were set out in the announcements published by the Company on newspapers and websites designated for disclosure of the information on 6 May 2008 and 4 June 2011.

7.13.2 Progress of the 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 Tibet Autonomous Region Trust and Investment Corporation ("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. On 3 August 2009, the Company entered into an agreement on transfer of interest and right in Tibet Trust with the relevant parties including Tibet Autonomous Region Finance Bureau. Pursuant to the agreement, the Company will acquire 60.5% equity interest in Tibet Trust at a consideration of RMB363,707,028.34. The acquisition is still pending for the approval of relevant regulatory authorities.

In order to speed up the acquisition of equity interest in Tibet Trust, the Company proactively negotiated with the relevant parties, which has effectively facilitated the restructuring process of Tibet Trust.

7.14 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 Organizational Structure".

7.15 Use of Funds by Related Parties

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

7.16 Social Responsibilities

As an enterprise committed to social responsibilities, the Company strives to perform its social responsibilities to fulfill its obligations as a bank and to support socioeconomic development through a multitude of means.

1. Continuous efforts in poverty relief

The year 2011 marked the thirteen year of the Company to provide designated poverty relief to Yongren County and Wuding County in Yunnan Province. In the first half of the year, staff of the Company donated over RMB8 million in cash together with over 23,000 clothes and 40 computers to the two counties. RMB4 million in small sum loans were granted to the impoverished to provide for and help themselves.

2. Greater support to the development of small-and-medium-sized enterprises

In the first half of 2011, the Company continued to adhere to its SME business development strategy and raised its support to SMEs. For this purpose, building of Small Enterprise Credit Center was strengthened to facilitate professional operation of SMEs, now with a total of 34 subcenters in operation, among which 4 subcenters and 2 on-site teams were newly added this year. In respect of credit approval procedures, seven optimizations were introduced to further enhance the efficiency of approving credit, while innovation of products was also enhanced with the development of 6 kinds of premium batch handling projects, such as "Clothes Loan – Professional Clothes Market in Changshu", "Equipment Loan – Ci Xing Equipment Mortgage Business" and "Express Loan – Suzhou Security Company". As at 30 June 2011, the total amount of loans granted to SMEs domestically by the Company amounted to RMB433.796 billion, representing an increase of RMB45.378 billion as compared to the end of the previous year. The amount of loans granted to domestic SMEs represented 51.19% of the total domestic corporate loans, up by 1.47 percentage points from the end of the previous year. The number of SME customers amounted to 22,070, representing an increase by 3,484 as compared with the beginning of the year. Meanwhile, the quality of assets of SME loans was further enhanced, with a non-performing ratio of 1.32%, down by 0.14 percentage point from the end of the previous year.

3. Implementation of green finance

In the reporting period, the Company deepened its green finance research and compiled the Green Banking Guidance. The Company cooperated with French Development Agency on green on-lending, with 3 projects totaling €9.50 million. More projects are in the line for approval and contracting. The Company also discussed CDM cooperation with Finland Carbon Asset Management and strengthened our on-lending cooperation with KFW Bankengruppe and Bank Austria. As a member of Finance Initiative of UNEP, the Company assisted in preparing the Washington annual meeting. It established cooperative relationship with the Energy Bureau of NDRC and the Energy Service Committee of China Association of Energy Saving, so as to know more about the Energy Performance Management in China, seek business breaking points in the cause of energy saving and emission reduction and bridge green credit information with project financing. As of June 30, 2011, the green loan balance of the Company was RMB53.007 billion, representing an increase of 14.61% as compared with the end of last year, in which RMB11.716 billion was given to clean energy (RMB10.898 billion to renewable energy) and RMB41.291 billion to environmental protection.

4. Full commencement of the campaigns associated with Universiade Shenzhen

As the first global partner and the sole designated bank service provider of the 26th Universiade Shenzhen in 2011, the Company commenced the selection campaign of volunteers and image ambassadors for the China Merchants Bank Universiade, with over 4,345 participants, 13 million Internet votes and over 27 million cyber visitors, creating a sensation in colleges and universities. In March, the Company launched the "2011 China Merchants Bank Universiade Torch on the Top of Dream" hiking activities in around 40 cities nationwide. 8 Universiade financial service outlets with a total gross area of 807.07 m^2 have been established (including payment centers) to ensure the quality of financial services during the Universiade.

5. Donation to quake-hit areas of Qinghai

Subsequent to the occurrence of 2010 Yushu earthquake, the Company donated RMB5 million to the quake-hit areas in Qinghai via the China Red Cross. In June 2011, the Company again donated RMB2 million to Haidong Prefecture, Qinghai to subsidize the students who were transferred from Yushu for education here. The Company contributed its efforts on the recovery of education and long-term reconstruction of the quake-hit area.

6. Implementation of internal green and low carbon operation

The Company persistently implements "14 Clauses on Green and Low Carbon Operation" internally, which introduces specific green requirements on all parts of its daily operation and on its staff's behaviors. The ultimate purpose is to further reduce carbon emission, conserve energy and protect the environment. Through a series of measures, the initiative of internal energy conservation and pollutant reduction has achieved significant results.

7. Participation in activities organized by charitable organizations

The Company is members of over ten influential charitable organizations within and outside China, including Corporate Social Responsibility Alliance, Ecology Society of Entrepreneur and Shenzhen Soft Science Development Foundation, which have put tremendous efforts on reconstruction, environmental protection, promotion of social responsibilities and scientific research.

7.17 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 standard of corporate governance.

7.18 Review on Interim Results

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 six-month period ended 30 June 2011.

7.19 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 of Directors

Fu Yuning
Chairman of the Board of Directors

30 August 2011

VIII Review Report to the Board of Directors and Interim Financial Report for 2011

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 98 to 159 which comprises the consolidated statement of financial position of China Merchants Bank Co., Ltd as of 30 June 2011 and the related 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 2011 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

30 August 2011

Unaudited Consolidated Statement of Comprehensive Income

For the period ended 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2011	2010
Interest income	4	**55,082**	39,226
Interest expense	5	**(19,366)**	(12,883)
Net interest income		**35,716**	26,343
Fee and commission income	6	**8,746**	5,836
Fee and commission expense		**(583)**	(490)
Net fee and commission income		**8,163**	5,346
Other net income	7	**2,106**	1,123
Insurance operating income		**181**	170
Operating income		**46,166**	32,982
Operating expenses	8	**(17,845)**	(13,454)
Charge for insurance claims		**(136)**	(132)
Operating profit before impairment losses		**28,185**	19,396
Impairment losses	9	**(4,064)**	(2,394)
Share of profit of associates		**41**	24
Share of profit of jointly controlled entities		**14**	4
Profit before tax		**24,176**	17,030
Income tax	10	**(5,576)**	(3,827)
Profit for the period		**18,600**	13,203
		RMB	RMB
Earnings per share			
Basic	12(a)	**0.86**	0.65
Diluted	12(b)	**0.86**	0.65

The notes on pages 105 to 159 form part of this interim financial report. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the period are set out in note 29.

Unaudited Consolidated Statement of Comprehensive Income

For the period ended 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2011	2010
Other comprehensive income for the period (after tax and reclassification adjustments)	11		
Exchange differences		**(279)**	(139)
Available for sale investments: net movement in fair value reserve		**(644)**	1,958
Cash flow hedge: net movement in hedging reserve		**6**	–
		(917)	1,819
Total comprehensive income for the period		**17,683**	15,022

The notes on pages 105 to 159 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**30 June 2011**	31 December 2010
Assets			
Cash and balances with banks and other financial institutions	13	**51,388**	38,211
Balances with central bank	14	**339,825**	285,705
Placements with banks and other financial institutions	15	**268,397**	235,464
Loans and advances to customers	16	**1,521,672**	1,402,160
Financial assets at fair value through profit or loss	17(a)	**21,566**	16,967
Available-for-sale investments	17(b)	**255,742**	272,370
Held-to-maturity debt securities	17(c)	**120,151**	97,614
Receivables	17(d)	**10,699**	7,225
Interest in associates	18	**289**	285
Interest in jointly controlled entities	19	**166**	158
Fixed assets	20	**17,996**	18,397
Intangible assets	21	**2,655**	2,620
Deferred tax assets	22	**4,979**	3,706
Goodwill	23	**9,598**	9,598
Other assets		**18,082**	12,027
Total assets		**2,643,205**	2,402,507
Liabilities			
Deposits from banks and other financial institutions	24	**207,817**	203,011
Placements from banks and other financial institutions	25	**95,830**	79,012
Deposits from customers	26	**2,092,758**	1,897,178
Trading liabilities	17(e)	**90**	188
Derivative financial liabilities	32(b)	**1,555**	1,821
Financial liabilities designated at fair value through profit or loss	17(f)	**3,052**	1,165
Current taxation		**4,209**	2,288
Deferred tax liabilities	22	**898**	924
Certificates of deposit issued	27(a)	**14,296**	5,053
Subordinated notes issued	27(b)	**31,212**	31,232
Other liabilities		**46,056**	46,629
Total liabilities		**2,497,773**	2,268,501

The notes on pages 105 to 159 form part of this interim financial report.

At 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**30 June 2011**	31 December 2010
Equity			
Share capital	28	**21,577**	21,577
Capital reserve		**37,508**	37,508
Surplus reserve		**10,880**	8,418
Investment revaluation reserve		**(1,955)**	(1,311)
Hedging reserve		**9**	3
Regulatory general reserve		**16,894**	16,812
Exchange reserve		**(805)**	(526)
Retained profits		**61,324**	42,806
Proposed profit appropriations	29(b)	**–**	8,719
Total equity		**145,432**	134,006
Total liabilities and equity		**2,643,205**	2,402,507

Approved and authorised for issue by the board of directors on 30 August 2011.

