招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code：03968

INTERIM REPORT 2010

CONTENTS

Important Notice

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

The 3rd meeting of the Eighth Session of the Board of Directors of the Company was held in Hohhot on 18 August 2010. The meeting was presided by Qin Xiao, Chairman of the board. 16 out of 18 eligible Directors attended the meeting. Directors Wei Jiafu and Fu Junyuan attended the meeting by way of telephone. 7 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

The Company's 2010 interim financial report is unaudited. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

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

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

1.1 Company Profile

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

1.1.2 Legal Representative: Qin Xiao
Authorized Representatives: Ma Weihua, Li Hao
Secretary of the Board of Directors: Lan Qi
Joint Company Secretaries: Lan Qi, Seng Sze Ka Mee Natalia (FCIS, FCS(PE), FHKIoD)
Qualified Accountant: Cheng Ting Nan (CPA, FCCA)
Securities Representative: Wu Jianbing

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

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

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

1.1.6 Share Listing:

A Share:	Shanghai Stock Exchange Abbreviated Name of A Share: CMB; Stock Code: 600036
H Share:	The Stock Exchange of Hong Kong Limited ("SEHK" or the "Hong Kong Stock Exchange") Abbreviated Name of H Share: CM BANK; Stock Code: 03968

1.1.7 Domestic Auditor: KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, PRC
International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong

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

1.1.9 Trustee for A Share: China Securities Depository & Clearing Corporation Limited, Shanghai Branch

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

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

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

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

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

1.1.12 Other Information about the Company:

Initial registration date: 31 March 1987

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

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

Taxation Registration No.: Shen Guo Shui Deng Zi 44030010001686X
Shen Di Shui Zi 44030010001686X

Organization Code: 10001686-X

2.1 Key financial data

Operating Results	**Jan – Jun 2010**	Jan – Jun 2009	Changes
	(in millions of RMB)		+/(-)%
Net operating income[1]	**33,010**	24,821	32.99
Profit before tax	**17,030**	10,178	67.32
Net profit attributable to the Bank's shareholders	**13,203**	8,262	59.80

Per Share[2]	**Jan – Jun 2010**	Jan – Jun 2009	Changes
	(RMB)		+/(-)%
Basic earnings attributable to the Bank's shareholders	**0.65**	0.43	51.16
Period-end net assets attributable to the Bank's shareholders	**5.79**	5.72	1.22

Financial Indicators	**As at 30 June 2010**	As at 31 December 2009	Changes
	(in millions of RMB)		+/(-)%
Total assets	**2,282,482**	2,067,941	10.37
of which: total loans and advances to customers	**1,330,765**	1,185,822	12.22
Total liabilities	**2,157,641**	1,975,158	9.24
of which: total deposits from customers	**1,752,400**	1,608,146	8.97
Total equity attributable to the Bank's shareholders	**124,841**	92,783	34.55

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

(2) In 2009, the Company implemented the Profit Appropriations Scheme for 2008, pursuant to which a bonus issue of 3 bonus shares for every 10 shares held together with a distribution of RMB1.00 (tax included) in cash for every 10 shares held was carried out. The earnings per share for the period from January to June of 2009 was restated based on the number of shares after the implementation of the Profit Appropriations Scheme for 2008.

2.2 Financial Ratios

	January – June 2010 (%)	January – December 2009 (%)	January – June 2009 (%)	Changes +/(-)
Profitability ratios[(1)]				
Return on average assets (after tax) attributable to the Bank's shareholders	**1.21**	1.00	0.93	0.28
Return on average equity (after tax) attributable to the Bank's shareholders	**24.27**	21.17	20.19	4.08
Net interest spread	**2.47**	2.15	2.14	0.33
Net interest margin	**2.56**	2.23	2.24	0.32
As percentage of net operating income				
– Net interest income	**79.80**	77.75	75.03	4.77
– Net non-interest income	**20.20**	22.25	24.97	(4.77)
Cost-to-income ratio (excluding business tax)	**34.97**	44.45	41.99	(7.02)

	As at 30 June 2010 (%)	As at 31 December 2009 (%)	As at 30 June 2009 (%)	Changes +/(-)
Asset quality ratios				
Non-performing loan ratio	**0.67**	0.82	0.86	(0.15)
Allowances for impairment losses to non-performing loans	**297.59**	246.66	241.39	50.93
Allowances for impairment losses to total loans and advances to customers	**1.98**	2.02	2.08	(0.04)
Capital adequacy ratios				
Core capital adequacy ratio	**8.05**	6.63	6.50	1.42
Capital adequacy ratio	**11.60**	10.45	10.63	1.15
Total equity to total assets	**5.47**	4.49	4.27	0.98

Note: (1) The ratios are annualized.

