



# 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: 3968)**

## 2007 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Merchants Bank Co., Ltd. is pleased to announce the interim results of the Company and its subsidiaries for the six months period ended 30 June 2007, which have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board, of the Company and its subsidiaries (hereinafter called "the Company", "the Bank" or "the Group") for the six-month period ended 30 June 2007. The Board of Directors of the Company and the Audit and Related Party Transactions Control Committee under the Board of Directors have reviewed and approved the interim results. The interim financial report is unaudited, but has been reviewed by KPMG. Unless otherwise specified, all monetary sums stated in the interim results announcement are expressed in RMB.

### 1. FINANCIAL HIGHLIGHTS

#### Operating Results

	<b>Jan-Jun 2007</b>	<b>Jan-Jun 2006</b>	<b>Compared with corresponding period of the previous year</b>
	<i>(In millions of RMB)</i>		<i>+ / (-) %</i>
Operating income	<b>17,554</b>	10,941	60.44
Profit before tax	<b>9,007</b>	4,395	104.94
Net profit attributable to the Bank's equity holders	<b>6,120</b>	2,777	120.38

#### Per share

	<b>Jan-Jun 2007</b>	<b>Jan-Jun 2006</b>	<b>Compared with corresponding period of the previous year</b>
	<i>(in RMB)</i>		<i>+ / (-) %</i>
Basis earnings	<b>0.42</b>	0.23	82.61
Diluted earnings	<b>0.42</b>	0.23	82.61
Net assets value at the end of the reporting period	<b>4.03</b>	2.67	50.94

**Financial position**

	<b>30 June 2007</b>	<b>31 December 2006</b>	<b>30 June 2006</b>	<b>At 30 June 2007 compared with the beginning of the year +/(-)%</b>
		<i>(In millions of RMB)</i>		
Total assets	<b>1,108,776</b>	934,102	824,316	18.70
of which: gross loans and advances to customers	<b>629,553</b>	565,702	531,577	11.29
Total liabilities	<b>1,049,540</b>	878,942	791,573	19.41
of which: deposits from customers	<b>844,571</b>	773,757	703,602	9.15
Total shareholders' equity	<b>59,236</b>	55,160	32,743	7.39

**Financial Ratios**

	30 June 2007	31 December 2006 (%)	30 June 2006	At 30 June 2007 compared with the beginning of the year +/(-) %
<b>Profitability ratios<sup>(1)</sup></b>				
Return on average assets (after tax)	1.20	0.81	0.71	0.39
Return on average equity (after tax)	21.40	16.74	18.91	4.66
Net interest spread	2.85	2.69	2.53	0.16
Net interest margin	2.96	2.72	2.56	0.24
Percentage of operating income to				
– Net interest income	83.72	86.50	86.17	(2.78)
– Net non-interest income	16.28	13.50	13.83	2.78
Cost-to-income ratio <sup>(2)</sup>	33.70	38.28	37.91	(4.58)
<b>Capital adequacy ratio</b>				
Core capital adequacy ratio	9.23	9.58	6.44	(0.35)
Capital adequacy ratio	10.98	11.40	8.36	(0.42)
Total equity to total assets	5.34	5.91	3.97	(0.57)
<b>Asset quality ratios</b>				
Non-performing loan ratio	1.66	2.12	2.30	(0.46)
Allowances for impairment losses to non-performing loans	169.97	135.61	123.20	34.36
Allowances for impairment losses to total loans and advances to customers	2.81	2.88	2.83	(0.07)

Notes:

(1) The ratios are annualized.

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

## **2. REPORT OF THE BOARD OF DIRECTORS**

### **2.1 General Operating Status**

During the six-month period ended 30 June 2007, the various businesses of the Company were going well, with rapid growth in profit and continuous improvement in profitability and assets quality. Meanwhile, as a result of the increased efforts in structural adjustment, the business structure, revenue structure and customer structure became more well-defined, while the overall operating activities displayed a good momentum of development, which were specifically reflected in the following aspects:

- I. Rapid growth in profit. During the six-month period ended 30 June 2007, net profit was RMB6,120 million, an increase of RMB3,343 million or 120.38% compared to the corresponding period of previous year; net interest income was RMB14,696 million, an increase of RMB5,268 million or 55.88% compared to the corresponding period of previous year; and net non-interest income was RMB2,858 million, an increase of RMB1,345 million or 88.90% compared to corresponding period of the previous year. The substantial increase in profit was due to (1) expanding business size and operating scale, assets structure adjustment and widening interest spread; (2) continuous rapid growth in net non-interest income; (3) effective cost control resulting in improving productivity; (4) consistently improved assets quality; and (5) effective income tax rate decreased due to increase in deductible salary expenses and the increase in proportion of assessable income derived from regions where subject to lower tax rates.
- II. Rapid and balanced growth of all businesses. As at 30 June 2007, total assets were RMB1,108,776 million, an increase of RMB174,674 million or 18.70% compared to the beginning of the year; gross loans and advances to customers were RMB629,553 million, an increase of RMB63,851 million or 11.29% compared to the beginning of the year; total deposits to customers were RMB844,571 million, an increase of RMB70,814 million or 9.15% compared to the beginning of the year, of which the balance of deposits from corporate customers was RMB527,279 million, an increase of RMB65,481 million compared to the beginning of the year, up 14.18%, while the balance of deposits from retail customers was RMB317,292 million, an increase of RMB5,333 million compared to the beginning of the year, up by 1.71%.
- III. Continuous improvement in income structure of businesses. During the six-month period ended 30 June 2007, net non-interest income accounted for 16.28% of total income, an increase of 2.78 percentage points compared to the end of last year, of which net fee income accounted for 15.18%, an increase of 5.07 percentage points compared to the end of last year; loans and advances to retail customers accounted for 21.82% of the loans and advances to customers, an increase of 3.79 percentage points as compared with the beginning of the year; loans and advances to small and medium-sized enterprise customers accounted for 41.41% of corporate loans, up by 2.23 percentage points compared to the beginning of the year.

- IV. Consistently improved assets quality. As at 30 June 2007, the balance of non-performing loan was RMB10,421 million, a decrease of RMB1,585 million compared to the beginning of the year; non-performing loan ratio was 1.66%, a decrease of 0.46 percentage point compared to the beginning of the year; recovery of non-performing loans was satisfactory with an amount of RMB1,799 million collected in the first half of the year.
- V. Further enhanced brand image. During the reporting period, the Bank was awarded and continued to be awarded more than 30 honours, including “The Best Bank in China”, “The Best Retail Bank in China”, “The Best Domestic Cash Management Bank in China”, “The Most Respected Enterprise of China”, “The Enterprise with Most Development Potential Award”, “2006 Best Employer Award by CCTV”, “China’s Best Call Center of Year 2007”, “My Favorite Top 10 HK Listed Companies in 2006”, “The First of Top 100 Valuable Listed Companies in China in 2006” etc.

## 2.2 Financial Highlights

### 2.2.1 Analysis of Income Statement

#### (1) Financial results highlights

	Jan-Jun 2007	Jan-Jun 2006
	<i>(In millions of RMB)</i>	
Net interest income	<b>14,696</b>	9,428
Net fee and commission income	<b>2,664</b>	1,124
Other net income	<b>194</b>	389
Operating expenses	<b>6,968</b>	4,848
Provision for impairment losses	<b>1,579</b>	1,698
Profit before tax	<b>9,007</b>	4,395
Net profit attributable to equity holders of the Bank	<b>6,120</b>	2,777

During the six-month period ended 30 June 2007, net profit attributable to the equity holders of the Bank was RMB6,120 million, an increase of 120.38% compared to that of the corresponding period of 2006. Earnings per share was RMB0.42, an increase of 82.61% compared to that of the corresponding period of 2006.

#### (2) Operating income

During the six-month period ended 30 June 2007, the operating income of the Company reached RMB17,554 million, an increase of 60.44% compared to that of the corresponding period of 2006. It was mainly due to expansion of the Company’s assets size, assets structure adjustment, the substantial increase in net interest income and, fee and commission income with a macro environment of rising interest rate and active investment activities. Net interest income and fee and commission income accounted for 79.66% and 23.29% respectively of the increased operating income. The proportion of non-interest income to operating income continued to increase to 16.28%.

(3) *Net interest income*

During the six-month period ended 30 June 2007, the net interest income of the Company was RMB14,696 million, an increase of 55.88% compared to that of the corresponding period of 2006. It was primarily attributable to the increase in scale of and return on interest-earning assets.

The following table sets out, for the period indicated, the average balances of assets and liabilities, interest income/interest expenses and average yield/cost of the Company. The average balances of interest-earning assets and interest-bearing liabilities were calculated on daily basis.

	30 June 2007			31 December 2006			30 June 2006		
	(In millions of RMB, excluding percentages)								
	Average balance	Interest income/expense	Average yield/cost per annum %	Average balance	Interest income/expense	Average yield/cost %	Average balance	Interest income/expense	Average yield/cost per annum %
<b>Assets</b>									
Loans and advances to customers	619,004	17,002	5.54	526,122	26,891	5.11	506,788	12,213	4.86
Debt investments	182,820	2,967	3.27	124,520	3,919	3.15	116,565	1,755	3.04
Balances with central bank	91,843	731	1.61	66,431	1,044	1.57	61,348	480	1.58
Balances and placements with banks and other financial institutions	107,715	1,584	2.97	74,103	2,136	2.88	57,623	822	2.88
Interest-earning assets and total interest income	1,001,382	22,284	4.49	791,176	33,990	4.30	742,324	15,270	4.15
<b>Liability</b>									
Deposits from customers	776,798	5,798	1.51	694,702	10,449	1.50	657,446	4,963	1.52
Amounts due to banks and other financial institutions	143,295	1,557	2.19	65,205	1,551	2.38	52,749	635	2.43
Issued debts	14,606	233	3.22	15,528	481	3.10	15,102	244	3.26
Interest-bearing liabilities and total interest expense	934,699	7,588	1.64	775,435	12,481	1.61	725,297	5,842	1.62
<b>Net interest income</b>		14,696			21,509			9,428	
<b>Net interest spread<sup>(1)</sup></b>			2.85			2.69			2.53
<b>Net interest margin<sup>(2)</sup></b>			2.96			2.72			2.56

*Notes:*

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

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

(4) *Interest income*

Interest income from loans and advances to customers still accounted for the majority of the interest income of the Company. For the six-month period ended 30 June 2007, the interest income of the Company amounted to RMB22,284 million, representing an increase of 45.93% compared to the corresponding period of the previous year, which was primarily attributable to the increase in average balance and average yield of loans and advances to customers, debt investments and placements with banks and other financial institutions.