Fu Yuning	**Ma Weihua**	Company Chop
Director	*Director*	

The notes on pages 105 to 159 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the period ended 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Hedging reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Total
		For the six months ended 30 June 2011									
At 1 January 2011		**21,577**	**37,508**	**8,418**	**(1,311)**	**3**	**16,812**	**(526)**	**42,806**	**8,719**	**134,006**
Profits for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,600**	**–**	**18,600**
Other comprehensive income for the period		**–**	**–**	**–**	**(644)**	**6**	**–**	**(279)**	**–**	**–**	**(917)**
Appropriations to statutory surplus reserve for the year 2010		**–**	**–**	**2,462**	**–**	**–**	**–**	**–**	**–**	**(2,462)**	**–**
Approved cash dividends for the year 2010	29(a)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,257)**	**(6,257)**
Transfer of retained profits to regulatory general reserve		**–**	**–**	**–**	**–**	**–**	**82**	**–**	**(82)**	**–**	**–**
At 30 June 2011		**21,577**	**37,508**	**10,880**	**(1,955)**	**9**	**16,894**	**(805)**	**61,324**	**–**	**145,432**

	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Hedging reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Total
		For the six months ended 30 June 2010									
At 1 January 2010		19,119	18,399	6,653	(230)	–	14,976	(22)	27,592	6,296	92,783
Profit for the period		–	–	–	–	–	–	–	13,203	–	13,203
Other comprehensive income for the period		–	–	–	1,958	–	–	(139)	–	–	1,819
Appropriations to statutory surplus reserve for the year 2009		–	–	1,765	–	–	–	–	–	(1,765)	–
Approved cash dividends for the year 2009	29(a)	–	–	–	–	–	–	–	–	(4,531)	(4,531)
Approved issued shares for the year 2009	28	2,458	19,109	–	–	–	–	–	–	–	21,567
Transfer of retained profits to regulatory general reserve		–	–	–	–	–	91	–	(91)	–	–
At 30 June 2010		21,577	37,508	8,418	1,728	–	15,067	(161)	40,704	–	124,841

The notes on pages 105 to 159 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

For the period ended 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June **2011**	2010
Operating activities			
Profit before tax		**24,176**	17,030
Adjustments for:			
– Impairment losses charged on loans and advances		**3,932**	2,451
– Impairment losses/(reversal) released on other assets		**132**	(57)
– Unwind of interest income on impaired loans		**(69)**	(47)
– Depreciation of fixed assets		**1,292**	1,171
– Amortisation of other assets		**120**	106
– Amortisation of discount and premium of debt investments		**(35)**	(146)
– Amortisation of discount and premium of issued debts		**12**	6
– Net gain on debt investments		**(571)**	(177)
– Interest income on debt investments		**(5,630)**	(4,181)
– Interest expense on issued debts		**865**	936
– Share of profit of associates		**(41)**	(24)
– Share of profit of jointly controlled entities		**(14)**	(4)
– Net gain on sale and disposal of fixed assets		**–**	(1)
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(34,128)**	(42,173)
Decrease in balances and placements with banks and other financial institutions with original maturity over 3 months		**18,360**	387
Increase in loans and advances to customers		**(123,316)**	(141,851)
Increase in other assets		**(8,155)**	(8,782)
Increase in deposits from customers		**195,580**	144,254
Increase in deposits and placements from banks and other financial institutions		**21,624**	36,665
Decrease in other liabilities		**(1,319)**	(4,278)
Net cash inflow from operating activities		**92,815**	1,285
Income tax paid		**(4,711)**	(2,819)

The notes on pages 105 to 159 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

For the period ended 30 June 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2011	2010
Investing activities			
Payment for investments purchased		**(490,947)**	(831,624)
Proceeds from disposal of investments		**478,776**	803,343
Interest received from debt investments		**5,284**	3,674
Payment for purchase of fixed assets and other assets		**(1,172)**	(1,025)
Proceeds from sale of fixed assets and other assets		**52**	75
Repayment of loan to jointly controlled entity		**2**	3
Net cash outflow from investing activities		**(8,005)**	(25,554)
Net cash inflow/(outflow) before financing activities		**80,099**	(27,088)
Financing activities			
Proceeds from issuance of certificates of deposit		**12,339**	930
Repayment of certificates of deposit issued		**(2,811)**	(1,575)
Interest paid on issued debts		**(755)**	(54)
Proceeds from issuance of share capital		**–**	21,744
Cost of issuing share, net of interest income		**–**	(177)
Payment of dividend		**(5,123)**	–
Net cash inflow from financing activities		**3,650**	20,868
Net increase/(decrease) in cash and cash equivalents		**83,749**	(6,220)
Cash and cash equivalents at 1 January		**177,220**	183,631
Effect of foreign exchange rate changes		**(5)**	(1,167)
Cash and cash equivalents at 30 June	30(a)	**260,964**	176,244
Cash flows from operating activities include:			
Interest received		**48,689**	34,430
Interest paid		**15,575**	10,794

The notes on pages 105 to 159 form part of this 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 2011 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 2010 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 2011 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%	Financial 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 International Financial Reporting Standards ("IFRSs") IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for these changes in accounting policies 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 2010 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 2010.

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 International 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.

(Expressed in millions of Renminbi unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES

The Group has adopted the IFRSs which are effective for the current accounting period, and has not early applied any amendments of the IFRSs which are not yet effective for the current period. The following developments may be relevant to the financial report of the Group.

- IAS 24 (revised 2009), Related party disclosures
- Improvements to IFRSs (2010)

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements have no material impact on the contents of this interim financial report.

4 INTEREST INCOME

	Six months ended 30 June	
	2011	2010
Loans and advances (note)	**42,444**	32,052
Balances with central bank	**2,446**	1,577
Balances and placements with		
– banks	**4,088**	1,018
– other financial institutions	**428**	252
Debt investments	**5,665**	4,327
Others	**11**	–
Interest income on financial assets that are not at fair value through profit or loss	**55,082**	39,226

Note: Included in the above is interest income of RMB69 million accrued on impaired loans (for the six months ended 30 June 2010: RMB47 million).

5 INTEREST EXPENSE

	Six months ended 30 June	
	2011	2010
Deposits from customers	**14,060**	9,804
Deposits and placements from		
– banks	**2,606**	767
– other financial institutions	**1,808**	1,370
Issued debts	**892**	942
Interest expense on financial liabilities that are not at fair value through profit or loss	**19,366**	12,883

(Expressed in millions of Renminbi unless otherwise stated)

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2011	2010
Bank cards fees	**2,260**	1,701
Remittance and settlement fees	**952**	660
Agency services fees	**1,907**	1,550
Commissions from credit commitment and loan business	**837**	568
Trust services fees	**1,409**	708
Others	**1,381**	649
	8,746	5,836

Note: Other than amounts included in determining the effective interest rate, 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 of RMB2,703 million (for the six months ended 30 June 2010: RMB1,984 million).

7 OTHER NET INCOME

	Six months ended 30 June	
	2011	2010
Trading profits arising from		
– foreign exchange	**764**	644
– securities, derivatives and other trading activities	**308**	461
Net income/(loss) on financial instruments designated at fair value through profit or loss	**83**	(201)
Net (loss)/gain on disposal of available-for-sale financial assets	**(114)**	111
Distributions on investment in funds	**8**	10
Rental income	**133**	90
Cash on disposal of bills (Note)	**892**	–
Others	**32**	8
	2,106	1,123

Note: The Bank notes in June 2010 the profit and loss subsidiary account for the spread of out-right sell discount bills, which will become effective immediately upon the reconstruction project of bill system go live. After the transformation, when transferring outright discount bills, the difference between unamortized interest income and rediscount interest cost is treated as the price spread, other than interest spread. The change of accounting treatment reflects the business more accurately.

(Expressed in millions of Renminbi unless otherwise stated)

8 OPERATING EXPENSES

	Six months ended 30 June	
	2011	2010
Staff costs		
– salaries, bonuses and staff welfare	**7,656**	5,468
– contributions to defined contribution retirement schemes	**985**	731
– housing allowances	**354**	312
– others	**325**	256
	9,320	6,767
Business tax and surcharges	**2,819**	1,910
Depreciation of fixed assets	**1,292**	1,171
Rental expenses	**1,051**	913
Other general and administrative expenses	**3,363**	2,693
	17,845	13,454

9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2011	2010
Impairment losses charged/(released) on:		
– loans and advances (Note 16(c))	**3,932**	2,451
– other	**132**	(57)
	4,064	2,394

10 INCOME TAX

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2011	2010
Current tax		
– Mainland China	**6,452**	3,797
– Hong Kong	**169**	67
– Overseas	**11**	3
	6,632	3,867
Deferred tax (Note 22(b))	**(1,056)**	(40)
	5,576	3,827

The current tax provision is based on the estimated assessable profit for 2011, and is determined by using tax rates applicable to the Group's operations in different areas.

(Expressed in millions of Renminbi unless otherwise stated)

11 OTHER COMPREHENSIVE INCOME FOR THE PERIOD

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

	Six months ended 30 June					
	2011			2010		
	Before-tax amount	**Tax expense/ (benefit)**	**Net-of-tax amount**	Before-tax amount	Tax benefit	Net-of-tax amount
Exchange differences	**(279)**	**–**	**(279)**	(139)	–	(139)
Available-for-sale investments	**(872)**	**228**	**(644)**	2,598	(640)	1,958
Hedging reserve	**8**	**(2)**	**6**	–	–	–
Other comprehensive income	**(1,143)**	**226**	**(917)**	2,459	(640)	1,819

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

	Six months ended 30 June	
	2011	2010
Available-for-sale investments:		
Changes in fair value recognised during the period	**(448)**	2,039
Reclassification adjustments for amounts transferred to profit or loss:		
– loss on disposal	**(196)**	(81)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(644)**	1,958

(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	
	2011	2010
Net profit	**18,600**	13,203
Weighted average number of shares in issue (in million)	**21,577**	20,273
Basic earnings per share (in RMB)	**0.86**	0.65

(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	
	2011	2010
Net profit	**18,600**	13,203
Diluted net profit	**18,600**	13,203
Weighted average number of shares in issue (in million)	**21,577**	20,273
Weighted average number of shares in issue after dilution (in million)	**21,577**	20,273
Diluted earnings per share (in RMB)	**0.86**	0.65

(Expressed in millions of Renminbi unless otherwise stated)

13 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2011	31 December 2010
Cash	**8,873**	9,250
Balances with banks	**42,500**	28,895
Balances with other financial institutions	**43**	94
	51,416	38,239
Less: Impairment allowances		
– banks	**(24)**	(24)
– other financial institutions	**(4)**	(4)
	(28)	(28)
	51,388	38,211

14 BALANCES WITH CENTRAL BANK

	30 June 2011	31 December 2010
Statutory deposit reserve funds (Note (i))	**285,750**	251,622
Surplus deposit reserve funds (Note (ii))	**51,903**	31,579
Fiscal deposits	**2,172**	2,504
	339,825	285,705

Notes:

(i) The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 19.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively as at 30 June 2011 (31 December 2010: 16.5% 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.