3.1 Analysis of general operating status

In the first half of 2010, the macro-economy in general was at a stage of recovery. The Group took good advantage of those changes in the situation and steadily pushed on its second transformation, which resulted in further optimization of its asset structure and significant improvement of operating efficiency, as described as follows:

Profit grew substantially with profitability enhancing constantly. In the first half of 2010, the Group realized a net profit of RMB13.203 billion, representing an increase of RMB4.941 billion, or 59.80%, as compared to the corresponding period of the previous year; a net interest income of RMB26.343 billion, representing an increase of RMB7.720 billion, or 41.45%, as compared to the corresponding period of the previous year; a net non-interest income of RMB6.667 billion, representing an increase of RMB469 million, or 7.57%, as compared to the corresponding period of the previous year. The annualized return on average assets and return on average equity attributable to the shareholders of the Bank were 1.21% and 24.27% respectively, representing a significant increase from 1.00% and 21.17% in the whole year of 2009. The significant improvement in the operating efficiency was mainly due to: (1) the steady expansion in the volume of interest-earning assets, the constant increase in the net interest margin and the significant growth in the net interest income; and (2) the Group's constant efforts on developing the intermediate business which brought about steady increase in the net fee and commission income.

The assets and liabilities scale expanded steadily. As at the end of June 2010, the Group's total assets amounted to RMB2,282.482 billion, representing an increase of RMB214.541 billion, or 10.37%, as compared with the beginning of the year. Loans and advances amounted to RMB1,330.765 billion, representing an increase of RMB144.943 billion, or 12.22%, as compared with the beginning of the year. Deposits from customers amounted to RMB1,752.400 billion, representing an increase of RMB144.254 billion, or 8.97%, as compared with the beginning of the year.

The quality of assets remained at high level. As at the end of June 2010, the balance of non-performing loans of the Group was RMB8.850 billion, representing a decrease of RMB882 million as compared with the beginning of the year; the non-performing loan ratio was 0.67%, representing a decrease of 0.15 percentage point as compared with the beginning of the year; and the allowance coverage ratio was 297.59%, representing an increase of 50.93 percentage points as compared with the beginning of the year.

3.2 Analysis of Income Statement

3.2.1 Financial results highlights

	January – June 2010	January – June 2009
	(in millions of RMB)	
Net interest income	**26,343**	18,623
Net fee and commission income	**5,346**	4,042
Other net income	**1,123**	1,939
Insurance operating income	**170**	187
Operating expenses	**(13,454)**	(11,880)
Charge for insurance claims	**(132)**	(160)
Share of profits of associates and joint ventures	**28**	30
Impairment losses on assets	**(2,394)**	(2,603)
Profit before tax	**17,030**	10,178
Income tax	**(3,827)**	(1,916)
Net profit attributable to the Bank's shareholders	**13,203**	8,262

From January to June 2010, the Group realized a profit before tax of RMB17.030 billion, an increase of 67.32% as compared to the corresponding period of 2009, and its effective income tax rate was 22.47%, an increase of 3.65 percentage points as compared to the corresponding period of 2009.

3.2.2 Operating income

From January to June 2010, the net operating income of the Group was RMB33.010 billion, an increase of 32.99% as compared to the corresponding period of 2009, of which, net interest income accounted for 79.80%, an increase of 4.77 percentage points as compared to the corresponding period of 2009; net non-interest income accounted for 20.20%, a decrease of 4.77 percentage points as compared to the corresponding period of 2009.

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

	January – June 2010 (%)	January – June 2009 (%)	January – June 2008 (%)
Net interest income	**79.80**	75.03	83.71
Net fee and commission income	**16.20**	16.28	14.21
Other net income	**3.40**	7.81	1.97
Insurance operating income	**0.51**	0.76	–
Share of profits of associates and joint ventures	**0.09**	0.12	0.11
Total	**100.00**	100.00	100.00

3.2.3 Net interest income

From January to June 2010, the net interest income of the Group was RMB26.343 billion, an increase of 41.45% as compared to the corresponding period of 2009, which was primarily attributable to the increase in both scale in interest-earning assets and the net interest margin.

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

	Jan-Jun 2010			Jan-Dec 2009			Jan-Jun 2009		
	Average balance	Interest income	Average annualized yield %	Average balance	Interest income	Average yield %	Average balance	Interest income	Average annualized yield %
	(in millions of RMB, excluding percentages)								
Assets									
Loans and advances	**1,411,885**	**32,052**	**4.58**	1,176,589	52,022	4.42	1,067,187	24,394	4.61
Debt investments	**306,455**	**4,327**	**2.85**	275,702	8,552	3.10	250,915	4,407	3.54
Balances with central bank	**230,793**	**1,577**	**1.38**	196,619	2,957	1.50	188,655	1,356	1.45
Placements with banks and other financial institutions	**127,443**	**1,270**	**2.01**	157,333	2,307	1.47	172,069	1,345	1.58
Total interest-earning assets and interest income	**2,076,576**	**39,226**	**3.81**	1,806,243	65,838	3.65	1,678,826	31,502	3.78