Interest income from loans and advances to customers

The following table sets out, for the period indicated, the average balances, interest income and average yield of respective types of loans and advances to customers of the Company.

	Jan-Jun 2007			Jan-Jun 2006		
	Average	Interest	Average	Average	Interest	Average
	balance	income	yield per	balance	income	yield per
	(in millions of RMB, excluding percentages)					
Corporate loans	392,655	11,487	5.90%	316,439	8,585	5.47%
Retail loans	117,314	3,517	6.05%	77,972	2,244	5.80%
Discounted bills	109,035	1,998	3.70%	112,377	1,384	2.48%
<b>Loans and advances to customers</b>	<b>619,004</b>	<b>17,002</b>	<b>5.54%</b>	<b>506,788</b>	<b>12,213</b>	<b>4.86%</b>

*Note:* The above average balances were averages of daily balances.

During the six-month period ended 30 June 2007, the interest income from loans and advances to customers of the Company increased by 39.21%, compared to the corresponding period of the previous year. The increase in interest income is primarily caused by the following factors: (1) Rapid economic growth in China, resulting in rapid development of corporate loans, mortgages and credit card businesses. The average balance of corporate loans and retail loans increased by 24.09% and 50.46% respectively, and the increasing average balances of loans and advances to customers accounted for 56.46% of the total increase in interest income. (2) The continuous rise of RMB benchmark rates and US dollar interest rate, resulting in a rise in average yield of both loans and retail loans. (3) With the persistent high interest rate in the bills market since the second half of 2006, the average yield of discounted bills for the first half of 2007 was going up by 122 BP compared with the corresponding period of the previous year.

## Interest income from debt investments

Interest income from debt investments was the second largest component of interest income of the Company. Interest income from debt investments during the six-month period ended 30 June 2007 increased by 69.06% compared to the corresponding period of the previous year. It was primarily attributable to the rapid increase in the daily average balances of the investments of RMB182,820 million, an increase of 56.84% compared to the corresponding period of the previous year, this factor accounted for 82.34% of the return on investments. On the other hand, with the significant rise in market interest rate, there was a great rise in the yield of investments to 3.27% in the first half of 2007, up by 23 BP, from 3.04% in the first half of 2006. The contribution from yield accounted for 17.66% of the return on investments.

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

During the six-month period ended 30 June 2007, the interest income from balances and placements with banks and other financial institutions increased by 92.70% compared to the corresponding period of the previous year. It was primarily attributable to the increase in the daily average balance for deposits and placements with banks and other financial institutions to RMB107,715 million, representing an increase of 86.93% compared to the corresponding period of the previous year.

### (5) *Interest expense*

During the six-month period ended 30 June 2007, the interest expense of the Company increased by 29.89% compared to the corresponding period of the previous year. It was primarily attributable to the increase in average balance of deposits from customers and amounts due to banks and other financial institutions and the increase in average cost.

## Interest expense on deposits from customers

Deposits from customers are the major funding source of the Company. During the six-month period ended 30 June 2007, the Company's interest expense on deposits from customers increased by 16.82% compared to the corresponding period of the previous year. It was primarily due to the daily average balance of deposits from customers of RMB776,798 million, representing an increase of 18.15% compared to the corresponding period of the previous year.



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

	Jan-Jun 2007			Jan-Jun 2006		
	(in millions of RMB, excluding percentages)					
	Average balance	Interest expense	Average cost per annum (%)	Average balance	Interest expense	Average cost per annum (%)
Deposits from corporate customers	475,893	3,747	1.59%	381,142	2,948	1.56%
Demand	263,496	1,250	0.96%	221,051	995	0.91%
Time	212,397	2,497	2.37%	160,091	1,953	2.46%
Deposits from retail customers	300,905	2,051	1.37%	276,304	2,015	1.47%
Demand	158,810	582	0.74%	123,863	453	0.74%
Time	142,095	1,469	2.08%	152,441	1,562	2.07%
Total deposits from customers	776,798	5,798	1.51%	657,446	4,963	1.52%

*Note:* The above average balances were averages of daily balances.

#### Interest expense on amounts due to banks and other financial institutions

During the six-month period ended 30 June 2007, interest expenses on amounts due to banks and other financial institutions increased by 145.20% compared to the corresponding period of the previous year. It was primarily attributable to the increase in placements from banks and other financial institutions.

#### (6) Net interest spread and net interest margin

During the six-month period ended 30 June 2007, the net interest spread of the Company was 2.85%, up by 32BP compared to the corresponding period of 2006, of which the average interest margin of the interest-earning assets of the Company increased from 4.15% in the first half of 2006 to 4.49% in the first half of 2007, up by 34BP; and the average cost of the interest-bearing liabilities increased from 1.62% in the first half of 2006 to 1.64% in the first half of 2007, up by 2BP.

During the six-month period ended 30 June 2007, the net interest margin of the Company was 2.96%, up by 24BP and 40BP respectively compared to the year of 2006 and the first half of 2006. Such an increase was primarily due to (1) the rise in proportion of demand deposits to the total deposits from customers from 52.95% at the end of 2006 to 56.80% at the end of the reporting period. PBOC has raised the benchmark interest rates for loans and advances and the time deposits several times since the second half of 2006, this resulted in narrowing the one-year interest spread between deposits and loans, however, the Company's deposits from customers were mainly demand deposits, and their benchmark rate remained unchanged for the first half of 2007, therefore there was an increase in the net interest spread; (2) The



Company has made appropriate adjustments to the structure of loans and advances to customers by reducing the proportion of discounted bills with relatively low yield, from 18.36% at the end of 2006 to 11.55% at the end of the reporting period. The net interest income for the first half of 2007 has increased by 55.88% compared to the corresponding period of the previous year, higher than the growth rate of 34.90% of the total interest-earning assets.

(7) *Net fee and commission income*

The Company persistently implemented a strategy of optimizing the income structure. With an active Chinese capital market, the Company recorded a net fee and commission income of RMB2,664 million during the six-month period ended 30 June 2007, representing a substantial increase of 137.01% compared to the corresponding period of the previous year and exceeded the overall level of the whole year of 2006. Such an increase was primarily due to the increase in the trust services fees, agency services fees and bank card fees.

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

	<b>Jan-Jun 2007</b>	<b>Jan-Jun 2006</b>
	<i>(In millions of RMB)</i>	
<b>Fee and commission income</b>	<b>3,012</b>	1,322
Bank card fees	<b>776</b>	422
Remittance and settlement fees	<b>375</b>	280
Agency services fees	<b>662</b>	268
Commissions from credit commitment and loan business	<b>193</b>	132
Trust services fees	<b>797</b>	78
Others	<b>209</b>	142
<b>Fee and commission expense</b>	<b>(348)</b>	(198)
<b>Net fee and commission income</b>	<b><u>2,664</u></b>	<b><u>1,124</u></b>

During the six-month period ended 30 June 2007, the bank card fee income increased by 83.89% compared to the corresponding period of the previous year. It was primarily due to increased issuance and transaction volume of our bank cards, especially credit cards. Included in the fee income was POS fee income of RMB390 million, representing an increase of 61.5% compared to the corresponding period of the previous year; income from credit card cash advance and installment payment business was RMB330 million, representing an increase of 136.4% compared to the corresponding period of the previous year.

During the six-month period ended 30 June 2007, income from remittance and settlement services increased by 33.93% compared to the corresponding period of the previous year, while commissions from credit commitment and loan business increased by 46.21% compared to the corresponding period of

the previous year, which was primarily attributable to gradual expansion of the business scale and customer base, resulting in increased remittance and settlement transactions.

During the six-month period ended 30 June 2007, income from trust services increased by 921.79% compared to the corresponding period of the previous year. The income from agency services increased by 147.01% compared to the corresponding period of the previous year. Given the on-going active stock market in China, the Company stepped up the marketing of its agency services for funds, stocks, insurance and wealth management distribution businesses, resulting in significant growth in the income from the respective businesses. Fees income from distribution of funds and stocks was RMB1.12 billion, representing an increase of 687.37% compared to the corresponding period of the previous year.

During the six-month period ended 30 June 2007, fee and commission expense increased by 75.76% compared to the corresponding period of the previous year. The increase was primarily attributable to rapid growth of credit cards issuance and the corresponding credit card fees expense. There also recorded an increase in expense on credit card services. Commissions on ATM cross-bank withdrawals also recorded an increase.

(8) *Other net income*

During the six-month period ended 30 June 2007, other net income of the Company decreased by 50.13% compared to the corresponding period of the previous year. It was primarily due to decreased net gain arising from foreign currency dealing, securities, derivatives and other transactions. Other net income accounted for 1.11% of the operating income.

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

	<b>Jan-Jun 2007</b>	<b>Jan-Jun 2006</b>
	<i>(In millions of RMB)</i>	
Trading profits arising from foreign exchange	<b>18</b>	258
Trading profits arising from securities, derivatives and other trading activities	<b>71</b>	127
Net gain/(loss) on financial instruments at fair value through profit or loss	<b>30</b>	(1)
Net gain/(loss) on disposal of available-for-sale financial assets	<b>9</b>	(26)
Rental income	<b>23</b>	26
Others	<b>43</b>	5
	<hr/>	<hr/>
<b>Total other net income</b>	<b><u>194</u></b>	<b><u>389</u></b>

During the six-month period ended 30 June 2007, trading profits arising from foreign exchange decreased by 93.02% compared to the corresponding period of the previous year, primarily due to increased net loss on foreign currency translation as a result of RMB appreciation.