(ii) The surplus deposit funds reserve maintained with the People's Bank of China and central banks of overseas countries are mainly for the purpose of clearing.

(Expressed in millions of Renminbi unless otherwise stated)

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2011	31 December 2010
Money market placements		
– banks	**42,576**	35,361
– other financial institutions	**16,779**	23,556
	59,355	58,917
Balances under resale agreements (Note)		
– banks	**207,348**	175,753
– other financial institutions	**1,694**	794
	209,042	176,547
	268,397	235,464
Maturing		
– within one month	**150,946**	109,730
– between one month and one year	**116,853**	125,403
– after one year	**598**	331
	268,397	235,464

Note: Assets purchased under the above resale agreements are registered national bonds issued by the PRC government, bonds issued by the People's Bank of China ("PBOC") and policy banks, other debt securities and bills of equivalent amounts.

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2011	31 December 2010
Corporate loans	**953,383**	870,515
Discounted bills	**64,600**	64,948
Retail loans	**536,809**	495,988
Gross loans and advances to customers	**1,554,792**	1,431,451
Less: impairment allowances		
– individually-assessed	**(5,599)**	(5,912)
– collectively-assessed	**(27,521)**	(23,379)
Net loans and advances to customers	**1,521,672**	1,402,160

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	30 June 2011	31 December 2010
Domestic enterprises:		
State-owned enterprises	**242,094**	240,574
Joint-stock enterprises	**92,269**	82,620
Other limited liability enterprises	**264,125**	225,835
Others	**142,741**	128,677
	741,229	677,706
Foreign-invested enterprises	**141,270**	130,055
Enterprises operating in the Mainland	**882,499**	807,761
Enterprises operating outside the Mainland	**70,884**	62,754
Corporate loans	**953,383**	870,515
Discounted bills	**64,600**	64,948
Retail loans	**536,809**	495,988
Gross loans and advances to customers	**1,554,792**	1,431,451

(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/products:

Operation in Mainland China

	30 June 2011		31 December 2010	
	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	**283,977**	**27**	248,069	26
Transportation, storage and postal services	**136,404**	**27**	128,401	26
Wholesale and retail	**130,454**	**40**	106,654	41
Property development	**84,659**	**65**	80,856	65
Production and supply of electric power, gas and water	**62,789**	**18**	61,466	16
Construction	**38,552**	**26**	33,348	28
Leasing and commercial services	**37,853**	**34**	49,899	31
Water, environment and public utilities management	**36,385**	**33**	31,894	35
Mining	**33,759**	**27**	27,891	22
Telecommunications, computer services and software	**8,119**	**39**	7,119	30
Others	**26,590**	**28**	30,615	22
Corporate loans	**879,541**	**33**	806,212	32
Discounted bills	**64,600**	**100**	64,948	100
Retail housing loans	**297,960**	**100**	290,348	100
Operating retail loans	**83,199**	**94**	64,609	100
Credit cards	**59,084**	**–**	54,589	–
Others	**84,917**	**95**	74,486	100
Retail loans	**525,160**	**87**	484,032	89
Gross loans and advances to customers	**1,469,301**	**51**	1,355,192	55

(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/products: (continued)

Operation outside Mainland China

	30 June 2011		31 December 2010	
	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	**33,679**	**72**	32,326	74
Wholesale and retail	**15,002**	**89**	9,414	61
Financial concerns	**5,037**	**26**	6,239	21
Manufacturing and processing	**8,900**	**41**	5,385	45
Transportation, storage and postal services	**3,100**	**71**	3,154	68
Recreational activities	**515**	**5**	229	5
Information technology	**847**	**81**	170	1
Others	**6,762**	**58**	7,386	66
Corporate loans	**73,842**	**67**	64,303	63
Retail housing loans	**8,272**	**100**	8,649	100
Operating retail loans	**1,262**	**99**	–	–
Credit cards	**235**	**–**	327	–
Others	**1,880**	**96**	2,980	98
Retail loans	**11,649**	**97**	11,956	97
Gross loans and advances to customers	**85,491**	**71**	76,259	68

(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/products:* *(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:

	30 June 2011			
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**
Manufacturing and processing	**2,400**	**2,489**	**1,802**	**5,806**
Mortgages	**3,339**	**414**	**–**	**2,661**

	31 December 2010			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing and processing	2,524	2,680	1,915	5,010
Mortgages	2,425	415	–	2,566

(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 2011, 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 2010).

(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 2011			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	**22,026**	**1,353**	**5,912**	**29,291**
Charge for the period (note 9)	**4,135**	**49**	**306**	**4,490**
Releases for the period (note 9)	**(23)**	**(1)**	**(534)**	**(558)**
Unwinding of discount	**–**	**–**	**(69)**	**(69)**
Recoveries of loans and advances previously written off	**–**	**17**	**20**	**37**
Write-offs	**–**	**(2)**	**(10)**	**(12)**
Exchange difference	**(33)**	**–**	**(26)**	**(59)**
At 30 June	**26,105**	**1,416**	**5,599**	**33,120**

	2010			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	16,638	1,398	5,969	24,005
Charge for the year	5,426	63	752	6,241
Releases for the year	(18)	(2)	(651)	(671)
Unwinding of discount	–	(2)	(108)	(110)
Recoveries of loans and advances previously written off	–	16	32	48
Write-offs	–	(120)	(32)	(152)
Transfers in	34	–	–	34
Exchange difference	(54)	–	(50)	(104)
At 31 December	22,026	1,353	5,912	29,291

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	30 June 2011					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	17,073	–	6	17,079	0.04	–
– non-financial institution customers	1,528,254	1,663	7,796	1,537,713	0.62	1,364
	1,545,327	1,663	7,802	1,554,792	0.61	1,364
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(30)	–	(6)	(36)		
– non-financial institution customers	(26,075)	(1,416)	(5,593)	(33,084)		
	(26,105)	(1,416)	(5,599)	(33,120)		
Net loans and advances to						
– financial institutions	17,043	–	–	17,043		
– non-financial institution customers	1,502,179	247	2,203	1,504,629		
	1,519,222	247	2,203	1,521,672		

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	31 December 2010					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	17,945	–	7	17,952	0.04	–
– non-financial institution customers	1,403,872	1,587	8,040	1,413,499	0.68	1,503
	1,421,817	1,587	8,047	1,431,451	0.67	1,503
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(27)	–	(7)	(34)		
– non-financial institution customers	(21,999)	(1,353)	(5,905)	(29,257)		
	(22,026)	(1,353)	(5,912)	(29,291)		
Net loans and advances to						
– financial institutions	17,918	–	–	17,918		
– non-financial institution customers	1,381,873	234	2,135	1,384,242		
	1,399,791	234	2,135	1,402,160		

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:

– collectively, that is portfolios of homogeneous loans; or

– individually.

(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.

(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:

	30 June 2011		31 December 2010	
	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	**9,283**	**10,661**	7,540	8,459
After 1 year but within 5 years	**17,334**	**19,225**	13,448	14,750
After 5 years	**2,708**	**2,919**	854	966
	29,325	**32,805**	21,842	24,175
Impairment allowances:				
– individually-assessed	**(5)**	**(5)**	(7)	(7)
– collectively-assessed	**(338)**	**(338)**	(258)	(258)
Unearned future income on finance lease	**–**	**(3,480)**	–	(2,333)
Net investment in finance leases and hire purchase contracts	**28,982**	**28,982**	21,577	21,577

17 INVESTMENTS

	30 June 2011	31 December 2010
Financial assets at fair value through profit or loss (Note 17(a))	**21,566**	16,967
Available-for-sale investments (Note 17(b))	**255,742**	272,370
Held-to-maturity debt securities (Note 17(c))	**120,151**	97,614
Receivables (Note 17(d))	**10,699**	7,225
	408,158	394,176

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

(i) Trading assets

	30 June 2011	31 December 2010
Listed		
In the Mainland		
– PRC government bonds	**893**	1,210
– bonds issued by the PBOC	**128**	54
– bonds issued by policy banks	**130**	20
– bonds issued by commercial banks and other financial institutions	**2,779**	1,109
– other debt securities	**10,500**	7,303
– equity investments	**8**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**675**	581
– other debt securities	**43**	49
– equity investments	**12**	14
	15,168	10,340
Unlisted		
In the Mainland		
– PRC government bonds	**15**	15
– bonds issued by policy banks	**34**	34
– bonds issued by commercial banks and other financial institutions	**52**	52
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**166**	162
– other debt securities	**1,181**	1,476
– investment in funds	**29**	–
	1,477	1,739
Derivative financial instruments (Note 32(b))	**1,510**	1,734
Hedge derivative instruments (Note 32(b))	**31**	4
	18,186	13,817

(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

	30 June 2011	31 December 2010
Listed		
In the Mainland		
– PRC government bonds	**150**	242
– bonds issued by policy banks	**603**	303
– bonds issued by commercial banks and other financial institution	**1,481**	503
– other debt securities	**181**	312
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**1**	134
– other debt securities	**480**	1,029
Unlisted		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**141**	144
– other debt securities	**343**	483
	3,380	3,150
	21,566	16,967
Financial assets at fair value through profit or loss (excluding derivative financial instruments)		
Issued by:		
Sovereigns	**2,308**	3,040
Banks and other financial institutions	**6,405**	3,525
Public sector entities	**4**	4
Corporates	**11,308**	8,660
	20,025	15,229

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	30 June 2011	31 December 2010
Listed		
In the Mainland		
– PRC government bonds	**20,236**	27,533
– bonds issued by the PBOC	**9,802**	18,970
– bonds issued by policy banks	**42,299**	43,483
– bonds issued by commercial banks and other financial institutions	**86,156**	89,358
– other debt securities	**75,726**	68,767
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**3,040**	3,349
– other debt securities	**1,646**	1,853
– equity investments	**548**	518
– investments in funds	**23**	24
	239,476	253,855
Unlisted		
In the Mainland		
– bonds issued by policy banks	**10**	10
– bonds issued by commercial banks and other financial institutions	**955**	955
– equity investments	**669**	669
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**9,141**	11,726
– other debt securities	**5,437**	5,107
– equity investments	**54**	48
	16,266	18,515
	255,742	272,370