	Average balance	Interest expense	Average annualized cost %	Average balance	Interest expense	Average cost %	Average balance	Interest expense	Average annualized cost %
	(in millions of RMB, excluding percentages)								
Liabilities									
Deposits from customers	**1,613,411**	**9,804**	**1.23**	1,407,731	19,614	1.39	1,341,797	10,096	1.52
Placements from banks and other financial institutions	**283,423**	**2,137**	**1.52**	250,885	3,928	1.57	203,541	1,777	1.76
Issued debts	**41,290**	**942**	**4.60**	39,376	1,932	4.91	39,365	1,006	5.15
Total interest-bearing liabilities and interest expenses	**1,938,124**	**12,883**	**1.34**	1,697,992	25,474	1.50	1,584,703	12,879	1.64
Net interest income	**–**	**26,343**	**–**	–	40,364	–	–	18,623	–
Net interest spread	**–**	**–**	**2.47**	–	–	2.15	–	–	2.14
Net interest margin	**–**	**–**	**2.56**	–	–	2.23	–	–	2.24

The following table sets out, for the periods indicated, the allocation of changes in interest income and interest expenses of the Group due to changes in scale and interest rate. Changes in scale are measured by changes in average balances (daily average balance) while changes in interest rate are measured by changes in the average interest rates; the changes in interest income and interest expenses due to changes in both scale and interest rate have been included in the amount of changes in interest income and interest expenses due to changes in scale.

	January – June 2010 compared with January – June 2009		
	Increase/(decrease) due to		Net increase/
	Scale	Interest rate	(decrease)
	(in millions of RMB)		
Assets			
Loans and advances	7,825	(167)	7,658
Debt investments	784	(864)	(80)
Balances with central bank	288	(67)	221
Placements with banks and other financial institutions	(445)	370	(75)
Changes in interest income	8,452	(728)	7,724
Liabilities			
Deposits from customers	1,651	(1,943)	(292)
Placements from banks and other financial institutions	602	(242)	360
Issued debts	44	(108)	(64)
Changes in interest expense	2,297	(2,293)	4
Changes in net interest income	6,155	1,565	7,720

3.2.4 Interest income

From January to June 2010, the interest income of the Group increased by 24.52% as compared to the corresponding period of 2009, which was primarily attributable to the increase in the scale of interest-earning assets. Interest income from loans and advances increased by RMB7.658 billion, representing an increase of 31.39% as compared to the corresponding period of 2009 as driven by the stable increase of loan scale. Interest income from placements with central banks increased by RMB221 million, representing an increase of 16.30% as compared to the corresponding period of 2009. Both of the interest income from debt investments, placements with banks and other financial institutions showed a slight decline as compared to the corresponding period of last year.

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

	Jan-Jun 2010			Jan-Jun 2009		
	Average balance	**Interest income**	**Average annualized yield %**	Average balance	Interest income	Average annualized yield %
	(in millions of RMB, excluding percentages)					
Corporate loans	**763,743**	**18,360**	**4.85**	563,901	14,960	5.35
Retail loans	**418,491**	**10,183**	**4.91**	250,405	6,414	5.17
Discounted bills	**229,651**	**3,509**	**3.08**	252,881	3,020	2.41
Loans and advances	**1,411,885**	**32,052**	**4.58**	1,067,187	24,394	4.61

3.2.5 Interest expense

From January to June 2010, the Group's interest expense was primarily the same as that in the same period of 2009. Benefiting from the effective control on the cost over deposits from customers, the average annualized cost for deposits from customers dropped by 0.29 percentage point as compared to the corresponding period of the previous year, the interest expense decreased by RMB292 million, or 2.89%, as compared to the same period of 2009. Interest expense on the amounts due to banks and other financial institutions increased by RMB360 million, or 20.26%, as compared to the corresponding period of the previous year, interest expenses on issued debts decreased by RMB64 million as compared to the corresponding period of the previous year.

The following table sets out the average balances of the corporate deposits and retail deposits, interest expense and average cost of the Group in the periods indicated.

	Jan – Jun 2010			Jan – Jun 2009		
	Average balance	**Interest expense**	**Average annualized cost%**	Average balance	Interest expense	Average annualized cost%
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**531,197**	**1,623**	**0.62**	375,161	1,129	0.61
Time	**461,438**	**4,329**	**1.89**	418,400	4,635	2.23
Subtotal	**992,635**	**5,952**	**1.21**	793,561	5,764	1.46
Deposits from retail customers						
Demand	**345,748**	**898**	**0.52**	269,306	614	0.46
Time	**275,028**	**2,954**	**2.17**	278,930	3,718	2.69
Subtotal	**620,776**	**3,852**	**1.25**	548,236	4,332	1.59
Total deposits from customers	**1,613,411**	**9,804**	**1.23**	1,341,797	10,096	1.52

3.2.6 Net interest spread and net interest margin

From January to June 2010, the net interest spread of the Group was 2.47%, increased by 33 basis points as compared to the corresponding period of 2009. The average interest margin of the interest-earning assets was 3.81%, increased by 3 basis points as compared to the corresponding period of the previous year. The average cost of the interest-bearing liabilities was 1.34%, down by 30 basis points as compared to the corresponding period of the previous year.