During the six-month period ended 30 June 2007, trading profits arising from securities, derivatives and other trading activities decreased by 44.09% compared to the corresponding period of the previous year, primarily attributable to decreased fair value of trading bonds and derivatives as a result of the rise in interest rate.

(9) *Operating expenses*

During the six-month period ended 30 June 2007, the operating expenses were RMB6,968 million, representing an increase of 43.73% compared to the corresponding period of the previous year. The increase in operating expenses was 16.71 percentage points lower than the increase in operating income, reflecting that there was an increase in efficiency. During the six-month period ended 30 June 2007, the cost-to-income ratio was 33.70%, decreased by 4.21 percentage points compared to the corresponding period of the previous year, which was primarily attributable to robust growth of the operating income of the Company.

The following table sets forth, for the period indicated, the principal components of the operating expenses of the Company.

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>(in millions of RMB)</i>	
Staff costs	<b>3,501</b>	2,290
Business tax and surcharges	<b>1,052</b>	700
Depreciation of fixed assets	<b>492</b>	439
Rental expenses	<b>486</b>	391
Other general and administrative expenses	<b>1,437</b>	1,028
<b>Total operating expenses</b>	<b><u>6,968</u></b>	<b><u>4,848</u></b>

Staff costs constituted the majority of the operating expenses of the Company. During the six-month period ended 30 June 2007, staff costs increased by 52.88% compared to the corresponding period of the previous year, primarily due to increased headcounts and performance-based bonuses. Depreciation of fixed assets increased by 12.07%, primarily due to increased capital expenditure on fixed assets including electronic equipment. Rental expenses increased by 24.30%, primarily due to increase in new branches and offices. Other general and administrative expenses increased by 39.79%, due to the continuous business development. Business tax and surcharges increased by 50.29%, which was due to the increase in taxable income of the Company.

## 2.2.2 Analysis of balance sheet

### Assets

As at 30 June 2007, the total assets of the Company were RMB1,108,776 million, representing an increase of 18.70% compared to the beginning of the year. The increase in total assets was primarily due to the increase in loans and advances to customers, securities investment and other financial assets, and placements with banks and financial institutions, the three major components of the Company's asset portfolio. The increase in these types of assets accounted for approximately 69.74% of the increase in total assets portfolio. In addition, affected by the upward adjustment of deposit reserve rate by central bank and the surplus funds in the market, there was a remarkably increase in balances with central bank.

In the first half of 2007, the Company exercised stringent control on the growth of loans and increased efforts to diversify the assets, in response to the macro-control policies of the State and the requests of loan control by the People's Bank of China ("PBOC") and the China Banking Regulatory Commission ("CBRC"). Meanwhile, to enhance the efficiency in fund use, the Company increased placements with other well-established banks and financial institutions, resulting in a significant increase in placements with banks and other financial institutions.

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

	30 June 2007		31 December 2006	
	<i>(in millions of RMB, excluding percentages)</i>			
	Percentage		Percentage	
	Amount	of total (%)	Amount	of total (%)
Gross loans and advances to customers	629,553	56.78	565,702	60.56
Allowances for impairment losses on loans and advances	(17,713)	(1.60)	(16,282)	(1.74)
Net loans and advances to customers	611,840	55.18	549,420	58.82
Investment securities and other financial assets	203,419	18.35	178,885	19.15
Balances with central bank	135,461	12.22	82,372	8.82
Cash and balances with banks and other financial institutions	17,962	1.62	20,861	2.23
Placement with banks and other financial institutions	123,033	11.09	88,171	9.44
Other assets	17,061	1.54	14,393	1.54
<b>Total assets</b>	<b>1,108,776</b>	<b>100.00</b>	<b>934,102</b>	<b>100.00</b>

(1) Loans and advances to customers

As at 30 June 2007, total loans and advances to customers amounted to RMB629,553 million, representing an increase of 11.29% compared to the previous year end; the percentage of total loans and advances to customers to the total assets was 56.78%, representing a decrease of 3.78 percentage points compared to the previous year end.

Distribution of loans by product type

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

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(in millions of RMB, excluding percentages)</i>			
Corporate loans	419,477	66.63	359,883	63.62
Discounted bills	72,732	11.55	103,836	18.35
Retail loans	137,344	21.82	101,983	18.03
<b>Total loans and advances to customers</b>	<b>629,553</b>	<b>100.00</b>	<b>565,702</b>	<b>100.00</b>

Corporate loans

As at 30 June 2007, our corporate loans amounted to RMB419,477 million, an increase of 16.56% compared to the previous year end, The percentage of corporate loans to the total loans and advances to customers was 66.63%. The increase in corporate loans was a result of the rapid economic development of China which led to bigger demand for corporate loans. As at 30 June 2007, the corporate loans of the Company were mainly granted to customers engaged in the manufacturing and processing, transportation, storage and postal services, wholesale and retail industry. The total loans to all the above three industries amounted to RMB246,996 million, accounting for 58.88% of the total loans and advances of the Company. During the first half of 2007, in order to optimize the structure of loans and advances, the Company intensified the efforts to provide loans to small and medium-sized enterprises and trade finance loans, apart from the loans and advances to the above key industries.

## Discounted bills

As at 31 December 2006, our discounted bills amounted to RMB72,732 million, a decrease of 29.95% compared to the previous year end. Over the years, as the loss rate of discounted bills was relatively low, and the capital consumption was relatively small, the Company had continued to focus on the expansion of this business. In the first half of 2007, in view of the increased fluctuations of market interest rates with the intensive loan control, the Company adjusted its strategy on discounted bills business. On the one hand, the Company improved the return on discounted bills by speeding up their turnover, while on the other hand the Company effectively met the State's requirement of loan control through rediscounting bills. As at 30 June 2007, the percentage of discounted bill to the total loans and advances to customers was 11.55%, decreased slightly compared to the previous year end.

## Retail loans

As at 30 June 2007, our retail loans amounted to RMB137,344 million, an increase of 34.67% compared to the previous year end. The increase was primarily due to continued growth of residential mortgage loans and rapid development of credit card business. In recent years, the Company continued to develop retail loans business, with an increasing percentage of retail loans to loan portfolio. As at 30 June 2007, the percentage of retail loans to loans and advances to customers was 21.82%, representing an increase of 3.79 percentage points compared to the previous year end.

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

	30 June 2007		31 December 2006	
	<i>(in millions of RMB, excluding percentages)</i>			
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Credit card receivable balances	14,149	10.30	10,146	9.95
Residential mortgage loans	106,445	77.50	81,383	79.80
Others <sup>(Note)</sup>	16,750	12.20	10,454	10.25
<b>Total retail loans</b>	<b>137,344</b>	<b>100.00</b>	<b>101,983</b>	<b>100.00</b>

*Note:*

*"Others" consists primarily of retail loans secured by monetary assets, automobile loans, home improvement loans, education loans and general consumption loans.*

As at 30 June 2007, our credit card receivable balances increased by 39.45% compared to the previous year end. The relatively fast increase was primarily due to the rapid growth of the credit card business of the Company; our residential mortgage loans increased by 30.80% compared to the previous year end, primarily due to the continued efforts made by the Company to expand the business of residential mortgage loans. The residential mortgage loans kept growing rapidly.

(2) Investment securities and other financial assets

The following table sets forth, as at the dates indicated, the components of the investment portfolio of the Company.

	<b>30 June 2007</b>		<b>31 December 2006</b>	
	<i>(in millions of RMB, excluding percentages)</i>			
	<b>Percentage</b>		<b>Percentage</b>	
	<b>Amount</b>	<b>of total (%)</b>	<b>Amount</b>	<b>of total (%)</b>
Investment securities and other financial assets	<b>203,419</b>	<b>100.00</b>	178,885	100.00
Financial assets at fair value through profit or loss	<b>9,588</b>	<b>4.71</b>	7,960	4.45
Available-for-sale investments	<b>125,877</b>	<b>61.88</b>	109,476	61.20
Held-to-maturity debt securities	<b>57,327</b>	<b>28.18</b>	54,065	30.22
Investment receivables	<b>10,627</b>	<b>5.23</b>	7,384	4.13

As at 30 June 2007, the Company's financial assets at fair value through profit or loss were stable, increasing by RMB1,628 million compared to the beginning of the year. The Company's available-for-sale investments increased by 14.98% compared to the beginning of the year, accounting for 61.88% of the Company's investment securities and other financial assets, and constituting the largest component of the Company's investments. The increase in available-for-sale investments was mainly supported by the abundant liquidity sourced from deposits from customers; the held-to-maturity debt securities of the Company increased by 6.03% compared to the beginning of the year, primarily due to the steady growth of the Company's core deposits business.

As at 30 June 2007, the Company's investment in securities backed by subprime mortgages in the USA was nil and accordingly there was no impact on the Company's operating results.

*Liabilities*

As at 30 June 2007, the total liabilities of the Company amounted to RMB1,049,540 million, an increase of 19.41% compared to the previous year end. Total deposits from customers were RMB844,571 million, representing 80.47% of the total liabilities of the Company. During the first half of 2007, there was a rapid growth of the Company's deposits from customers and deposits from banks and other financial institutions were the major source of funding for the Company's expanding assets size.



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

	As at 30 June 2007		As at 31 December 2006	
	<i>(in millions of RMB, excluding percentages)</i>			
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Deposits from customers	844,571	80.47	773,757	88.03
Deposits from banks and other financial institutions	160,297	15.27	68,854	7.83
Placements from banks and other financial institutions	8,360	0.80	7,749	0.88
Certificates of deposit issued	–	–	1,170	0.14
Convertible bonds issued	20	0.00	22	0.00
Subordinated notes issued	3,500	0.34	3,500	0.40
Other debts issued	9,989	0.95	9,987	1.14
Other liabilities	22,803	2.17	13,903	1.58
<b>Total liabilities</b>	<b>1,049,540</b>	<b>100.00</b>	<b>878,942</b>	<b>100.00</b>

(1) Deposits from customers

The Company provides demand and time deposit products to corporate and retail customers. The following table sets forth, as at the dates indicated, the deposits from customers by product type and customer type.