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

	30 June 2011	31 December 2010
Issued by:		
Sovereigns	**30,037**	46,717
Banks and other financial institutions	**147,568**	154,610
Corporates	**78,137**	71,043
	255,742	272,370

(c) Held-to-maturity debt securities

	30 June 2011	31 December 2010
Listed		
In the Mainland		
– PRC government bonds	**57,951**	45,069
– bonds issued by the PBOC	**15,352**	12,945
– bonds issued by policy banks	**5,313**	4,172
– bonds issued by commercial banks and other financial institutions	**36,672**	28,550
– other debt securities	**1,351**	1,355
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**1,789**	1,572
– other debt securities	**590**	963
Unlisted		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**1,104**	2,866
– other debt securities	**203**	302
	120,325	97,794
Less: Impairment allowances	**(174)**	(180)
	120,151	97,614

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

	30 June 2011	31 December 2010
Issued by:		
Sovereigns	**73,351**	58,063
Banks and other financial institutions	**44,726**	37,001
Public sector entities	**9**	9
Corporates	**2,065**	2,541
	120,151	97,614
Fair value of listed debt securities	**116,948**	93,429
Movements of allowances for impairment losses		
At 1 January	**180**	184
Exchange difference	**(6)**	(4)
At 30 June/31 December	**174**	180

(d) Receivables

	30 June 2011	31 December 2010
Unlisted		
In the Mainland		
– PRC government bonds	**4,073**	5,291
– bonds issued by commercial banks and other financial institutions	**1,620**	1,420
– Other debt securities	**5,000**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**65**	574
	10,758	7,285
Less: Impairment allowances	**(59)**	(60)
	10,699	7,225

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

	30 June 2011	31 December 2010
Issued by:		
Sovereigns	**4,074**	5,292
Banks and other financial institutions	**1,626**	1,933
Corporate	**4,999**	–
	10,699	7,225

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

	30 June 2011	31 December 2010
Short positions in exchange fund bill and notes at fair value:		
– listed	**7**	5
– unlisted	**83**	183
	90	188

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

	30 June 2011	31 December 2010
Unlisted		
Outside the Mainland		
– certificates of deposit issued	**3,052**	1,165

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 2011, 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 equity transfer 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 for a valid period of two years. On 4 May 2010, the Bank renewed the equity transfer agreement with identical terms with Dingzun. The acquisition requires approval from the China Banking Regulatory Commission and the China Insurance Regulatory Commission. As at 30 June 2011, the proposed acquisition was still awaiting approval from the regulatory authorities.

18 INTEREST IN ASSOCIATES

	30 June 2011	31 December 2010
Share of net assets	**176**	172
Goodwill	**114**	114
	290	286
Less: Impairment allowance	**(1)**	(1)
	289	285

The following list contains only the particulars of associates as of 30 June 2011, 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: Group's effective interest	Held by the Bank	Held by the subsidiary	Principal activity
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

19 INTEREST IN JOINTLY CONTROLLED ENTITIES

	30 June 2011	31 December 2010
Share of net assets	**131**	121
Loan to jointly controlled entities	**35**	37
	166	158

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: Group's effective interest	Held by the Bank	Held by the subsidiary	Principal activity
Bank Consortium Holding Limited (Note (i))	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 (ii))	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 (i): The Bank's subsidiary, Wing Lung Bank holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.

Note (ii): 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.

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS

2011

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other	Total
Cost:							
At 1 January 2011	9,291	2,334	3,798	5,947	3,426	3,301	28,097
Additions	–	–	550	122	217	132	1,021
Transfers (Note)	71	(27)	(44)	(2,074)	–	2,074	–
Disposals/write-offs	(2)	–	–	(33)	(89)	(140)	(264)
Exchange difference	(62)	(37)	–	1	7	(3)	(94)
At 30 June 2011	9,298	2,270	4,304	3,963	3,561	5,364	28,760
Accumulated depreciation:							
At 1 January 2011	2,355	388	–	4,392	1,345	1,220	9,700
Depreciation	225	58	–	349	326	334	1,292
Transfers (Note)	4	(4)	–	(1,641)	–	1,641	–
Written back on disposals/write-offs	(1)	–	–	(32)	(63)	(116)	(212)
Exchange difference	(10)	(5)	–	(1)	(1)	1	(16)
At 30 June 2011	2,573	437	–	3,067	1,607	3,080	10,764
Net book value:							
At 30 June 2011	6,725	1,833	4,304	896	1,954	2,284	17,996

Note: In order to reflect the business nature more accurately, operating equipment for business hall with no IT nature is reclassified from computer equipment to motor vehicles and others by the Bank from early 2011. In 2011, the original value of these equipment transferred from electronic equipment totaled RMB2.074 billion, with accumulated depreciation of RMB1.641 billion.

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

2010

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2010	8,510	2,474	3,016	5,256	3,091	1,849	24,196
Additions	74	–	1,641	1,004	858	1,554	5,131
Transfers	831	(24)	(859)	(2)	44	16	6
Disposals/write-offs	(9)	(42)	–	(307)	(568)	(116)	(1,042)
Exchange difference	(115)	(74)	–	(4)	1	(2)	(194)
At 31 December 2010	9,291	2,334	3,798	5,947	3,426	3,301	28,097
Accumulated depreciation:							
At 1 January 2010	1,936	303	–	3,669	1,252	1,028	8,188
Depreciation	468	135	–	1,023	565	306	2,497
Transfers	6	(3)	–	(1)	2	1	5
Written back on disposals/write-offs	(6)	(23)	–	(298)	(474)	(114)	(915)
Exchange difference	(49)	(24)	–	(1)	–	(1)	(75)
At 31 December 2010	2,355	388	–	4,392	1,345	1,220	9,700
Net book value:							
At 31 December 2010	6,936	1,946	3,798	1,555	2,081	2,081	18,397

(Expressed in millions of Renminbi unless otherwise stated)

21 INTANGIBLE ASSETS

2011

	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2011	**1,100**	**855**	**10**	**1,114**	**3,079**
Additions	**55**	**96**	**–**	**–**	**151**
Exchange difference	**(4)**	**–**	**–**	**(23)**	**(27)**
At 30 June 2011	**1,151**	**951**	**10**	**1,091**	**3,203**
Amortization:					
At 1 January 2011	**156**	**205**	**10**	**88**	**459**
Additions	**12**	**60**	**–**	**20**	**92**
Exchange difference	**(1)**	**–**	**–**	**(2)**	**(3)**
At 30 June 2011	**167**	**265**	**10**	**106**	**548**
Net book value:					
At 30 June 2011	**984**	**686**	**–**	**985**	**2,655**

2010

	Land use right	Software	Trademark	Core deposit	Total
Cost/valuation:					
At 1 January 2010	1,110	521	10	1,156	2,797
Additions	–	334	–	–	334
Exchange difference	(10)	–	–	(42)	(52)
At 31 December 2010	1,100	855	10	1,114	3,079
Amortization:					
At 1 January 2010	135	129	6	50	320
Additions	22	76	4	40	142
Exchange difference	(1)	–	–	(2)	(3)
At 31 December 2010	156	205	10	88	459
Net book value:					
At 31 December 2010	944	650	–	1,026	2,620

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX

	30 June 2011	31 December 2010
Deferred tax assets	**4,979**	3,706
Deferred tax liabilities	**(898)**	(924)
	4,081	2,782

(a) Nature of deferred tax assets and liabilities

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

	30 June 2011	31 December 2010
Impairment losses on loans and advances to customers and other assets	**3,343**	2,902
Investment revaluation reserve	**691**	463
Deductible salary	**957**	307
Others	**(910)**	(890)
	4,081	2,782

(b) Movements of deferred tax

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary	Others	Total
At 1 January 2011	2,902	463	307	(890)	2,782
Recognised in the consolidated statement of comprehensive income	442	–	650	(36)	1,056
– due to timing differences	366	–	642	(36)	972
– due to income tax rate change	76	–	8	–	84
Recognised in reserves	–	228	–	(2)	226
– due to timing differences	–	216	–	(2)	214
– due to income tax rate change	–	12	–	–	12
Exchange difference	(1)	–	–	18	17
At 30 June 2011	3,343	691	957	(910)	4,081

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX *(continued)*

(b) Movements of deferred tax *(continued)*

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary	Others	Total
At 1 January 2010	2,199	96	454	(904)	1,845
Recognised in the consolidated statement of comprehensive income	705	–	(147)	(18)	540
– due to timing differences	575	–	(174)	(18)	383
– due to income tax rate change	130	–	27	–	157
Recognised in reserves	–	367	–	(1)	366
– due to timing differences	–	361	–	(1)	360
– due to income tax rate change	–	6	–	–	6
Exchange difference	(2)	–	–	33	31
At 31 December 2010	2,902	463	307	(890)	2,782

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 (18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

23 GOODWILL

	30 June 2011	31 December 2010
At 1 January	**9,598**	9,598
Impairment	**–**	–
At 30 June/31 December	**9,598**	9,598

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

(Expressed in millions of Renminbi unless otherwise stated)

24 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2011	31 December 2010
Deposits from banks	**93,828**	62,358
Deposits from other financial institutions	**113,989**	140,653
	207,817	203,011

25 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2011	31 December 2010
Money market takings		
– banks	**52,077**	45,573
Balances under repurchase agreements (Note)		
– banks	**36,475**	26,308
– other financial institutions	**5,570**	3,924
	42,045	30,232
Rediscounted bills	**1,708**	3,207
	95,830	79,012

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 bills of equivalent amounts.