From January to June 2010, the net interest margin of the Group was 2.56%, increased by 32 basis points as compared to the corresponding period of 2009. Such increase was due to the increase of the average interest margin of the interest-earning assets and the effective control of the average cost of the interest-bearing liabilities.

3.2.7 Net fee and commission income

From January to June 2010, net fee and commission income of the Group increased by RMB1.304 billion, or 32.26%, as compared to the corresponding period of 2009. Such increase was primarily attributable to increase in agency service fees, bank card fees and commissions from credit commitment and loan business. The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

	Jan – Jun 2010	Jan – Jun 2009
	(in millions of RMB)	
Fee and commission income	**5,836**	4,588
Bank card fees	**1,701**	1,385
Remittance and settlement fees	**660**	508
Agency service fees	**1,550**	1,109
Commissions from credit commitment and loan business	**568**	364
Commissions from custody and other trustee businesses	**708**	735
Others	**649**	487
Fee and commission expense	**(490)**	(546)
Net fee and commission income	**5,346**	4,042

Bank card fee income increased by RMB316 million, or 22.82%, as compared to the corresponding period of the previous year. It was primarily due to gradual increase of credit cards POS income.

Remittance and settlement fees increased by RMB152 million, or 29.92%, as compared to the corresponding period of the previous year. Such increase was primarily attributable to the increase in remittance and settlement transaction volumes due to the gradual expansion of our business scale and customer base, and the increase of income from personal account management fees.

Agency service fees increased by RMB441 million, or 39.77%, as compared to the corresponding period of the previous year. It was primarily due to the increase in income from agency sale of insurance, fund agency services and agency issuance of debt.

Commissions from credit commitment and loan business increased by RMB204 million, or 56.04%, as compared to the corresponding period of the previous year, which was primarily attributable to increase in fees from international guarantee, international factoring, personal loan and other commitment business.

Commissions from custody and other trustee business decreased slightly as compared to the corresponding period of the previous year, which was primarily attributable to the decrease in income from wealth management business.

3.2.8 Other net income

From January to June 2010, other net income of the Group decreased by RMB816 million, or 42.08%, as compared to the corresponding period of 2009. The significant decrease in other net income of the Group was mainly due to the estimated losses on financial instruments designated at fair value through profit or loss; timely realization of the available-for-sale financial assets that reaped gains on spread in the corresponding period of the previous year, which uplifted the base in comparison.

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

	Jan – Jun 2010	Jan – Jun 2009
	(in millions of RMB)	
Net trading profit arising from:		
– Foreign exchange	**644**	534
– Securities, derivatives and other trading activities	**461**	188
Net gains on financial instruments designated at fair value through profit or loss	**(201)**	296
Net profit on disposal of available-for-sale financial assets	**111**	704
Distributions from investment in funds	**10**	5
Rental income	**90**	74
Others	**8**	138
Total other net income	**1,123**	1,939

3.2.9 Operating expenses

From January to June 2010, operating expenses of the Group were RMB13.454 billion, representing an increase of 13.25% as compared to the corresponding period of 2009. The cost-to-income ratio was 34.97%, a decrease of 7.02 percentage points as compared to the corresponding period of the previous year. The significant decrease of cost-to-income ratio was primarily due to a significant increase in operating income and a steady rise in expenses. Depreciation of fixed assets, rental expenses, other general and administrative expenses increased slightly as compared to the corresponding period of the previous year. Staff costs increased by 15.48% as compared to corresponding period of 2009, due to increased headcounts along with business expansion.

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

	Jan – Jun 2010	Jan – Jun 2009
	(in millions of RMB)	
Staff costs	**6,767**	5,860
Business tax and surcharges	**1,910**	1,457
Depreciation of fixed assets	**1,171**	1,072
Rental expenses	**913**	904
Other general and administrative expenses	**2,693**	2,587
Total operating and management expenses	**13,454**	11,880

3.2.10 Impairment losses on assets

From January to June 2010, impairment losses on assets of the Group amounted to RMB2.394 billion, a decrease of 8.03% as compared to the corresponding period of 2009. The following table sets forth, for the periods indicated, the principal components of impairment losses on assets of the Group.