	As at 30 June 2007		As at 31 December 2006	
	<i>(in millions of RMB, excluding percentages)</i>			
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
<b>Corporate deposits</b>	<b>527,279</b>	<b>62.43</b>	461,798	59.68
Demand	306,770	36.32	257,235	33.24
Time	220,509	26.11	204,563	26.44
<b>Retail deposits</b>	<b>317,292</b>	<b>37.57</b>	311,959	40.32
Demand	172,943	20.48	152,449	19.70
Time	144,349	17.09	159,510	20.62
<b>Total deposits from customers</b>	<b>844,571</b>	<b>100.00</b>	<b>773,757</b>	<b>100.00</b>

The Company has put continued efforts on developing deposit business. Deposits from customers of the Company maintained a steady growth as a result of rapid economic growth in the PRC, increased disposable income of the residents, and increased PBOC's deposit interest rate. As at 30 June 2007, deposits from customers of the Company amounted to RMB844,571 million, an increase of 9.15% compared to the beginning of the year.

The active stock markets in the first half of 2007 affected retail deposits of commercial banks including the Company. The percentage of retail deposits to total deposits from customers of the Company amounted to 37.57% as at 30 June 2007, a decrease of 2.75 percentage points compared to the end of 2006. However, such level remains high when compared to other domestic banks.

Despite increased interest spread between time deposit and demand deposit after PBOC has adjusted the deposit interest rate, the impact of booming stock markets on the structure of the Company's deposits was more obvious. The proportion of time deposits to deposits from customers recorded a decrease. As at 30 June 2007, the proportion of corporate time deposits accounted for 43.20% of the deposits from customers, a decrease of 3.85 percentage points compared to the previous year end; amongst all, the proportion of corporate time deposits accounted for 41.82% of the corporate deposits, a decrease of 2.48 percentage points compared to the beginning of the year. The proportion of retail time deposits accounted for 45.49% of the retail deposits, a decrease of 5.64 percentage points compared to the beginning of the year.

(2) Inter-bank borrowings

While the active stock market has attracted deposits from customers, it has also accelerated the growth of inter-bank borrowings of the Company. As at 30 June 2007, total inter-bank borrowings of the Company amounted to RMB160,297 million, representing an increase of 132.81% compared to the beginning of the year.

### 2.2.3 Loan quality analysis

(1) Distribution of loan portfolios by loan classification

The following table sets forth, as at the dates indicated, the loan portfolios categorised by loan classification. Under the 5-tier loan classification, the non-performing loans of the Company are classified into substandard, doubtful and loss.

	<b>30 June 2007</b>		<b>31 December 2006</b>	
	<i>(in millions of RMB, excluding percentages)</i>			
	<b>Amount</b>	<b>Percentage of total (%)</b>	<b>Amount</b>	<b>Percentage of total (%)</b>
Normal	<b>605,479</b>	<b>96.18</b>	542,238	95.85
Special mention	<b>13,653</b>	<b>2.17</b>	11,458	2.03
Substandard	<b>2,382</b>	<b>0.38</b>	3,342	0.59
Doubtful	<b>4,480</b>	<b>0.71</b>	5,092	0.90
Loss	<b>3,559</b>	<b>0.56</b>	3,572	0.63
<b>Total loans and advances to customers</b>	<b>629,553</b>	<b>100.00</b>	565,702	100.00
<b>Total non-performing loans</b>	<b>10,421</b>	<b>1.66</b>	12,006	2.12

During the first half of 2007, there recorded a decline in both the total non-performing loans and non-performing loan ratio of the Company. As at 30 June 2007, the balance of non-performing loans was RMB10,421 million, representing a sharp decrease of RMB1,585 million or 13.2% as compared with the beginning of the year; the non-performing loan ratio dropped to 1.66%, representing a decrease of 0.46 percentage point as compared with the beginning of the year. Amongst all, the percentages of loans classified as substandard, doubtful and loss to total loans were all declining. The decrease in substandard loans was primarily due to the improvement in risk management capability, optimization of credit quality and the deceleration of downgrading of loans classified as normal and special-mention doubtful and to non-performing loans; the decrease in loans classified as loss was primarily due to the Company's increased effort in recovering non-performing assets with the opportunities in an active macro economy environment. Meanwhile, with rapid economic growth and ever increasing risks, the Company has been prudent in implementing the classification policies for loans classified as special mention, aiming at identifying the risks in advance and manage them properly. As a result, there was a slight increase in the percentage of loans classified as special mention.

The Company is dedicated to a progressive reform of our credit risk management system. We continue to improve the quality of credit assets through enhancing the organizational structure of risk management function, optimizing the risk assessment and decision-making procedure, reforming the authorization mechanism, implementing a credit policy on the basis of portfolio management, strengthening the framework of risk management principles and guidelines, as well as improving the risk management techniques. Meanwhile, we properly manage the credit risks arising from rapid economic growth and take necessary precautions to prevent, relieve and mitigate various credit risks as a result of macro-economic adjustments and control, so as to ensure that lending business is operating on the right track.

(2) *Movements of allowances for impairment losses on loans and advances to customers*

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

	<b>Jan-Jun 2007</b>	Jan-Dec 2006
	<i>(in millions of RMB)</i>	
<b>At the beginning of the reporting period/year</b>	<b>16,282</b>	13,510
Charge for the period/year	<b>2,343</b>	4,152
Releases for the period/year	<b>(822)</b>	(615)
Unwinding of discount <sup>(1)</sup>	<b>(66)</b>	(222)
Recoveries of loans and advances previously written off	<b>39</b>	58
Write-offs	<b>0</b>	(328)
Transfers out <sup>(2)</sup>	<b>(2)</b>	(188)
Exchange differences	<b>(61)</b>	(85)
	<hr/>	<hr/>
<b>At the end of the reporting period/year</b>	<b><u>17,713</u></b>	<b><u>16,282</u></b>

*Notes:*

- (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.*
- (2) *Represents transfers out of loan loss allowances resulting from the transfer of loans and advances to customers to repossessed assets.*

As at 30 June 2007, allowances for impairment losses on loans and advances to customers of the Company amounted to RMB17.713 billion, representing an increase of RMB1.431 billion, and the non-performing loan allowances coverage (total allowances for impairment losses on loans and advances to customers/total non-performing loans) was 169.97%, representing an increase of 34.36 percentage points as compared with that at the beginning of the year. The increase of balance of loan loss allowances was primarily due to the augment of loan scale, and on the other hand, the non-performing loan allowances coverage improved as non-performing loans amount reported a significant drop.

## 2.2.4 Capital Adequacy Ratio

The Company calculated and disclosed its capital adequacy ratio according to the guidelines of *Regulation Governing Capital Adequacy of Commercial Banks* (CBRC Ordinance No. 2004(2)) issued by CBRC on 23 February 2004. Since 2007, the Company has calculated its market risk capital according to the Notice from China Banking Regulatory Commission on Guideline for the Calculation of Capital Requirement of Market Risk for Commercial Banks Issued by the CBRC (Yin Jian Ban Fa No. 2004(374)). As at 30 June 2007, the capital adequacy ratio of the Company was 10.98%, representing a decrease of 0.42 percentage point as compared with that at the end of last year; the core capital adequacy ratio was 9.23%, representing a decrease of 0.35 percentage point as compared with that at the end of last year.

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

	As at <b>30 June 2007</b>	As at 31 December 2006
	<i>(in millions of RMB, excluding percentages)</i>	
<b>Core capital</b>		
Paid-up ordinary share capital	<b>14,704</b>	14,703
Reserves	<b>43,090</b>	38,422
Total core capital	<b>57,794</b>	53,125
<b>Supplementary capital</b>		
General provisions for doubtful debts	<b>9,706</b>	8,005
Term subordinated bonds	<b>1,600</b>	2,100
Convertible bonds	<b>20</b>	22
Investment revaluation reserve	<b>(62)</b>	136
Total Supplementary capital	<b>11,264</b>	10,263
<b>Total capital base before deductions</b>	<b>69,058</b>	63,388
<b>Deductions:</b>		
Investments in unconsolidated subsidiary and other long-term investments	<b>290</b>	125
Investments in commercial real estate	<b>319</b>	406
<b>Total capital base after deductions</b>	<b>68,449</b>	62,857
<b>Risk-weighted assets</b>	<b>623,148</b>	551,503
<b>Core capital adequacy ratio</b>	<b>9.23%</b>	9.58%
<b>Capital adequacy ratio</b>	<b>10.98%</b>	11.40%

## 2.2.5 Segmental Operating Results

The segmental operating results are presented by business segment and geographical segment. Business segment information is more relevant to the business operations of the Company, and so the Company chooses business segment information as the primary reporting format of segment information.

The Company evaluates the results of business segment through the internal funds transfer pricing mechanism (“FTP”), and the pricing of funding among business segments is based on market interest rate, and the inter-segment interest income and expense recognised through the FTP are eliminated in the consolidated results of the operations. Net interest income of the respective segments, including interest income from loans to other segments and interest expense for borrowings from other segments, reflect the profit or loss of capital allocation to the business segment through the FTP. Cost allocation is based on the direct cost incurred by the respective business segments and appointment of management overheads.

The main businesses of the Company include corporate banking, retail banking and treasury business. For more information about the products and services of the respective main businesses, refer to “Business Operations”. The following table sets forth, at the periods indicated, the operating results of the business segments of the Company.