(Expressed in millions of Renminbi unless otherwise stated)

26 DEPOSITS FROM CUSTOMERS

	30 June 2011	31 December 2010
Demand deposits		
– corporate customers	**708,174**	664,947
– retail customers	**441,940**	413,888
	1,150,114	1,078,835
Time deposits		
– corporate customers	**627,387**	528,632
– retail customers	**315,257**	289,711
	942,644	818,343
	2,092,758	1,897,178

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**	
				30 June 2011	31 December 2010
		(%)	(in HK$ million)		
18 Months	12 November 2009	HIBOR+0.26%	150	**–**	127
12 Months	7 May 2010	HIBOR+0.45%	300	**–**	254
24 Months	3 September 2009	HIBOR+0.26%	200	**166**	170
24 Months	28 October 2009	HIBOR+0.3%	150	**125**	127
24 Months	12 November 2009	HIBOR+0.3%	150	**125**	127
24 Months	20 November 2009	HIBOR+0.3%	150	**125**	127
24 Months	25 June 2010	HIBOR+0.94%	150	**125**	127
18 Months	25 June 2010	HIBOR+0.90%	150	**125**	127
18 Months	29 June 2010	HIBOR+0.96%	150	**125**	127
12 Months	7 July 2010	HIBOR+0.75%	280	**233**	238
12 Months	8 July 2010	HIBOR+0.75%	100	**83**	85
24 Months	21 July 2010	HIBOR+0.65%	230	**191**	195
36 Months	12 August 2010	HIBOR+0.90%	150	**125**	127
36 Months	17 August 2010	HIBOR+0.85%	150	**125**	127

(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 the Bank were as follows: *(continued)*

Terms	Date of issue	Annual interest rate (%)	Nominal value	Carrying amount 30 June 2011	Carrying amount 31 December 2010
			(in HK$ million)		
36 Months	20 August 2010	HIBOR+0.80%	70	**58**	59
24 Months	10 September 2010	HIBOR+0.60%	300	**249**	254
36 Months	7 March 2011	HIBOR+0.75%	300	**249**	–
36 Months	7 March 2011	HIBOR+0.75%	200	**166**	–
			(in US$ million)		
18 Months	2 November 2009	LIBOR+0.34%	25	**–**	165
18 Months	2 November 2009	LIBOR+0.34%	25	**–**	165
12 Months	19 May 2010	LIBOR+0.55%	35	**–**	231
6 Months	22 September 2010	LIBOR+0.45%	50	**–**	329
3 Months	17 November 2010	0.70%	30	**–**	198
3 Months	26 November 2010	0.70%	30	**–**	198
24 Months	29 September 2009	LIBOR+0.32%	20	**129**	132
24 Months	29 September 2009	LIBOR+0.32%	20	**129**	132
36 Months	18 April 2011	0.80%	50	**323**	–
24 Months	19 April 2011	LIBOR+0.95%	40	**258**	–
24 Months	19 May 2011	LIBOR+1.00%	40	**258**	–
6 Months	24 June 2011	LIBOR+0.45%	50	**323**	–
			(in RMB million)		
24 Months	12 April 2011	1.15%	1000	**1,000**	–
				4,815	3,948

(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 30 June 2011	Carrying amount 31 December 2010
			(in HK$ million)		
36 Months	24 January 2008	HIBOR+0.18%	100	**–**	85
6 Months	10 November 2010	0.47%	100	**–**	85
9 Months	12 November 2010	0.65%	188	**156**	158
9 Months	15 November 2010	0.65%	188	**156**	158
12 Months	19 November 2010	0.78%	70	**58**	59
6 Months	16 February 2011	0.76%	80	**66**	–
3 Months	6 April 2011	0.60%	423	**351**	–
3 Months	7 April 2011	0.60%	180	**150**	–
3 Months	15 April 2011	0.81%	110	**91**	–
3 Months	21 April 2011	0.80%	600	**498**	–
3 Months	4 May 2011	0.86%	116	**96**	–
6 Months	18 May 2011	0.95%	100	**83**	–
6 Months	19 May 2011	0.95%	115	**95**	–
3 Months	31 May 2011	0.73%	93.5	**78**	–
			(in US$ million)		
12 Months	8 September 2010	LIBOR+0.55%	15	**97**	99
12 Months	14 September 2010	LIBOR+0.55%	20	**129**	132
12 Months	16 September 2010	LIBOR+0.55%	50	**323**	329
12 Months	18 January 2011	LIBOR+0.65%	5	**32**	–
3 Months	14 April 2011	1.08%	23	**149**	–
12 Months	18 April 2011	1.50%	20	**129**	–
3 Months	20 April 2011	1.23%	20	**129**	–
3 Months	20 April 2011	1.00%	36.1	**233**	–
3 Months	5 May 2011	1.15%	10	**65**	–
3 Months	9 May 2011	1.20%	6	**39**	–
12 Months	9 May 2011	LIBOR+1.10%	11	**71**	–
12 Months	9 May 2011	LIBOR+1.00%	8	**52**	–
3 Months	9 May 2011	1.00%	11.8	**76**	–
3 Months	13 May 2011	1.12%	12.6	**81**	–
3 Months	16 May 2011	1.12%	10	**65**	–
3 Months	23 May 2011	1.55%	12	**76**	–
3 Months	25 May 2011	1.01%	15.6	**101**	–
3 Months	26 May 2011	0.98%	14	**90**	–
3 Months	31 May 2011	1.18%	15.4	**99**	–
3 Months	2 June 2011	1.00%	11.3	**73**	–
3 Months	2 June 2011	1.09%	45.8	**296**	–
3 Months	2 June 2011	1.15%	28	**181**	–

(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: *(continued)*

Terms	Date of issue	Annual interest rate (%)	Nominal value	Carrying amount 30 June 2011	Carrying amount 31 December 2010
			(in US$ million)		
3 Months	7 June 2011	1.10%	15	**97**	–
3 Months	8 June 2011	1.18%	15.2	**98**	–
12 Months	9 June 2011	1.55%	11	**70**	–
3 Months	10 June 2011	1.15%	18	**116**	–
3 Months	14 June 2011	1.15%	10.4	**67**	–
3 Months	15 June 2011	1.08%	30	**194**	–
3 Months	16 June 2011	1.00%	11.6	**75**	–
3 Months	21 June 2011	1.10%	20	**129**	–
3 Months	22 June 2011	0.95%	15.2	**98**	–
3 Months	22 June 2011	1.08%	18.8	**122**	–
6 Months	27 June 2011	1.36%	125	**803**	–
3 Months	30 June 2011	1.20%	22	**142**	–
3 Months	30 June 2011	1.06%	28.2	**182**	–
3 Months	30 June 2011	1.08%	20.7	**134**	–
			(in RMB million)		
36 Months	21 April 2011	1.20%	500	**500**	–
12 Months	16 May 2011	0.75%	114	**114**	–
3 Months	19 May 2011	0.50%	90	**90**	–
3 Months	19 May 2011	0.50%	128	**128**	–
12 Months	19 May 2011	0.75%	350	**350**	–
12 Months	23 May 2011	0.75%	100	**100**	–
6 Months	25 May 2011	0.50%	200	**200**	–
12 Months	25 May 2011	0.75%	100	**100**	–
12 Months	25 May 2011	0.75%	160	**160**	–
12 Months	27 May 2011	0.80%	86	**86**	–
12 Months	31 May 2011	0.80%	100	**100**	–
3 Months	1 June 2011	0.40%	122	**122**	–
3 Months	1 June 2011	0.45%	217	**217**	–
6 Months	2 June 2011	0.50%	200	**200**	–
6 Months	2 June 2011	0.45%	121	**121**	–
6 Months	8 June 2011	0.45%	102	**102**	–
				9,481	1,105
				14,296	5,053

(Expressed in millions of Renminbi unless otherwise stated)

27 ISSUED DEBT SECURITIES *(continued)*

(b) Subordinated notes issued

As at the balance sheet date, subordinated note issued by the Bank were as follows:

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal value (in RMB million)	Carrying amount 30 June 2011	Carrying amount 31 December 2010
Fixed rate notes (Note)	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	**18,982**	18,977
Fixed rate notes (Note)	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	**6,988**	6,988
Floating rate notes (Note)	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	**3,996**	3,995
					29,966	29,960

As at the balance sheet date, subordinated note issued by WLB was as follows:

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal value (in HKD million)	Carrying amount 30 June 2011	Carrying amount 31 December 2010
Fixed rate notes	144 months	28 February 2009	5.70	1,500	**1,246**	1,272
					31,212	31,232

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

Note: 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 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26 billion fixed rate notes and RMB4 billion floating rate notes on 4 September 2008 to institutional investors on the China Interbank Bond Market. The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

(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 2011 and 30 June 2011	**21,577**	**21,577**
At 1 January 2010	**19,119**	**19,119**
Shares issued	**2,458**	**2,458**
At 31 December 2010	**21,577**	**21,577**

By type of share:

	No. of shares (in million)	
	30 June 2011	31 December 2010
Listed shares		
– without trading moratorium	**17,666**	17,666
– H-Shares	**3,911**	3,911
	21,577	21,577

(Expressed in millions of Renminbi unless otherwise stated)

29 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	Six months ended 30 June 2011	Year ended 31 December 2010	Six months ended 30 June 2010
Dividends in respect of the previous year, approved, declared and paid during the period:			
Approved declared and paid cash dividends RMB2.9 per every 10 shares	**6,257**	–	–
Approved, declared and paid during the period of RMB2.1 per every 10 shares,	**–**	4,531	4,531

(b) Proposed profit appropriations

	Amount appropriated in respect of		
Items	**the six months ended 30 June 2011**	the year ended 31 December 2010	the six months ended 30 June 2010
Statutory surplus reserve	**–**	2,462	–
Dividends:			
– cash dividends: Nil (2010: RMB2.9 per every 10 shares)	**–**	6,257	–
	–	8,719	–

2010 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 31 March 2011 and was approved in the 2010 annual general meeting.

(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

	30 June 2011	30 June 2010
Cash	**8,873**	7,899
With original maturity within 3 months:		
– balances with banks and other financial institutions	**37,129**	24,939
– balances with central bank	**54,075**	30,925
– placements with banks and other financial institutions	**150,251**	111,536
– investment securities:		
– at fair value through profit or loss	**2,246**	945
– available-for-sale	**8,390**	–
	260,964	176,244

(b) Significant non-cash transactions

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.

In line with refined management and trends of centralised operations, operating segments and in a manner 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 main 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, transfer between its branches and other banking institutions, and discounted bill businesses in the regional market 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 at head office level.