	Jan – Jun 2010 (in millions of RMB)	Jan – Jun 2009
Assets impairment charged/(released) on		
– Loans and advances	**2,451**	2,650
– Investments	**(13)**	(44)
– Other assets	**(44)**	(3)
Total impairment losses on assets	**2,394**	2,603

Impairment losses on loans constituted the largest part of impairment losses on assets. From January to June 2010, impairment losses on loans was RMB2.451 billion, representing a decrease of 7.51% as compared to the corresponding period of 2009. For details of specific changes and reasons for impairment losses on loans, please refer to the paragraph headed "Loan quality analysis" of this section.

From January to June 2010, the investment value of some debts for which the impairment loss had been provided previously was restored, and exposure to credit risk of issuers was partially mitigated, therefore impairment loss previously recognized on debts investments was appropriately reversed, with a total released amount of RMB13 million.

Impairment losses on other assets consisted primarily of impairment losses on repossessed assets. From January to June 2010, the provision for impairment losses on other assets of the Group was RMB44 million.

3.3 Analysis of balance sheet

3.3.1 Assets

As at 30 June 2010, the total assets of the Group were RMB2,282.482 billion, representing an increase of 10.37% as compared to the end of 2009. The increase in total assets was primarily due to the increase in loans and advances to customers, investment, cash and balances and balances with the central bank.

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

	30 June 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Total loans and advances to customers	**1,330,765**	**58.30**	1,185,822	57.34
Allowance for impairment losses on loans and advances to customers	**(26,337)**	**(1.15)**	(24,005)	(1.16)
Net loans and advances to customers	**1,304,428**	**57.15**	1,161,817	56.18
Investments	**389,160**	**17.05**	377,072	18.23
Investment in associates and joint ventures	**418**	**0.02**	466	0.02
Balances with the central bank	**245,235**	**10.74**	208,554	10.09
Cash and balances with banks and other financial institutions	**35,784**	**1.57**	56,544	2.73
Placement with banks and other financial institutions	**262,417**	**11.50**	221,194	10.70
Fixed assets	**15,711**	**0.69**	16,008	0.78
Intangible assets	**2,474**	**0.11**	2,477	0.12
Deferred income tax assets	**2,205**	**0.10**	2,786	0.13
Goodwill	**9,598**	**0.42**	9,598	0.46
Other assets	**15,052**	**0.65**	11,425	0.56
Total assets	**2,282,482**	**100.00**	2,067,941	100.00

3.3.1.1 Loans and advances to customers

As at 30 June 2010, total loans and advances to customers of the Group amounted to RMB1,330.765 billion, representing an increase of 12.22% as compared to the end of previous year; the percentage of total loans and advances to customers to total assets was 58.30%, representing an increase of 0.96 percentage point as compared to the end of the previous year.

Distribution of loans to customers by product type

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

	30 June 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Corporate loans	**813,021**	**61.09**	701,396	59.15
Discounted bills	**71,307**	**5.36**	102,549	8.65
Retail loans	**446,437**	**33.55**	381,877	32.20
Total loans and advances to customers	**1,330,765**	**100.00**	1,185,822	100.00

Corporate loans

As at 30 June 2010, the Group's total corporate loans amounted to RMB813.021 billion, representing an increase of RMB111.625 billion as compared to the beginning of the year, accounting for 61.09% of its total loans and advances to customers, an increase of 1.94 percentage points as compared to the beginning of the year. In the first half of 2010, the Group took into the account of regulatory requirements, capital adequacy, risk exposure and loan pricing, and rationalized the speed of granting loans, thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 30 June 2010, discounted bills amounted to RMB71.307 billion, representing a decrease of 30.47% as compared to the end of previous year. Over the years, as the loss rate of discounted bills was relatively low and the capital consumption was relatively small, the Group kept striving to expand this business. Confronted with the complicated and changing economic and financial environment in 2010, the Group achieved a sound result in its bill discounting business under a downscaled but competitive market environment, through active cooperating with credit approval policy and scale control, proactively downscale of the bills discounting, and increase of the volume and acceleration of turnover of bills discounting by diversified measures such as policy promotion, intensified operation as well as two-way market making.

Retail loans

With active development of retail loans business in recent years, the percentage of retail loans business in the portfolio of loans and advances kept increasing. As at 30 June 2010, retail loans amounted to RMB446.437 billion, representing an increase of 16.91% as compared to the end of the previous year, accounting for 33.55% of its total loans and advances, representing an increase of 1.35 percentage points as compared to the end of the previous year. The increase was primarily due to the diversified expansion of retail loans.

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

	30 June 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Residential mortgage loans	**303,262**	**67.93**	273,659	71.66
Credit card receivables	**43,585**	**9.76**	40,314	10.56
Others[(1)]	**99,590**	**22.31**	67,904	17.78
Total retail loans	**446,437**	**100.00**	381,877	100.00

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

3.3.1.2 Investments

Analysis on investments in foreign currency debts

As at 30 June 2010, the Group had a balance of investments in foreign currency debts of US$5.845 billion, among which US$2.447 billion was held by the Company and US$3.398 billion was held by Wing Lung Bank Limited ("WLB") and its subsidiaries (hereinafter referred to as "WL Group").