	Jan-Jun 2007					Jan-Jun 2006				
	(in millions of RMB)									
	Corporate banking	Retail banking	Treasury business	Others and un- allocated	Total	Corporate banking	Retail banking	Treasury business	Others and un- allocated	Total
External net interest income <sup>(1)</sup>	8,845	1,466	4,385	–	14,696	6,367	235	2,826	–	9,428
Internal net interest (expense)/income <sup>(2)</sup>	(298)	2,686	(2,388)	–	–	(82)	1,893	(1,811)	–	–
Net interest income	8,547	4,152	1,997	–	14,696	6,285	2,128	1,015	–	9,428
Net fee and commission income	678	1,915	–	71	2,664	436	641	(4)	51	1,124
Other net income (expense)	387	126	(359)	40	194	229	73	83	4	389
Operating income	9,612	6,193	1,638	111	17,554	6,950	2,842	1,094	55	10,941
Operating expenses	(3,683)	(2,908)	(374)	(3)	(6,968)	(2,643)	(1,984)	(219)	(2)	(4,848)
Provision for impairment losses	(901)	(616)	(46)	(16)	(1,579)	(1,517)	(247)	66	–	(1,698)
Total expenses	(4,584)	(3,524)	(420)	(19)	(8,574)	(4,160)	(2,231)	(153)	(2)	(6,546)
Profit before tax	5,028	2,669	1,218	92	9,007	2,790	611	941	53	4,395

During the six-month period ended 30 June 2007, the contributions made by each business segment to the profit before tax of the bank were: 55.82% by corporate banking, 29.63% by retail banking, and 13.52% by treasury business. Contribution from retail banking grew more quickly primarily due to the Company's greater efforts in developing retail banking business.

## **2.3 Business Operations**

### ***2.3.1 Retail Banking Segment***

The Company provides retail customers with diversified retail banking products and services, including retail loan, deposit, debit card, credit card, wealth management service, investment service, agency sale of insurance products and fund products, foreign currency dealing, and foreign exchange service, of which "All-in-one Card", "All-In-One Net", "credit card", "Sunflower" and personal internet banking have won wide spread recognition.

#### *Retail loans*

The Company provides retail customers with various loan products. In the first half of 2007, in view of the fierce competition in retail loans (mainly the residential mortgage loans) and intensified macro control on real estate, the Company made greater efforts to innovate and promote retail loan products, proactively enhance the development of credit card business, thereby further enhancing the overall competitiveness of retail loans.

#### *Retail deposits*

The retail deposit products of the Company mainly consist of demand deposits, time deposits and call deposits. Retail deposits are the most important source of low-cost funding of the Company. In the first half of 2007, although the Company stepped up the marketing effort in promoting such as payroll processing services for corporate customers, the percentage of retail deposits to total deposits from customers decreased slightly, due to the significant loss of retail deposits caused by the booming stock market. It should be noted that the Company's retail deposits to total deposits ratio remained at a higher level as compared to other commercial banks in the PRC. Among the retail deposits, the percentage of demand deposits increased by 5.64 percentage points to 54.51% as compared to the beginning of the year.

#### *Non-interest income retail business*

The Company keeps developing non-interest income business in recent years, which is now on the right track of development. As compared to the first half of 2006, for the first half of 2007, the transaction volume of POS business was RMB55.0 billion, an increase of RMB18.5 billion or 50.83%; the transaction volume of securities agency services was 783.262 billion, an increase of RMB616.312 billion or 369.16%; transaction volume of fund agency services was RMB129.826 billion, an increase of RMB79.383 billion or 157.37%; and the transaction volume of agency sale of insurance was RMB2.812 billion, an increase of RMB1.543 billion or 121.59%.



### *Bank Card Business*

Up to 30 June 2007, the Company had issued 41.7041 million All-in-one cards, including 2.8551 million cards newly issued during the reporting period. The All-in-one Card deposit balance was RMB251.365 billion, accounting for 82.44% of the total retail deposits, representing average balance of RMB6,027 per card. The Company had issued 14.51 million credit cards, including 4.16 million cards issued during the reporting period. The total number of cards in circulation was 9.97 million, the total number of card holders was 5.97 million, the cumulative transaction volume via credit cards was RMB53.9 billion, representing an increase of 99.79% as compared to the corresponding period of the previous year, and the revolving credit card interest-earning balance was RMB5.4 billion. The continuing expansion of the customer usage volume had brought in sharp growth of the business volume and operating income. The credit card balance reached RMB14.2 billion, an increase of 127.04%, among which, the revolving credit card interest-earning balance was RMB5.4 billion, an increase of 125.26% as compared to the corresponding period of last year.

### *Customers*

As at 30 June 2007, the total number of retail deposit accounts of the Company was 24.41 million, and deposit balance was RMB317.292 billion, of which, the total number of high-end customers (Sunflower customers, with more than RMB500,000 deposit in the Company) was 175,900, and their deposit balance was RMB125,988 million, accounting for 39.71% of the retail deposit balance of the Company.

### *Marketing*

With the sustained efforts of the Company in brand building for its products and services, the brands such as All-in-one Card and credit cards have gained relatively high recognition. In 2007, while continuously built up the above brands, the Company actively promoted the brands of “Sunflower” wealth management and “Lifetime Partner” financial planning. The Company believes that brand building will further develop customer base and enhance customer loyalty.

At present, the Company sells retail banking products primarily via its branches and sub-branches. In the meantime, to meet the market changes, the Company established a multi-level marketing system in branches. As at 30 June 2007, the Company had built up 17 wealth management centers, 187 financial management centers and 292 Sunflower VIP rooms.

### **2.3.2 Corporate Banking**

The Company provides corporate customers, government agencies and financial institutions with diversified banking products and services.

### *Corporate loans*

Corporate loan products of the Company include working capital loans, fixed asset loans and other loans. Other loans mainly include trade finance and factoring. In 2007, the Company, to actively match with the country's macro economic policy, continued to implement the strategy of industry focus and professionalized operations, and provided more support for quality industries such as transportation, energy and electricity, urban infrastructure and high-tech industries, while controlling loan growth to industries under macro control such as steel, cement and real estate, these all resulted in further improvement in the industry structure of corporate loans.

In 2007, the Company focused on developing small and medium-sized enterprise customers which is in line with the adjusted business strategies. To promote the development of small and medium-sized enterprise loan business, the Company implemented regional development strategies for small and medium-sized enterprises based on investigation, with business focus on 8 branches at Hangzhou, Nanjing, Shanghai, Suzhou and Ningbo in the Yangtze River Delta, and Foshan, Dongguan and Shenzhen in the Pearl River Delta. Meanwhile, the Company further promoted product innovation, streamline of procedure and building of specialized marketing sales team, thereby providing products support.

The above-mentioned measures of the Company substantially increase the business transactions with the small and medium-sized enterprise customers. The number of small and medium-sized enterprise borrowers reached 6,962, representing 1,242 more than the number at beginning of the year; small and medium-sized enterprise customers accounted for 76.86%, up by 1.64 percentage points over the previous year; and the general loan balance of small and medium-sized enterprises reached RMB173,700 million, up by 23% over the previous year.

### *Discounted bills*

As one of the important means of assets and liabilities management and fund utilization of the Company, discounted bills accounted for a relatively high percentage of the total loans from customers in a long run. In the first half of 2007, to meet requirements of the country's macro control, the Company tightened discounted bills balance by various measures such as speeding up turnover of discounted bills.

### *Corporate deposits*

The Company persistently developed profitable deposits. Leveraging on its sound cooperation relationship with its customers, and with the increasingly efficient e-banking services including online corporate banking and cash management services, the Company successfully increased settlement transactions with its customers and maintained a high percentage of demand deposits to total corporate deposits. As at 30 June 2007, corporate demand deposits accounted for 58.18% of the corporate deposit balance, which was 16.36 percentage points higher than time deposits.

### *Non-interest-based corporate banking business*

In the first half of 2007, the Company stepped up its efforts to develop fee-base businesses such as cash management, treasury operation, asset custody, corporate annuity, financial consultation and investment banking, thereby increasing the percentage of fees and commissions income to the total income from corporate banking business.

In respect of online corporate banking and cash management, as at 30 June 2007, the number of internet corporate banking customers reached 48,862, up by 7,595 as compared to the beginning of the year; the cumulative number of transactions in the first half of 2007 was 5.17 million with a transaction volume of RMB4,300 billion, representing an increase of 41% and 157% respectively as compared to the corresponding period of last year; the number of the Company's liquidity cash management services customers reached 3,144, including 351 national corporate customers, up by 640 and 65 respectively as compared to the beginning of the year.

As to international settlement, the Company completed USD43.7 billion in the first half year of 2007, an increase of 29% as compared to the previous year; the foreign exchange settlement was USD27.9 billion, an increase of 30% as compared to the corresponding period of previous year.

As to the corporate wealth management, the Company launched 59 corporate wealth management products with various maturities, different investment targets and diversified operation ways in the first half of 2007. The accumulative product sales amounted to RMB10,400 million.

As for the underwriting of short-term commercial paper, the Company has completed lead underwriting for 13 enterprises in the first half of 2007, with the lead underwriting volume of RMB16.5 billion

As for asset custody business, the balance of net assets under custodian of the Company in the first half of 2007 was RMB86.9 billion, up by 113% as compared to the beginning of the year. Particularly, securities investment fund amounted to RMB32.8 billion, up by 57% as compared to the beginning of the year. Securities companies wealth management program under custodian amounted to RMB25 billion, up by 111% as compared to the beginning of the year. Trust fund custodian asset amounted to RMB24.9 billion, up by 503% as compared to the beginning of the year, and the corporate annuity under custodian amounted to RMB2.6 billion, up by 11% as compared to the beginning of the year.

As for corporate annuity management business, in the first half of 2007, the number of corporate annuity contracted customers was 1,000, up by 902 as compared to the beginning of the year; the total number of personal accounts of contracted customers was over 500 thousand, up by 67% as compared to the beginning of the year. Both the business growth and size were in a leading position in the banking industry in China.