31 OPERATING SEGMENTS *(continued)*

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

For the purposes of operating segment 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. The Bank makes assumption and estimates for the allocation of gains from the operation of capital. The management regularly revises the assumptions in light of the actual conditions.

(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 June 2011	Six months ended 30 June 2010	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**Six months ended 30 June 2011**	Six months ended 30 June 2010
External net interest income	**18,709**	14,187	**10,002**	6,481	**6,665**	5,623	**340**	52	**35,716**	26,343
Internal net interest income/(expense)	**4,229**	2,938	**2,228**	2,427	**(5,957)**	(5,215)	**(500)**	(150)	**–**	–
Net interest income	**22,938**	17,125	**12,230**	8,908	**708**	408	**(160)**	(98)	**35,716**	26,343
Net fee and commission income/(expense)	**3,341**	2,338	**4,420**	2,967	**266**	(66)	**136**	107	**8,163**	5,346
Other net income	**2,162**	388	**333**	470	**(296)**	191	**(93)**	74	**2,106**	1,123
Insurance operating income	**–**	–	**5**	14	**–**	–	**176**	156	**181**	170
Operating income	**28,441**	19,851	**16,988**	12,359	**678**	533	**59**	239	**46,166**	32,982
Operating expenses										
– depreciation and amortisation	**(512)**	(350)	**(742)**	(808)	**(14)**	(12)	**(116)**	(118)	**(1,384)**	(1,288)
– others	**(7,018)**	(5,082)	**(9,098)**	(6,818)	**(189)**	(101)	**(156)**	(165)	**(16,461)**	(12,166)
Charge for insurance claims	**–**	–	**–**	–	**–**	–	**(136)**	(132)	**(136)**	(132)
	(7,530)	(5,432)	**(9,840)**	(7,626)	**(203)**	(113)	**(408)**	(415)	**(17,981)**	(13,586)
Reportable segment profit before impairment losses	**20,911**	14,419	**7,148**	4,733	**475**	420	**(349)**	(176)	**28,185**	19,396
Impairment losses	**(3,356)**	(1,736)	**(641)**	(507)	**(97)**	(186)	**30**	35	**(4,064)**	(2,394)
Share of profit of associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**55**	28	**55**	28
Reportable segment profit before tax	**17,555**	12,683	**6,507**	4,226	**378**	234	**(264)**	(113)	**24,176**	17,030
Capital expenditure (Note)	**467**	273	**682**	717	**11**	27	**12**	7	**1,172**	1,024
	30 June 2011	31 December 2010	**30 June 2011**	31 December 2010	**30 June 2011**	31 December 2010	**30 June 2011**	31 December 2010	**30 June 2011**	31 December 2010
Reportable segment assets	**1,343,280**	1,307,794	**671,808**	616,722	**589,646**	450,209	**18,841**	4,663	**2,623,575**	2,379,388
Reportable segment liabilities	**1,448,755**	1,427,901	**799,839**	743,364	**218,323**	76,343	**10,126**	2,155	**2,477,043**	2,249,763
Interest in associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**455**	443	**455**	443

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

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(b) Segment asset and liabilities

	30 June 2011	31 December 2010
Assets		
Total assets for reportable segments	**2,623,575**	2,379,388
Goodwill	**9,598**	9,598
Intangible assets	**985**	1,026
Deferred tax assets	**4,979**	3,706
Other unallocated assets	**4,068**	8,789
Consolidated total assets	**2,643,205**	2,402,507
Liabilities		
Total liabilities for reportable segments	**2,477,043**	2,249,763
Current taxation	**4,209**	2,288
Deferred tax liabilities	**898**	924
Other unallocated liabilities	**15,623**	15,526
Consolidated total liabilities	**2,497,773**	2,268,501

(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; subsidiaries operating in Hong Kong and Shanghai and representative offices in London and the United States of America and Taiwan.

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;

31 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

– "Western China" region refers to the following areas serviced by the branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Guizhou Province, Shanxi Province, Gansu Province, Ningxia Autonomous Region, and Xinjiang Autonomous Region;

– "Northern China" region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Hebei Province, 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.

Explanation of changes in geographical segment information disclosure in 2011.

In line with operational needs and the management's need for performance management, the Bank re-defined its geographical segments in 2010 final as follows:

– "Headquarters" refers to the Group headquarters and special purpose vehicles at the branch level which are directly under the headquarters, including the headquarters, credit card centres and small enterprise finance centres;

– "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;

– "Bohai Rim region" refers to branches in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;

– "Pearl River Delta and West Coast region" refers to branches in Guangdong province and Fujian province;

– "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;

– "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;

– "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shanxi province, Gansu province, Ningxia Hui autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region;

– "Overseas" refers to overseas branches in Hong Kong, New York and representative offices in London, United States of America and Taiwan; and

– "Subsidiaries" refers to subsidiaries wholly owned by the Group as a controlling shareholder, including Wing Lung Bank, CMB International and CMB Financial Leasing.

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

	The Group			
	Revenues		Non-current assets	
Geographical information	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**30 June 2011**	31 December 2010
Eastern China	**18,003**	13,082	**6,870**	7,122
Southern and Central China	**13,619**	9,894	**15,339**	14,978
Western China	**4,498**	3,126	**1,613**	1,675
Northern China	**8,107**	5,566	**1,315**	1,419
Outside Mainland China	**1,939**	1,314	**6,584**	5,864
Total	**46,166**	32,982	**31,721**	31,058

	The Group (revised)			
	Revenues		Non-current assets	
Geographical information	**Six months ended 30 June 2011**	Six months ended 30 June 2010	**30 June 2011**	31 December 2010
Headquarter	**6,611**	4,946	**15,437**	15,522
Yangtze River Delta region	**9,874**	7,423	**2,219**	1,946
Bohai Rim region	**7,155**	5,073	**1,370**	1,428
Pearl River Delta and West Coast region	**8,168**	5,626	**1,597**	1,626
Northeast region	**2,246**	1,546	**696**	750
Central region	**4,589**	3,208	**1,229**	1,240
Western region	**5,119**	3,523	**1,588**	1,657
Overseas	**338**	32	**28**	34
Subsidiaries	**2,066**	1,605	**7,557**	6,855
Total	**46,166**	32,982	**31,721**	31,058

(Expressed in millions of Renminbi unless otherwise stated)

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.

	30 June 2011	31 December 2010
Contractual amount:		
Irrevocable guarantees	**106,397**	106,912
Irrevocable letters of credit	**71,491**	59,221
Bills of acceptances	**473,444**	325,645
Irrevocable loan commitments		
– with an original maturity of under one year	**10,882**	3,992
– with an original maturity of one year or over	**32,446**	41,271
Credit card commitments	**137,310**	121,201
Shipping guarantees	**31**	23
Others	**4,011**	1,705
	836,012	659,970

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans. 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 RMB1,543.9 billion at 30 June 2011 (31 December 2010: RMB1,215.3 billion) 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.

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

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

(i) Credit commitments (continued)

	30 June 2011	31 December 2010
Credit risk weighted amounts of contingent liabilities and commitments:		
Contingent liabilities and commitments	**227,962**	179,426

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:

	30 June 2011	31 December 2010
For purchase of fixed assets:		
– Contracted for	**563**	1,135
– Authorised but not contracted for	**737**	194
	1,300	1,329

(iii) Operating lease commitments

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

	30 June 2011	31 December 2010
Within 1 year	**1,917**	1,052
After 1 year but within 5 years	**5,389**	5,428
After 5 years	**2,348**	2,528
	9,654	9,008

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

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

(iv) Outstanding litigations

At 30 June 2011, the Group was a defendant in certain pending litigations with gross claims of RMB507 million (31 December 2010: RMB484 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:

	30 June 2011	31 December 2010
Redemption obligations	**11,596**	11,117

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

(b) Derivatives

Derivatives are off-balance sheet financial instruments which 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. Derivative financial instruments include but are not limited to foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, credit default swaps, bond options, equity swaps, interest rates and credit derivatives. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge derivative financial instruments and derivative financial instruments, which are managed together with financial instruments designated at fair value through profit or loss according to the purposes of holding.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest/exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest/exchange rate movements.

The Group is exposed to risk on assets or liabilities denominated in foreign currencies as their value may fluctuate due to changes in exchange rates. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

The following tables provide an analysis of the notional amounts of derivatives of the Group by maturity groupings based on the remaining periods to settlement and the corresponding fair values at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume outstanding at the end of the reporting period; they do not represent amounts at risk.

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	30 June 2011 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	277	5,432	13,060	250	19,019	68	(129)
Currency derivatives							
Spot	12,951	–	–	–	12,951	1	(2)
Forwards	36,056	76,539	11,581	–	124,176	795	(784)
Foreign exchange swaps	93,069	44,410	1,587	–	139,066	577	(431)
Options purchased	3,281	85	–	–	3,366	47	–
Options written	4,041	113	–	–	4,154	–	(57)
	149,398	121,147	13,168	–	283,713	1,420	(1,274)
Other derivatives							
Equity swaps	27	51	14	–	92	–	(1)
Credit default swaps	129	–	1,939	–	2,068	6	(3)
Equity options purchased	92	–	–	–	92	2	–
Equity options written	92	–	–	–	92	–	(2)
	340	51	1,953	–	2,344	8	(6)
Cash flow hedge derivatives							
Interest rate derivatives Interest rate swaps	–	3,167	9,800	–	12,967	31	(20)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	272	2,105	2,380	35	4,792	14	(119)
Other derivatives							
Equity options written	189	26	23	–	238	–	(7)
	461	2,131	2,403	35	5,030	14	(126)
Total						1,541	(1,555)
						(Note 17(a))	

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	31 December 2010 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	9,214	2,596	8,981	55	20,846	81	(129)
Currency derivatives							
Spot	12,151	–	–	–	12,151	47	(98)
Forwards	47,641	49,499	6,882	–	104,022	911	(901)
Foreign exchange swaps	52,358	26,808	4,208	–	83,374	645	(425)
Options purchased	2,515	1	–	–	2,516	35	–
Options written	3,473	55	–	–	3,528	–	(42)
	118,138	76,363	11,090	–	205,591	1,638	(1,466)
Other derivatives							
Equity swaps	–	–	93	–	93	–	(1)
Credit default swaps	132	198	1,977	–	2,307	11	(2)
Equity options purchased	151	29	–	–	180	2	–
Equity options written	151	29	–	–	180	–	(2)
	434	256	2,070	–	2,760	13	(5)
Cash flow hedge derivatives							
Interest rate derivatives Interest rate swaps	1,845	1,483	–	–	3,328	4	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	322	1,181	1,983	36	3,522	2	(176)
Currency derivatives							
Foreign exchange swaps	–	–	54	–	54	–	–
Other derivatives							
Equity options written	–	517	132	–	649	–	(45)
	322	1,698	2,169	36	4,225	2	(221)
Total						1,738	(1,821)
						(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.