As at the end of June 2010, the investments in foreign currency bonds held by the Company are categorized by issuer type as follows: 51.81% of the foreign currency bonds are issued by the PRC government and Chinese companies; 3.79% by governments and institutions overseas; 37.16% by overseas banks and 7.24% by overseas companies. The Company has made an allowance for impairment of US$95 million for its investments in foreign currency debts, with an evaluated unrealized profit of US$26 million.

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

Investments

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

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

	30 June 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Financial assets at fair value through profit or loss	**19,228**	**4.94**	16,855	4.47
Available-for-sale investments	**249,365**	**64.08**	244,916	64.95
Held-to-maturity securities	**86,525**	**22.23**	80,201	21.27
Investment receivables	**34,042**	**8.75**	35,100	9.31
Total investments	**389,160**	**100.00**	377,072	100.00

The following table sets forth the components of the investment portfolio of the Group by issuing entity.

	30 June 2010	31 December 2009
	(in millions of RMB)	
PRC government bonds	**60,374**	47,314
PBOC notes	**37,450**	55,476
Debts issued by policy banks	**46,704**	52,317
Debts issued by commercial banks and other financial institutions	**137,105**	146,896
Others[1]	**105,935**	74,070
Total	**387,568**	376,073

Note: (1) Consists of other bonds, equity investments and investments in funds, etc., excluding derivative financial assets.

Available-for-sale financial assets

As at 30 June 2010, the available-for-sale financial assets of the Group increased by RMB4,449 million or 1.82%, as compared to the end of 2009, representing 64.08% of the investments of the Group, which was the largest investment category of the Group. The increase in this category was mainly due to the need to manage assets and liabilities and to improve operation efficiency.

In the first half of 2010, the momentum of recovery in the macro-economy in the PRC sustained, and the government continued to adopt proactive fiscal policies and moderate loose monetary policies. However, when implementing fiscal policies, the government focused on structural adjustments, while the monetary policy tended to be tightened generally. Due to the fine-tuning of monetary policy, the loose to tight supply of funds, and change in demand and supply in bond market, short term interest rates went up, while interest rates of medium and long term bonds went down, which led to a more flattened yield curve for bonds. Against this background, although there were various trading opportunities in the market, investment portfolio allocation had been more difficult. Accordingly, the Bank strengthened supervision over the progress of investment and duration of portfolios. Generally, for the first half of the year, total amount of investment in bonds increased steadily and portfolio structure had improved. PRC government bonds, debts issued by policy banks and debts issued by commercial banks and other financial institutions held by the Group decreased slightly. PBOC notes held by the Group were significantly reduced due to their shorter terms, and a large number of them matured during the period. The Company's holdings in other debts increased considerably, which included high-yield short-term commercial papers, medium-term notes and corporate bond. In the first half of the year, these products commanded large issue size and wide credit spreads, which can help to uplift the yield of the overall bond portfolio. Therefore, the Group increased the holding of such debts to the extent that the risk exposure to such debts was kept at a controllable level.

Held-to-maturity securities

As at 30 June 2010, the net amount of held-to-maturity securities of the Group increased by RMB6.324 billion, or 7.89%, as compared to the end of previous year. Held-to-maturity securities are held for the Group's strategic purpose on a long-term basis. In the first half of 2010, the Group grasped the market interest rate movement and acquired certain medium and long term debts with higher yield into its held-to-maturity investments category. The increase in such investments was mainly attributable to increase in PRC government bonds which enjoyed better preferential tax treatment, while investment in other types of debts maintained at constant level or reduced. As the role of bond investment becomes more important in relation to assets and liabilities allocation, the Group will steadily increase such investment to a suitable level.

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 30 June 2010, the Group's balance of investment receivables amounted to RMB34.042 billion, representing a decrease of RMB1.058 billion as compared to the end of 2009.

Carrying value and market value

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

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

	30 June 2010		31 December 2009	
	Carrying Value	**Market/ Fair Value**	Carrying Value	Market/ Fair Value
	(in millions of RMB)			
Held-to-maturity listed debt securities	**82,217**	**83,468**	72,217	75,302

3.3.1.3 Goodwill

As at 30 June 2010, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.598 billion.

3.3.2 Liabilities

As at 30 June 2010, the total liabilities of the Group amounted to RMB2,157.641 billion, representing an increase of 9.24% as compared to the end of 2009, which was primarily due to a steady growth in deposits from customers.