### *Customer base*

Over the course of 20 years of development, the Company has developed 0.22 million corporate depositors and nearly 9,000 corporate borrowers, including Chinese leading enterprises and enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinational enterprises operating in China. In recent years, the Company stepped up marketing planning and focused development for target industries, forming a customer base with more rational and balanced industry pattern. Meanwhile, the Company made greater efforts to develop small and medium-sized enterprises, forming a balanced customer structure.

### **2.3.3 Treasury**

#### *Business Environment*

In the first half of 2007, due to imbalance of trading business and difference in interest rates, there was a persisted excessive liquidity in the market. Central banks of the major economies kept rising interest rates while, the global bond markets were depressed. In China, to harness the prevailing excess liquidity, the PBOC took several tightening measures to get money returned from the public, and raised the statutory deposit reserve ratio and the deposit/loan interest rates several times; and at the same time, the volatile capital market also gave greater impact on the asset-liability businesses operated by commercial banks and the interest rates on the market. Under such circumstance, the interest rate of domestic bond market kept rising rapidly, and the interest rate of capital market fluctuated significantly.

#### *Operating strategy*

1. As to Renminbi business, the Company closely reviewed the market trend and policy tendency, and effectively mitigated the risk of rising interest rates in RMB assets by enhancing fund utilization.

Firstly, the Company explored fund utilization channels after considering the loan control environment and trend changes in the structure of assets and liabilities. The measures taken included: (1) increasing RMB bond investment of RMB33.8 billion in the first half of 2007; (2) developing the reverse repurchase business, and the reverse repurchase assets increased by RMB64.3 billion in the first half of 2007; among which the bills increased by RMB30.9 billion, accounting for 50% of the total increase, which efficiently offset the adverse effect of credit control on the income; (3) carrying out the financing business on clean basis, placements increased by RMB9.3 billion in the first half of 2007, which met the development trend of the domestic market, and simultaneously achieved a better return with fluctuating interest rate.

Secondly, the Company efficiently managed the bond portfolio and enhanced the structural adjustment, so as to mitigate the risk of rising interest rate. The measures taken included: (1) strict control on the duration of bond portfolio. The newly acquired investment was mainly fixed and floating rate bond with duration of 3 years, and investment in middle and long term fixed rate bond was slowdown; and at the same time carried out replacement of the existing bond portfolio, the duration of the bonds classified as available-for-sale and held-to-maturity was kept at about 1.5; (2) increase in the high quality short

term credit bond investment and interest derivatives trading, so as to offset the adverse effect of declining return from investments of short duration. The Company just in time caught the development opportunity emerged from the domestic derivatives market in the first half of 2007.

2. As to foreign currency business, based on changes of the yield curve, we controlled the portfolio risk efficiently with flexible adjustment to the composition and focus of investment. Meantime, we gained advantage from market fluctuation caused by the expected lowering of interest rates in US, adopted active investment strategy and succeeded in achieving good returns.

### *Operating results*

In the first half of 2007, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 3.21%, up by 0.17 percentage as compared with the same period of last year. The main contributors are: the Company held large amount of floating rate bonds, with PBOC raising the benchmark interest rates several times, such bonds were re-priced accordingly and made contribution to the income of bond portfolio; more short unsecured bonds with high interest coupon were acquired and derivatives trading on interest rate contracts commenced in the first half of 2007 also contributed to the yield of the investment portfolio; the strict control of duration on bond portfolio affected the growth of income while mitigating risks. As interest rate adjustment is expected to slow down, the Company also tried to increase the amount of mid to long term fixed rate bonds with high interest coupon, it was expected the investment income level for the whole year would improve.

In the first half of 2007, the Company's annual yield on reverse repurchase business and placement was 2.87%, similar to that of the corresponding period of last year. Although market interest rates in the first half year of 2007 were higher than that of corresponding period of last year, the Company's capital utilization was under pressure and it was difficult to enhance the return on capital; in addition, the fluctuation of capital market increased the Company's concern on liquidity status, the Company shortened the average term of such businesses, which also affected the growth of yield.

### *Business development*

With the rapid development of direct financing and the accelerated reform on interest rate, the profitability model of banking industry in China is currently undergoing a fundamental change. The Company makes self-adjustment according to situation and carries the adjustment process actively from two aspects. One is to strengthen the foundation of traditional business base and maintain market influence. In the first half of 2007, the Company underwrote various RMB bonds amounted to RMB83.9 billion, the trading volume of inter-bank market was over RMB1.8 trillion, bonds settlement agent business was still keeping good momentum and the trading volume was RMB47.8 billion. The second is to optimize business structure and profitability model, including the build up of wealth management model of unity of domestic, foreign currency and integration of products research and development and market expansion, and positive reaction from market was noted. In the first half of 2007, with the leading product design and strong sale channels, the Company recorded the sale of 118 RMB finance management products amounted



to RMB20.3 billion; and sale of 97 foreign currency financial management products amounted to USD1.36 billion. The Company also utilized the advanced electronic trading platform and achieved new stride of foreign exchange trading business. Meanwhile, the Company is meticulously designing and focusing on launching QDII products to develop new profit engine and keeping market competitiveness.

## **2.4 Outlook**

In the second half of the year, in its operations, the Company will find both opportunities with favorite conditions of steady and rapid growth in macro-economy and steady development of financial market, and also challenges from the increasing uncertainty of macro control policies, greater risks in financial market and ever-increasing competition among counterparts. The Company will continue to implement the guidelines of “Updating the mindset, deepening the reform, strengthening innovation and preventing risks”, accelerate the breakthrough of bottlenecks, and implement the adjusted operational strategies and enhance management internationalization.

The steady and rapid economic growth, the acceleration of the growth rate of enterprises’ profitability, and the steady increase of citizens’ income and consumption jointly created an advantageous environment for of the Company’s profit, asset quality and business scale. The rapid development of the capital market, which helps the innovation of the Company’s products, will contribute to the rapid growth of non-interest income of the Company and accelerate the adjustment of income structure and business structure.

The development of the Company also faces the consequence of the uncertainty of external environment. The Company will expose to the uncertainty of monetary policy as the macro-control policies being gradually implemented, which will affect the growth of the Company’s loan portfolio and the portfolio management. The accelerated marketization of interest rates and exchange rates also affect our market risk management and pricing policy of the Company.

In response to the opportunities and challenges brought by the change of external environment, the Company will proactively grasp the development opportunities brought by economic growth, while effectively prevent the relevant risks in the environment, strive to break through bottlenecks in risk management, allocation of resources, IT governance, human resources, etc., further improve management standard, and maintain the sustainable development of the Company. The Company will (1) meet the requirement of macro-control policies, strive to adjust the loan asset structure, and effectively prevent credit risk; (2) continue to consolidate and expand high-end retail customers by providing quality service and innovative products, enhance the total amount of retail customers’ asset under management, including savings, insurance, securities and wealth management products; (3) step up capital investments, accelerate outlet construction, meet the demand of high-end customer growth, enhance the sales capability of outlets; (4) step up the expansion of credit card business, continue to consolidate its leading position in the market; (5) adjust wholesale business structure, proactively and steadily develop the business of small and medium-sized enterprises; (6) step up the innovation and marketing of fee-based business, strive to adjust income structure; (7) comprehensively strengthen internal control and enhance the management standard of internal control; (8) further improve IT governance and ensure safe and stable operation of IT system; and (9) strengthen the management and allocation of human resources.

### **3. OTHER SIGNIFICANT EVENTS**

#### **3.1 Compliance with The Stock Exchange of Hong Kong Limited's Code on Corporate Governance Practices**

In the first half of 2007, saved as disclosed below, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices ("CG code") contained in Appendix 14 to the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*.

Code provision A.4.2 of the CG code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association of the Company, every director should be elected by shareholders in general meeting. For any director appointed to fill a casual vacancy, his term of office shall commence from the date on which his appointment is approved by shareholders at the relevant general meeting, and shall end at the expiry of the current Board. Since the term of office of each Board is three years, therefore every director should be subject to re-election at general meeting of shareholders at least once every three years during his term of office.

The term of office of the members of the Sixth Session of the Board of Directors expired in June 2007. In accordance with code provision A.4 of the CG code regarding appointment, re-election and removal of directors and the Articles of Association of the Company, upon approval by the Nomination Committee of the Board of Directors, the Board of Directors and at shareholders' general meeting, the Seventh Session of the Board of Directors had been elected, of which 11 non-executive directors had been re-elected.

#### **3.2 Securities Transactions of Directors and Supervisors**

In accordance with the Listing Rules of Hong Kong, the directors and supervisors must observe the Model Code as set out in Appendix 10 of the Listing Rules in respect of their dealings in the securities of their listed companies. The Company has adopted the aforesaid Model Code as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Upon making specific enquiry of all directors and supervisors, the Company confirmed that they have complied with the aforesaid Model Code during the period ended 30 June 2007.



### 3.3 2007 Interim Dividend

The Company did not propose to distribute 2007 interim dividend (for January – June 2006: Nil) or did not propose to capitalize the capital reserve (for January – June 2006: RMB971 million).

### 3.4 Purchase, sale or redemption of shares

For the period ended 30 June 2007, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

### 3.5 Information about other joint-stock companies

*(Unit: RMB million)*

Name of holding or joint-stock company	Investment period	Initial investment amount	Shareholding percentage of the Company (%)	Investment at the end of the reported period
CMB International Capital Corporation Ltd. ("CMBICC")	None	HK\$250,000,000	100%	313
China UnionPay Co., Ltd.	None	RMB80,000,000	4.8%	38
EPS (Hong Kong) Limited	None	HK\$8,000,000	0.7%	8

*Notes:*

- (1) CMBICC, formerly Jiangnan Finance Co., Ltd., is the Company's wholly-owned subsidiary approved by PBOC through its Yin Fu [1998] No. 405 Document, and was renamed as CMB International Capital Corporation Ltd. on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30 Document. During the first half of 2007, the Company further injected capital of HKD200 million to CMBICC.
- (2) Upon approval of PBOC through its Yin Fu [2001] No. 234 Document concerning the Establishment of China UnionPay Co., Ltd., the Company contributed RMB80 million to establish China UnionPay Co., Ltd. The above contribution included the assessed net value RMB41.98 million of the bank card network service centers in various cities and RMB38.02 million as additional cash investment. China UnionPay Co., Ltd. was incorporated on 26 March 2002.
- (3) EPS (Hong Kong) Limited was incorporated in 1984 by several licensed banks in Hong Kong and provides e-pay services for customers in Hong Kong, Macau and Shenzhen.