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

Credit risk weighted amounts

	30 June 2011	31 December 2010
Interest rate derivatives	**428**	171
Currency derivatives	**3,962**	3,663
Other derivatives	**268**	301
	4,658	4,135

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:

	30 June 2011	31 December 2010
Entrusted loans	**144,346**	104,013
Entrusted funds	**144,346**	104,013

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 investment 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 other liabilities.

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

	30 June 2011	31 December 2010
Funds received from customers under wealth management services	**257,134**	179,753

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE

	30 June 2011							
	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))	60,776	–	–	–	–	–	287,922	348,698
Amounts due from banks and other financial institutions	17,276	165,881	72,914	54,243	598	–	–	310,912
Loans and advances to customers (Note (ii))	6,243	67,897	189,493	518,576	346,239	385,038	8,186	1,521,672
Investments (Note (iii))	–	13,589	12,426	48,373	223,686	106,997	3,087	408,158
– at fair value through profit or loss	–	1,726	3,406	7,294	6,715	883	1,542	21,566
– available-for-sale	–	11,848	6,956	37,493	157,154	40,997	1,294	255,742
– held-to-maturity	–	5	1,575	3,038	52,038	63,495	–	120,151
– receivables	–	10	489	548	7,779	1,622	251	10,699
Other assets	5,717	5,085	3,314	3,063	419	897	35,270	53,765
Total assets	90,012	252,452	278,147	624,255	570,942	492,932	334,465	2,643,205
Amounts due to banks and other financial institutions	92,201	101,465	62,091	46,043	1,012	835	–	303,647
Deposits from customers (Note (iv))	1,163,111	227,933	245,673	365,224	81,575	9,242	–	2,092,758
Financial liabilities at fair value through profit or loss	–	83	83	1,899	1,041	36	1,555	4,697
Certificates of deposit issued	–	2,280	4,510	4,044	3,462	–	–	14,296
Subordinated notes issued	–	–	–	–	–	31,212	–	31,212
Other liabilities	28,070	10,403	2,459	7,453	1,565	802	411	51,163
Total liabilities	1,283,382	342,164	314,816	424,663	88,655	42,127	1,966	2,497,773
(Short)/long position	(1,193,370)	(89,712)	(36,669)	199,592	482,287	450,805	332,499	145,432

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE *(continued)*

	31 December 2010							
	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))	40,829	–	–	–	–	–	254,126	294,955
Amounts due from banks and other financial institutions	17,004	118,597	76,062	52,431	331	–	–	264,425
Loans and advances to customers (Note (ii))	4,542	57,078	171,276	459,743	347,666	355,713	6,142	1,402,160
Investments (Note (iii))	–	15,822	21,525	49,736	217,372	86,710	3,011	394,176
– at fair value through profit or loss	–	962	1,720	6,549	5,389	595	1,752	16,967
– available-for-sale	–	14,418	12,403	34,065	168,298	41,927	1,259	272,370
– held-to-maturity	–	442	6,288	7,536	41,854	41,494	–	97,614
– receivables	–	–	1,114	1,586	1,831	2,694	–	7,225
Other assets	4,316	1,651	2,026	3,717	332	921	33,828	46,791
Total assets	66,691	193,148	270,889	565,627	565,701	443,344	297,107	2,402,507
Amounts due to banks and other financial institutions	129,913	82,246	47,689	20,763	1,012	400	–	282,023
Deposits from customers (Note (iv))	1,079,065	248,560	193,508	314,421	60,049	1,575	–	1,897,178
Financial liabilities at fair value through profit or loss	–	85	268	466	498	36	1,821	3,174
Certificates of deposit issued	–	85	725	3,100	1,143	–	–	5,053
Subordinated notes issued	–	–	–	–	–	31,232	–	31,232
Other liabilities	21,691	18,312	2,464	3,632	1,475	777	1,490	49,841
Total liabilities	1,230,669	349,288	244,654	342,382	64,177	34,020	3,311	2,268,501
(Short)/long position	(1,163,978)	(156,140)	26,235	223,245	501,524	409,324	293,796	134,006

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.

(Expressed in millions of Renminbi unless otherwise stated)

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:

	2011	2010
Short-term loans	**5.35% to 6.31% p.a.**	4.86% to 5.81% p.a.
Medium to long-term loans	**5.85% to 6.80% p.a.**	5.40% to 6.40% p.a.
Saving deposits	**0.36% to 0.50% p.a.**	0.36% p.a.
Time deposits	**2.25% to 5.25% p.a.**	1.71% to 4.55% 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.

(b) Shareholders and their related companies

The Bank's largest shareholder CMG and its related companies hold 18.63% (2010: 18.58%) shares of the Bank as at 30 June 2011 (among them 12.40% shares is held by CMSNCL (2010: 12.40%)). The Group's transactions and balances with CMG and its related companies are disclosed as follows:

	Group and Bank	
	30 June 2011	31 December 2010
On balance sheet:		
Loans and advances	**4,512**	3,819
Investments	**1,027**	848
Deposits from customers	**23,925**	29,275
Off balance sheet:		
Irrevocable guarantees	**459**	440
Irrevocable letters of credit	**64**	60
Bills of acceptances	**72**	355

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

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

	Six months ended 30 June	
	2011	2010
Average balance of loans and advances	**2,118**	1,524
Interest income	**87**	170
Interest expense	**169**	461
Net fees and commission income	**127**	174

(c) Other entities served by directors and supervisors other than those under Note 35(b) above

	Group and Bank	
	30 June 2011	31 December 2010
On balance sheet:		
Loans and advances	**3,234**	2,786
Investments	**5,326**	5,729
Deposits from customers	**20,934**	21,875
Off balance sheet:		
Irrevocable guarantee	**2,206**	2,371
Irrevocable letters of credit	**27**	18
Bill of acceptances	**642**	1,061

	Six months ended 30 June	
	2011	2010
Average balance of loans and advances	**1,871**	1,472
Interest income	**150**	171
Interest expense	**86**	214
Net fees and commission income	**89**	59

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(d) Investment in associate and jointly controlled entities other than those under Note 35(b) above

	Group and Bank	
	30 June 2011	31 December 2010
On balance sheet:		
Loans and advances	**16**	16
Deposits from customers	**932**	1,313

	Six months ended 30 June	
	2011	2010
Average balance of loans and advances	**19**	17
Interest expense	**5**	8
Net fees and commission income	**60**	111

(e) Subsidiaries

	30 June 2011	31 December 2010
On balance sheet:		
– Loans and advances	**166**	170
– Deposits from customers	**209**	251
– Deposits with other banks	**952**	1,513
– Placements with other banks	**200**	399
– Deposits from banks	**3**	171
– Placements from banks	**169**	–
– Investments	**1,246**	1,272

	Six months ended 30 June	
	2011	2010
Interest income	**30**	21
Interest expense	**5**	2
Net fees and commission	**(5)**	1

(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 2011 and as at 31 December 2010, calculated based on PRC GAAP, were as follows:

	30 June 2011	31 December 2010
Core capital adequacy ratio	**7.81%**	8.04%
Capital adequacy ratio	**11.05%**	11.47%
Components of capital base		
Core capital:		
– Paid up ordinary share capital	**21,577**	21,577
– Reserves	**119,715**	106,402
Total core capital	**141,292**	127,979
Supplementary capital:		
– General provisions for doubtful debts	**24,968**	21,180
– Term subordinated bonds	**30,000**	30,000
– Other supplementary capital	**208**	–
Total supplementary capital	**55,176**	51,180
Total capital base before deductions	**196,468**	179,159
Deductions:		
– Goodwill	**9,598**	9,598
– Investment in commercial real estate	**1,833**	1,946
– Others	**1,473**	1,661
Total capital base after deductions	**183,564**	165,954
Risk weighted assets	**1,660,530**	1,446,883

(Expressed in millions of Renminbi unless otherwise stated)

(B) LIQUIDITY RATIOS

	30 June 2011	31 December 2010
Liquidity ratios		
RMB current assets to RMB current liabilities	**39.3%**	36.4%
Foreign currency current assets to foreign currency current liabilities	**80.8%**	71.9%

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.

	30 June 2011			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**30,335**	**1,224**	**91,525**	**123,084**
– of which attributed to Hong Kong	**22,351**	**1,133**	**80,948**	**104,432**
Europe	**10,359**	**18**	**688**	**11,065**
North and South America	**8,616**	**126**	**9,758**	**18,500**
	49,310	**1,368**	**101,971**	**152,649**

(Expressed in millions of Renminbi unless otherwise stated)

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

	31 December 2010			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	29,862	2,724	82,281	114,867
– of which attributed to Hong Kong	21,251	2,567	71,836	95,654
Europe	15,209	15	872	16,096
North and South America	10,577	337	9,302	20,216
	55,648	3,076	92,455	151,179

(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

	30 June 2011	31 December 2010
Headquarters	**2,211**	2,114
Yangtze River Delta region	**1,489**	1,496
Bohai Rim region	**695**	746
Pearl River Delta and West Coast region	**1,144**	1,203
Northeast region	**339**	356
Central region	**899**	734
Western region	**851**	1,039
Subsidiaries	**52**	76
Total	**7,680**	7,764

(Expressed in millions of Renminbi unless otherwise stated)

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

(ii) By overdue period

	30 June 2011	31 December 2010
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	**275**	482
– between 6 and 12 months	**732**	465
– over 12 months	**6,673**	6,817
Total	**7,680**	7,764
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.01%**	0.03%
– between 6 and 12 months	**0.05%**	0.03%
– over 12 months	**0.43%**	0.48%
Total	**0.49%**	0.54%

(iii) Collateral information

	30 June 2011	31 December 2010
Secured portion of overdue loans and advances	**1,053**	942
Unsecured portion of overdue loans and advances	**6,627**	6,822
Value of collaterals held against overdue loans and advances	**1,229**	957
Provision of overdue loans and advances for which impairment losses are individually assessed	**4,858**	5,148

(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

	30 June 2011	31 December 2010
Bohai Rim region	**4**	4
Yangtze River Delta region	**8**	3
	12	7

(ii) By overdue period

	30 June 2011	31 December 2010
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	**–**	–
– between 6 and 12 months	**6**	–
– over 12 months	**6**	7
Total	**12**	7
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**–**	–
Total	**–**	–

(E) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS *(continued)*

(iii) Collateral information

	30 June 2011	31 December 2010
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**12**	7
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**6**	7

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.