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

	30 June 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Deposits from customers	**1,752,400**	**81.22**	1,608,146	81.42
Deposits from banks and other financial institutions	**230,456**	**10.68**	186,201	9.43
Placements from banks and other financial institutions	**71,328**	**3.31**	78,918	4.00
Trading liabilities	**395**	**0.02**	30	–
Financial liabilities designated at fair value through profit or loss	**995**	**0.05**	1,173	0.06
Derivative financial instruments	**1,637**	**0.08**	1,474	0.07
Certificates of deposit issued	**3,956**	**0.18**	4,462	0.23
Other debts issued	**4,999**	**0.23**	4,998	0.25
Subordinated debts issued	**31,262**	**1.45**	31,271	1.58
Current taxation	**2,183**	**0.10**	1,159	0.06
Deferred tax liabilities	**950**	**0.04**	941	0.05
Other liabilities	**57,080**	**2.64**	56,385	2.85
Total liabilities	**2,157,641**	**100.00**	1,975,158	100.00

Deposits from customers

The Group has been consistently focusing on expanding deposit business. Deposits from customers maintained steady growth. As at 30 June 2010, deposits from customers of the Group amounted to RMB1,752.400 billion, representing an increase of 8.97% as compared to the end of 2009. Deposits from customers accounted for 81.22% of the total liabilities of the Group and were the major source of fund of the Group.

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

	30 June 2010		31 December 2009	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except percentages)			
Deposits from corporate customers				
Demand	**603,281**	**34.42**	520,734	32.38
Time	**473,956**	**27.05**	448,391	27.88
Subtotal	**1,077,237**	**61.47**	969,125	60.26
Deposits from retail customers				
Demand	**382,186**	**21.81**	359,783	22.37
Time	**292,977**	**16.72**	279,238	17.37
Subtotal	**675,163**	**38.53**	639,021	39.74
Total deposits from customers	**1,752,400**	**100.00**	1,608,146	100.00

As at 30 June 2010, the percentage of time deposits to total deposits from customers of the Group was 43.77%, representing a decrease of 1.48 percentage points as compared to the end of 2009. Among the figures, the proportion of corporate time deposits accounted for 44.00% of the corporate deposits, representing a decrease of 2.27 percentage points as compared to the end of 2009, and the proportion of retail time deposits accounted for 43.39% of the retail deposits, representing a decrease of 0.31 percentage point as compared to the end of 2009.

3.3.3 Shareholders' equity

	30 June 2010	31 December 2009
	(in millions of RMB)	
Paid-up share capital	**21,577**	19,119
Capital reserve	**37,508**	18,399
Investment revaluation reserve	**1,728**	(230)
Surplus reserve	**8,418**	6,653
Regulatory general reserve	**15,067**	14,976
Retained profits	**40,704**	27,592
Foreign exchange translation difference	**(161)**	(22)
Proposed profit appropriations	**–**	6,296
Total shareholders' equity	**124,841**	92,783

3.3.4 Market share of major products or services

According to the statistics published by the People's Bank of China (hereinafter referred to as "PBOC"), in June 2010, the market share and ranking of the Bank among the 32 small-and-medium-sized banks in terms of loans and deposits as at the end of the reporting period are as follows:

Items expressed in RMB	Market share (%)	Ranking
Total deposits	12.29	1
Total savings deposits	22.20	1
Total loans	10.59	2
Total personal consumption loans	26.73	1

Note: From 2010, PBOC had made a new classification for all banks in the PRC: 7 large-sized banks, 32 small-and-medium-sized national banks and small-and-medium-sized local banks, etc. The 32 small-and-medium-sized national banks are China Merchants Bank, Agricultural Development Bank, Export-Import Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, Evergrowing Bank, China Zheshang Bank and Bohai Bank; and Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank, Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank and Bank of Chongqing.

3.4 Loan quality analysis

For the first half of 2010, the Group took proactive actions to cope with the changes in the complex external economic and financial environment, and accordingly carried out optimization of the credit risk management process and pushed forward with the upgrade of overall credit risk management under the basic strategies of "Making transformation, Optimizing process, Solidifying foundation and Enhancing management". During the reporting period, our credit assets experienced moderate growth in value and ongoing improvement in quality, and adequate provisions were made with excellent collection rate.

As at the end of June 2010, total loans and advances of the Group was RMB1,330.765 billion, representing an increase of 144.943 billion, or 12.22%, as compared to that at the beginning of the year; the non-performing loan ratio was 0.67%, representing a decrease of 0.15 percentage point as compared to that at the end of the previous year; whereas the non-performing loan allowance coverage ratio was 297.59%, representing an increase of 50.93 percentage points as compared to that at the beginning of the year.