### 3.6 Compliance with Banking (Disclosure) Rules

The Company's interim financial statements for the year 2007 contain the disclosure requirements under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

### **3.7 Publication of interim report**

Both the Chinese and English versions of the interim report are available on the websites of the Company ([www.cmbchina.com](http://www.cmbchina.com)) and the Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)).

The Company has also prepared the interim report in Chinese in accordance with the PRC Generally Accepted Accounting Standards, which is available on the websites of the Company ([www.cmbchina.com](http://www.cmbchina.com)) and Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

### **3.8 The first extraordinary general meeting for 2007**

The first extraordinary general meeting of shareholders for 2007 of the Company will be held on 18 October 2007 (Thursday), 9:00 a.m. at the Conference Room at 5/F, China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen, the PRC. A notice of the extraordinary general meeting setting out the record date for registration of shareholders entitled to attend the Meeting and related matters will be issued in due course.

#### 4. SUMMARY OF FINANCIAL REPORT AND NOTES TO THE FINANCIAL REPORT

##### UNAUDITED CONSOLIDATED INCOME STATEMENT

(Expressed in millions of Renminbi unless otherwise stated)

	Six months ended 30 June	
	2007	2006
Interest income	22,284	15,270
Interest expense	(7,588)	(5,842)
<b>Net interest income</b>	<b>14,696</b>	<b>9,428</b>
Fee and commission income	3,012	1,322
Fee and commission expense	(348)	(198)
<b>Net fee and commission income</b>	<b>2,664</b>	<b>1,124</b>
<b>Other net income</b>	<b>194</b>	<b>389</b>
<b>Operating income</b>	<b>17,554</b>	<b>10,941</b>
Operating expenses	(6,968)	(4,848)
<b>Operating profit before impairment losses</b>	<b>10,586</b>	<b>6,093</b>
Impairment losses	(1,579)	(1,698)
<b>Profit before tax</b>	<b>9,007</b>	<b>4,395</b>
Income tax	(2,887)	(1,618)
<b>Net profit attributable to equity holders of the Bank</b>	<b>6,120</b>	<b>2,777</b>
<b>Dividends</b>		
Declared and paid	1,764	983
Proposed special dividend	–	2,210
	<b>RMB</b>	<b>RMB</b>
<b>Earnings per share</b>		
Basic	0.42	0.23
Diluted	0.42	0.23

**UNAUDITED CONSOLIDATED BALANCE SHEET**  
*(Expressed in millions of Renminbi unless otherwise stated)*

	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Assets</b>		
Cash and balances with banks and other financial institutions	<b>17,962</b>	20,861
Balances with central bank	<b>135,461</b>	82,372
Placements with banks and other financial institutions	<b>123,033</b>	88,171
Loans and advances to customers	<b>611,840</b>	549,420
Investments	<b>203,419</b>	178,885
Fixed assets	<b>7,572</b>	7,376
Deferred tax assets	<b>1,955</b>	2,260
Other assets	<b>7,534</b>	4,757
<b>Total assets</b>	<b><u>1,108,776</u></b>	<b><u>934,102</u></b>
<b>Liabilities</b>		
Deposits from banks and other financial Institutions	<b>160,297</b>	68,854
Placements from banks and other financial institutions	<b>8,360</b>	7,749
Deposits from customers	<b>844,571</b>	773,757
Financial liabilities at fair value through profit or loss	<b>1,023</b>	106
Certificates of deposit issued	<b>–</b>	1,170
Convertible bonds issued	<b>20</b>	22
Other debts issued	<b>9,989</b>	9,987
Current taxation	<b>2,421</b>	2,652
Other liabilities	<b>19,359</b>	11,145
Subordinated notes issued	<b>3,500</b>	3,500
<b>Total liabilities</b>	<b><u>1,049,540</u></b>	<b><u>878,942</u></b>

	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Shareholders' equity</b>		
Share capital	<b>14,704</b>	14,703
Capital reserve	<b>27,538</b>	27,536
Surplus reserve	<b>3,088</b>	2,377
Investment revaluation reserve	<b>(88)</b>	195
Regulatory general reserve	<b>6,500</b>	6,500
Retained profits	<b>7,494</b>	1,374
Proposed profit appropriations	<b>—</b>	2,475
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	<b>59,236</b>	55,160
	<hr/>	<hr/>
<b>Total shareholders' equity and liabilities</b>	<b>1,108,776</b>	934,102
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL REPORT

### Interest income

	Six months ended 30 June	
	2007	2006
Loans and advances ( <i>note</i> )	17,002	12,213
Balances with central bank	731	480
Deposits and placements with		
– banks	1,385	724
– other financial institutions	199	98
Debt investments	2,967	1,755
	<hr/>	<hr/>
Interest income on financial assets that are not at fair value through profit or loss	<u>22,284</u>	<u>15,270</u>

*Note:* Included in the above is interest income of RMB66 million accrued on impaired loans (for the six months ended 30 June 2006: RMB102 million).

### Interest expense

	Six months ended 30 June	
	2007	2006
Deposits from customers	5,798	4,963
Deposits and placements from		
– banks	434	199
– other financial institutions	1,123	436
Issued debts	233	244
	<hr/>	<hr/>
	<u>7,588</u>	<u>5,842</u>

### Fee and commission income

	Six months ended 30 June	
	2007	2006
Bank card fees	776	422
Remittance and settlement fees	375	280
Agency services fees	662	268
Commissions from credit commitment and loan business	193	132
Trust services fees	797	78
Others	209	142
	<hr/>	<hr/>
	<u>3,012</u>	<u>1,322</u>

*Note:* Included above is fee and commission income earned by the Group arising from:

- (i) trust and fiduciary activities where the Group holds or invests assets on behalf of its customers of RMB146 million (for the six months ended 30 June 2006: RMB68 million); and
- (ii) financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB800 million (for the six months ended 30 June 2006: RMB536 million)

#### Other net income

	Six months ended 30 June	
	2007	2006
Trading profits arising from		
– foreign exchange	18	258
– securities, derivatives and other trading activities	71	127
Net gain/(loss) on financial instruments designated at fair value through profit or loss	30	(1)
Net gain/(loss) on disposal of available-for-sale financial assets	9	(26)
Rental income	23	26
Others	43	5
	<u>194</u>	<u>389</u>

#### Operating expenses

	Six months ended 30 June	
	2007	2006
Staff costs		
– salaries, bonuses and staff welfare	2,795	1,736
– contributions to defined contribution retirement schemes	355	232
– housing allowances	179	156
– others	172	166
	<u>3,501</u>	<u>2,290</u>
Business tax and surcharges	1,052	700
Depreciation	492	439
Rental expenses	486	391
Other general and administrative expenses	1,437	1,028
	<u>6,968</u>	<u>4,848</u>



## Impairment losses

	Six months ended 30 June	
	2007	2006
Impairment losses charged/(released) on:		
– loans and advances	1,521	1,602
– balances and placements with banks and other financial institutions	46	(66)
– other assets	12	162
	<u>1,579</u>	<u>1,698</u>

## Income tax

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2007	2006
Current tax	2,533	1,689
Deferred tax	354	(71)
	<u>2,887</u>	<u>1,618</u>

The current tax provision is based on the estimated assessable profit for 2007, and is determined by using tax rates applicable to the Bank's operations in different areas.

## Earnings per share

### (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	
	2007	2006
Net profit	6,120	2,777
Weighted average number of shares in issue (in million)	14,704	12,174
Basic earnings per share (in RMB)	<u>0.42</u>	<u>0.23</u>

**(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:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
Net profit	<b>6,120</b>	2,777
Interest expense on convertible bonds issued	<b>1</b>	10
Diluted net profit	<b><u>6,121</u></b>	<b><u>2,787</u></b>
Weighted average number of shares in issue (in million)	<b>14,704</b>	12,174
Effect of deemed conversion of convertible bonds (in million)	<b>4</b>	114
Weighted average number of shares in issue after dilution (in million)	<b><u>14,708</u></b>	<b><u>12,288</u></b>
Diluted earnings per share (in RMB)	<b><u>0.42</u></b>	<b><u>0.23</u></b>

**Deferred tax**

**(a) Recognised deferred tax assets**

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

	<b>30 June 2007</b>	<b>31 December 2006</b>
Impairment losses on loans and advances to customers and other assets	<b>2,029</b>	2,384
Investment revaluation reserve	<b>15</b>	(34)
Others	<b>(89)</b>	(90)
	<b><u>1,955</u></b>	<b><u>2,260</u></b>

**(b) Movements of deferred tax**

	<b>Impairment losses on loans and advances to customers and other assets</b>	<b>Investment revaluation reserve</b>	<b>Others</b>	<b>Total</b>
At 1 January 2007	2,384	(34)	(90)	2,260
Recognised in consolidated income statement	(355)	–	1	(354)
Recognised in reserves	–	49	–	49
At 30 June 2007	<u>2,029</u>	<u>15</u>	<u>(89)</u>	<u>1,955</u>
At 1 January 2006	2,292	(71)	(55)	2,166
Recognised in consolidated income statement	366	–	(35)	331
Recognised in reserves	–	37	–	37
Write-offs	(274)	–	–	(274)
At 31 December 2006	<u>2,384</u>	<u>(34)</u>	<u>(90)</u>	<u>2,260</u>

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 will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Bank's business in areas other than Shenzhen will be reduced from 33% to 25% from 1 January 2008; and accordingly the Bank's deferred tax asset as at 30 June 2007 is estimated to decrease by RMB548 million. Such reduction in deferred tax asset has been recognised in the income statement for the current period. In addition, from 1 January 2008, the income tax rate for the Bank's business in Shenzhen is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. Consequently, the Bank is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets. The Bank expects detailed implementation rules will be announced in the second half of 2007 and adjustments will be made accordingly.