(Expressed in millions of Renminbi unless otherwise stated)

(F) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	30 June 2011	**% of total loans and advances**	31 December 2010	% of total loans and advances
Rescheduled loans and advances to customers	**1,532**	**0.10%**	1,531	0.11%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**764**	**0.05%**	892	0.06%
Rescheduled loans and advances overdue less than 90 days	**768**	**0.05%**	639	0.05%

The Group has MB1.44 million (2010: RMB2.83 million) rescheduled loans and advance to financial institutions as at 30 June 2011.

(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 2011 and 31 December 2010, 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.

(H) CURRENCY CONCENTRATIONS OTHER THAN RMB

	30 June 2011			
	US Dollars	**HK Dollars**	**Others**	**Total**
		(in millions of RMB)		
Non-structural position				
Spot assets	**134,924**	**66,750**	**24,000**	**225,674**
Spot liabilities	**(109,178)**	**(74,000)**	**(28,459)**	**(211,637)**
Forward purchases	**79,098**	**19,034**	**12,993**	**111,125**
Forward sales	**(94,306)**	**(3,561)**	**(9,104)**	**(106,971)**
Net option position	**(25)**	**(10)**	**35**	**–**
Net long position	**10,513**	**8,213**	**(535)**	**18,191**
Net structural position	**32**	**55,213**	**28**	**55,273**

	31 December 2010			
	US Dollars	HK Dollars	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	114,640	74,243	20,026	208,909
Spot liabilities	(87,943)	(82,687)	(29,578)	(200,208)
Forward purchases	67,686	15,117	18,105	100,908
Forward sales	(85,191)	(2,007)	(8,131)	(95,329)
Net option position	(153)	(17)	170	–
Net long position	9,039	4,649	592	14,280
Net structural position	46	49,748	11	49,805

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 and Capital Management 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.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, coordinates and monitors the work of other risk management functions, including the Corporate Banking Department and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate and institutional business, the Group formulated the credit policy baseline for credit approval, and enhanced the credit acceptance and exit policies. These policies with quota limit management have contributed to the improvement in asset quality.

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. Currently, the Group categorises its loans on a seven-grade loan classification basis (excellent, good, general mention, special mention, substandard, doubtful and loss). The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

(I) RISK MANAGEMENT *(continued)*

(i) Credit risk *(continued)*

The risks involved in credit-related 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 number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group formulated the quota limit management policy to analyse the loan portfolio.

Analyses of loans and advances by industry, customer type and nature are stated in Note 16.

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from the financial derivatives, the Group has signed netting agreements with certain counterparties.

(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 Board of Directors is ultimately responsible for monitoring market risk management. The Executive office of the President is authorised by the Board of Directors to make market risk management decisions. The Planning and Finance Department, tasked with the market risk management function, centrally manages the Group's market risk. As an independent model verification department, the Office for the Implementation of Basel II Capital Accord continues to verify market risk measurement models while the Audit Department regularly conducts market risk management audit.

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, it also regularly conducts stress tests as supplement to the above measurement indicators.

(I) RISK MANAGEMENT *(continued)*

(ii) Market risk *(continued)*

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.

By adhering to its sound and prudent market risk management principle, the Group takes its market risk within the limit set by its Board of Directors. Engagement in new businesses for which risk is hard to quantify and assess as well as businesses in risky areas such as in emerging countries and emergent markets are stringently controlled. As a result, market risk is kept within a tolerable level.

In the first half of 2011, volatility was seen in the RMB and foreign currency markets. Domestically, PBOC raised interest rates twice and the statutory deposit reserve ratio six times as it increasingly tightened monetary policies amid high inflation. Tightened policies resulted in a serious shortage of RMB funds which in turn drove up overall money market interest rates; several sharp surges occurred. Meanwhile, volatility in the RMB debt market significantly increased. The overall flattened yield curve moved upward and the debt market fell noticeably. Internationally, unforeseen events including wars and disturbances in the Middle East and North Africa, the Japanese earthquake and increased American debt ceiling had significant impact on the global financial market. The Eurozone debt crisis remained the biggest problem looming in the market. Despite the European Central Bank's rescue efforts, the crisis had spread rather extensively in the first half of 2011. The systematic risk in the European markets remains unabated in the long term. Against the backdrop of a complex financial situation, global risk-averse funds flew in and out, further exacerbating the market's volatility. RMB continued to appreciate in the first six months.

The Group carefully studied the year's macroeconomy, monetary policies, market liquidity and CPI movements at home and abroad and formulated its investment strategies accordingly. The Group's investment portfolios mainly comprised debt securities issued by the Chinese government, central bank and policy banks, as well as large Chinese enterprises and commercial banks with high credit ratings.

(iii) Currency risk

Foreign currency risk is the net position of foreign exchange and foreign derivatives, the changes in the foreign currency rate that have an adverse effect on the Group's profit. The Group's functional currency is RMB. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar. The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities. Through stringently control the currency position, to keep the foreign currency risk within a tolerable level.

The Group mainly uses the foreign exchange exposure analysis, scenario simulation analysis, stress testing and VAR methods to measure and analyse foreign currency risk. Based on the trend of foreign exchange movements, the Group adjusts its foreign exchange exposure to mitigate foreign currency risk.

In the first half of 2011, the Group refined the methods and tools for measuring exchange rate risk and strengthened its control over foreign exchange exposure and its adjustment of the structure of assets and liabilities denominated in foreign currencies. The Group achieved milestones in consolidated financial statement management of its exchange rate risk, with Wing Lung Bank's exchange rate risk included in its consolidated statements.

In the first half of 2011, the central parity of Renminbi (RMB) against the US dollar rose over 2%. The Group used various measures to control exchange losses within an acceptable range.

(I) RISK MANAGEMENT *(continued)*

(iv) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss on the overall income and economic value of bank accounts. 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 overall objective of the Group's interest rate risk management is to meet sound risk preference and achieve steady growth in net interest income and economic value within the tolerance level of interest rate risk.

The Group primarily adopts scenario simulation analysis, re-pricing gap analysis, duration analysis and stress testing methods to measure and analyse interest rate risk. Under its limit framework, it monitors and reports interest rate risk on a monthly basis. The Group strengthens its treasury operation mechanism by setting rules for regular meetings, adjusting work procedures, and specifying roles and responsibilities. Such a mechanism enables the Group to effectively analyse the causes of interest rate risk, and propose and implement control measures, and also uses interest rate swaps and other derivatives to manage interest rate risk.

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’s monetary assets and liabilities are mainly in RMB.

In the first half of 2011, the Group continued to manage its interest rate risk proactively by adopting a forward-looking approach. It improved the interest rate risk limits, as well as specified and implemented management strategies including the adjustment of durations of loan and debt investment on the balance sheet and the hedging of risk off the balance sheet. On the balance sheet, a synergetic integration of interest rate risk management with FTP and product pricing was achieved, and the business structure and interest rate risk characteristics of assets were also adjusted. Off the balance sheet, it further hedged risks on a larger scale.

In the first half of 2011, the Group achieved milestones in consolidated financial statement management of its interest rate risk, with Wing Lung Bank’s interest rate risk included in its consolidated statements.

In the first half of 2011, PBOC twice raised the benchmark interest rates for deposits and loans in Renminbi, increasing the benchmark interest rate of one-year fixed-term deposits by 50bps in total. In light of the characteristics of the Group’s interest rate risk, higher benchmark interest rates for deposits and loans may have a greater positive impact on the net interest income of the Group. With a view towards long-term development, the Group will further enhance its interest rate risk management and achieve stable growth in both net interest income and economic value.

(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 Planning and Finance Department 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. The Group closely monitors its daily liquidity position and coverage ratio indicators, as well as monthly liquidity ratios and liquidity gap ratios. Stress tests are also used to judge whether the Group is able to meet liquidity requirements under extreme circumstances. Moreover, the Group has in place liquidity risk warning systems and liquidity contingency plans to guard against any liquidity crises.

The majority of the Group’s assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. 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.

In the first half of 2011, the Group refined its risk limits to strengthen its liquidity risk management system. This laid a solid basis for further improving its management standards in this regard.

(I) RISK MANAGEMENT *(continued)*

(v) Liquidity risk *(continued)*

The Group achieved milestones in consolidated financial statement management of its liquidity risk, with Wing Lung Bank's liquidity risk included in its consolidated statements.

In the first half of 2011, China's tightened monetary policies resulted in increasingly squeezed liquidity in the market. Accordingly, the Group adopted a series of measures to actively manage liquidity risk and ensure RMB and foreign currency liquidity. Specifically, the measures include in-depth analyses of policy and market trends, control of asset size, active assumption of managed liabilities, and the optimisation of asset and liability allocation. The measures strengthened real-time control over liquidity for an accurate understanding of market trends, enhanced financing strength, and improved scenarios and methods of stress tests to strengthen the Group's ability in coping with extreme liquidity crunch.

In the first half of 2011, PBOC raised the statutory deposit reserve ratio six times. As at the end of June 2011, 19.5% (2010: 16.5%) and 5% (2010: 5%) of eligible RMB and foreign currency deposits respectively were deposited with PBOC as required.

(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.

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 or ordinary shares, capital reserve, surplus reserve, retained earnings, and after the deductions of dividends declared after the end of the reporting period, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions, long-term subordinated bonds, 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. 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.