**Profit appropriations**

**(a) Dividends declared and paid**

	<b>Six months ended 30 June 2007</b>	<b>Year ended 31 December 2006</b>	<b>Six months ended 30 June 2006</b>
Dividends in respect of the previous year, approved, declared and paid during the period of RMB1.2 (2006: RMB0.8) per every 10 shares	1,764	983	983
Special dividend of nil (2006: RMB1.8) per every 10 shares	–	2,210	–
	<u>1,764</u>	<u>3,193</u>	<u>983</u>

(b) *Proposed profit appropriations*

	Amount appropriated in respect of		
	the six months period ended 30 June 2007	the year ended 31 December 2006	the six months period ended 30 June 2006
Statutory surplus reserve	–	711	–
Final dividends	–	1,764	–
– Nil (2006: RMB1.2) per every 10 shares	–	2,475	–

2006 profit was appropriated in accordance with the resolution passed at the twenty-fourth meeting of the sixth Board of Directors held on 16 April 2007 and as approved in the annual general meeting held on 15 June 2007.

**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 2007	31 December 2006
<b>Contractual amount</b>		
Irrevocable guarantees	45,683	37,063
Irrevocable letters of credit	26,315	28,323
Bills of acceptances	244,430	166,513
Irrevocable loan commitments		
– with an original maturity of under one year	3,157	1,371
– with an original maturity of one year or over	5,107	5,172
Credit card commitments	42,192	31,694
Shipping guarantees	20	–
	<b>366,904</b>	<b>270,136</b>

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB487,690 million at 30 June 2007 (31 December 2006: RMB359,731 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	<b>30 June 2007</b>	31 December 2006
<b>Credit risk weighted amounts of contingent liabilities and commitments</b>		

Contingent liabilities and commitments	<b><u>86,669</u></b>	<u>86,444</u>
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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:

	<b>30 June 2007</b>	31 December 2006
For purchase of fixed assets:		
– Contracted for	<b><u>169</u></b>	<u>126</u>
– Not contracted for	<b><u>11</u></b>	<u>–</u>

(iii) *Operating lease commitments*

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

	<b>30 June 2007</b>	31 December 2006
Within 1 year	<b>538</b>	739
After 1 year but within 5 years	<b>2,719</b>	1,852
After 5 years	<b><u>897</u></b>	<u>696</u>
	<b><u>4,154</u></b>	<u>3,287</u>

(iv) *Outstanding litigations*

At 30 June 2007, the Group was a defendant in certain pending litigations with gross claims of RMB305 million (31 December 2006: RMB118 million) arising from their 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 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 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 2007	31 December 2006
Redemption obligations	<u>11,284</u>	<u>11,621</u>

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.

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

	30 June 2007		
	Notional amounts Total	Fair values	
		Assets	Liabilities
<b>Interest rate derivatives</b>			
Interest rate swaps	17,919	63	(90)
Forward rate agreement	1,142	—	—
	<u>19,061</u>	<u>63</u>	<u>(90)</u>
<b>Currency derivatives</b>			
Spot	2,833	—	(1)
Forwards	71,306	963	(829)
Foreign exchange swaps	26,827	214	(51)
Options	13,554	51	(52)
	<u>114,520</u>	<u>1,228</u>	<u>(933)</u>
Total		<u>1,291</u>	<u>(1,023)</u>



	Notional amounts Total	31 December 2006	
		Fair values Assets	Liabilities
<b>Interest rate derivatives</b>			
Interest rate swaps	<u>19,012</u>	<u>108</u>	<u>(53)</u>
<b>Currency derivatives</b>			
Spot	15,717	10	(9)
Forwards	4,799	17	(13)
Foreign exchange swaps	29,195	41	(1)
Options	<u>23,126</u>	<u>27</u>	<u>(30)</u>
	<u>72,837</u>	<u>95</u>	<u>(53)</u>
Total		<u>203</u>	<u>(106)</u>

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

#### Credit risk weighted amounts

	30 June 2007	31 December 2006
Interest rate derivatives	131	100
Currency derivatives	<u>1,191</u>	<u>107</u>
	<u>1,322</u>	<u>207</u>

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.

## Maturity profile

			30 June 2007						
	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	Undated	Overdue	Total
Cash and balances with central bank ( <i>note (i)</i> )	59,965	–	–	–	–	–	80,524	–	140,489
Amounts due from banks and other financial institutions	6,030	83,300	18,411	27,159	1,030	37	–	–	135,967
Loans and advances to customers ( <i>note (ii)</i> )	–	64,743	88,586	264,478	103,738	88,265	–	2,030	611,840
Investments ( <i>note (iii)</i> )	3,188	3,816	12,737	67,436	85,877	29,005	1,360	–	203,419
– at fair value through profit or loss	–	207	17	4,597	2,163	1,292	1,312	–	9,588
– available-for-sale	3,188	2,990	10,865	54,537	39,566	14,683	48	–	125,877
– held-to-maturity	–	306	614	6,429	37,100	12,878	–	–	57,327
– receivables	–	313	1,241	1,873	7,048	152	–	–	10,627
Other assets	4,237	737	833	1,412	269	4	9,546	23	17,061
<b>Total assets</b>	<b>73,420</b>	<b>152,596</b>	<b>120,567</b>	<b>360,485</b>	<b>190,914</b>	<b>117,311</b>	<b>91,430</b>	<b>2,053</b>	<b>1,108,776</b>
Amounts due to banks and other financial institutions	153,494	3,984	4,151	6,829	199	–	–	–	168,657
Deposits from customers	528,673	51,276	78,836	154,963	29,848	975	–	–	844,571
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	1,023	–	1,023
Convertible bonds issued	–	–	–	–	20	–	–	–	20
Other debts issued	–	–	–	–	9,989	–	–	–	9,989
Subordinated notes issued	–	–	–	–	3,500	–	–	–	3,500
Other liabilities	17,493	1,908	749	1,269	303	58	–	–	21,780
<b>Total liabilities</b>	<b>699,660</b>	<b>57,168</b>	<b>83,736</b>	<b>163,061</b>	<b>43,859</b>	<b>1,033</b>	<b>1,023</b>	<b>–</b>	<b>1,049,540</b>
<b>Long/(short) position</b>	<b>(626,240)</b>	<b>95,428</b>	<b>36,831</b>	<b>197,424</b>	<b>147,055</b>	<b>116,278</b>	<b>90,407</b>	<b>2,053</b>	<b>59,236</b>

			31 December 2006						
			After	After	After				
	Repayable	Within	1 month	3 months	1 year	After	Undated	Overdue	Total
	on demand	1 month	but within	but within	but within	5 years			
			3 months	1 year	5 years				
Cash and balances with central bank <i>(note (i))</i>	29,324	–	–	–	–	–	57,670	–	86,994
Amounts due from banks and other financial institutions	13,282	58,826	15,104	15,568	1,591	39	–	–	104,410
Loans and advances to customers <i>(note (ii))</i>	–	49,314	93,463	228,092	66,783	108,718	–	3,050	549,420
Investments <i>(note (iii))</i>	6,914	10,843	12,698	59,374	69,726	19,079	251	–	178,885
– at fair value through profit or loss	–	306	741	2,939	3,176	595	203	–	7,960
– available-for-sale	6,914	10,255	10,134	48,928	26,761	6,436	48	–	109,476
– held-to-maturity	–	76	1,400	5,575	35,684	11,330	–	–	54,065
– receivables	–	206	423	1,932	4,105	718	–	–	7,384
Other assets	3,679	302	326	174	243	9	9,636	24	14,393
<b>Total assets</b>	<b>53,199</b>	<b>119,285</b>	<b>121,591</b>	<b>303,208</b>	<b>138,343</b>	<b>127,845</b>	<b>67,557</b>	<b>3,074</b>	<b>934,102</b>
Amounts due to banks and other financial institutions	53,405	4,704	4,530	7,359	6,605	–	–	–	76,603
Deposits from customers	489,451	46,856	66,385	141,802	27,610	1,653	–	–	773,757
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	106	–	106
Certificates of deposit issued	–	–	–	1,170	–	–	–	–	1,170
Convertible bonds issued	–	–	–	–	22	–	–	–	22
Other debts issued	–	–	–	–	9,987	–	–	–	9,987
Subordinated notes issued	–	–	–	–	3,500	–	–	–	3,500
Other liabilities	10,242	532	1,841	881	228	73	–	–	13,797
<b>Total liabilities</b>	<b>553,098</b>	<b>52,092</b>	<b>72,756</b>	<b>151,212</b>	<b>47,952</b>	<b>1,726</b>	<b>106</b>	<b>–</b>	<b>878,942</b>
Long/(short) position	(499,899)	67,193	48,835	151,996	90,391	126,119	67,451	3,074	55,160

**Notes:**

- (i) For balances with central bank, undated amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.
- (ii) For loans and advances to customers, overdue amounts represent loans of which the whole or part of the principals was overdue. The overdue amounts are stated net of appropriate allowances for impairment losses.
- (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.

By Order of the Board  
**Qin Xiao**  
*Chairman of Board of Directors*

9 August 2007

*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 Qin Xiao, Wei Jiafu, Fu Yuning, Li Yinquan, Hong Xiaoyuan, Ding An Hua Edward, Sun Yueying, Wang Daxiong and Fu Junyuan; and the independent non-executive directors of the Company are Wu Jiesi, Yan Lan, Song Lin, Chow Kwong Fai, Edward, Liu Yongzhang and Liu Hongxia.*