3.4.1 Distribution of loans by 5-tier loan classification

	30 June 2010		31 December 2009	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	**1,307,832**	**98.27**	1,161,971	97.99
Special Mention	**14,083**	**1.06**	14,119	1.19
Substandard	**1,983**	**0.15**	2,961	0.25
Doubtful	**2,960**	**0.22**	2,791	0.23
Loss	**3,907**	**0.30**	3,980	0.34
Total loans and advances to customers	**1,330,765**	**100.00**	1,185,822	100.00
Total non-performing loans	**8,850**	**0.67**	9,732	0.82

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. During the reporting period, asset quality of the Group has persistently improved as the respective balances and ratios of non-performing loans and doubtful loans both dropped. As at the end of June 2010, the amount of non-performing loans was RMB8.850 billion, decreasing by RMB882 million from the end of the previous year, and the ratio of non-performing loans was 0.67%, a decrease of 0.15 percentage point as compared with the end of the previous year. Special mention loan balance was RMB14.083 billion, down by RMB36 million as compared to that at the end of the previous year, whereas the special mention loan ratio was 1.06%, a decrease of 0.13 percentage point as compared to that at the end of the previous year.

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

	As at 30 June 2010				As at 31 December 2009			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio [1] (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio[1] (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	813,021	61.09	7,216	0.89	701,396	59.15	8,009	1.14
Working capital loans	493,067	37.05	5,666	1.15	454,969	38.37	6,427	1.41
Fixed asset loans	242,782	18.24	690	0.28	196,059	16.53	646	0.33
Trade finance	49,281	3.70	369	0.75	36,848	3.11	379	1.03
Others[2]	27,891	2.10	491	1.76	13,520	1.14	557	4.12
Discounted bills[3]	71,307	5.36	–	–	102,549	8.65	–	–
Retail loans	446,437	33.55	1,634	0.37	381,877	32.20	1,723	0.45
Residential mortgage loans	303,262	22.79	372	0.12	273,659	23.07	390	0.14
Credit card receivables	43,585	3.28	1,065	2.44	40,314	3.40	1,133	2.81
Others[4]	99,590	7.48	197	0.20	67,904	5.73	200	0.29
Total loans and advances to customers	1,330,765	100.00	8,850	0.67	1,185,822	100.00	9,732	0.82

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

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

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

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

For the first half of 2010, based on the maintenance of a proper composition of credit approvals for various businesses and preventive measures for credit risks, the Group provided its customers with comprehensive financial solutions according to the operating scale, operation mode and financing channels of the customers' businesses. Credit extension businesses targeted at short maturities and quick turnovers such as supply chain finance and international trade finance were vigorously developed and the information flow, stock flow and cash flow of the respective corporate clients were under close risk surveillance. During the reporting period, trade finance business recorded a relatively high growth rate of 33.74%.

Meanwhile, adhering to the prudent management approach, the Company complied with the relevant requirements of "Three Rules and One Guideline" issued by the China Banking Regulatory Commission (hereinafter referred to as "CBRC"). We put in place and refined the relevant working systems such as Administrative Measures for Working Capital Loans, Administrative Measures for the Uses of Working Capital Loans, Administrative Measures for Fixed Asset Loans, and Administrative Measures for the Uses of Fixed Asset Loans whereby substantial risk items involved in credit approvals for various businesses were under control and positive results were evident. This was reflected by the lower ratios of non-performing loans for various businesses recorded and a balanced improvements of asset quality during the reporting period. As at the end of June 2010, the non-performing loan ratio of corporate loans was 0.89%, representing a decline of 0.25 percentage point as compared to that at the beginning of the year. The non-performing ratio of the retail residential mortgage loans was 0.12%, representing a decline of 0.02 percentage point as compared to that at the beginning of the year, whilst those of retail credit card loans was 2.44%, representing a decline of 0.37 percentage point as compared to that at the beginning of the year.

3.4.3 Distribution of loans and non-performing loans by industry

	As at 30 June 2010				As at 31 December 2009			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (1) (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	**813,021**	**61.09**	**7,216**	**0.89**	701,396	59.15	8,009	1.14
Manufacturing	**229,554**	**17.25**	**2,584**	**1.13**	194,388	16.39	2,888	1.49
Transportation, storage and postal services	**120,521**	**9.06**	**519**	**0.43**	109,580	9.24	529	0.48
Property development	**111,620**	**8.39**	**839**	**0.75**	90,527	7.63	1,092	1.21
Wholesale and retail	**108,060**	**8.12**	**1,644**	**1.52**	80,244	6.77	1,749	2.18
Generation and supply of electric power, gas and water	**63,528**	**4.77**	**441**	**0.69**	65,984	5.56	457	0.69
Leasing and commercial services	**51,407**	**3.86**	**410**	**0.80**	46,353	3.91	446	0.96
Water, environment and public utilities management	**31,474**	**2.37**	**11**	**0.03**	28,626	2.41	11	0.04
Construction	**30,804**	**2.31**	**72**	**0.23**	26,230	2.21	86	0.33
Mining	**22,931**	**1.72**	**–**	**–**	19,779	1.67	–	–
Financial Services	**7,916**	**0.59**	**69**	**0.87**	6,706	0.57	72	1.07
Others (2)	**35,206**	**2.65**	**627**	**1.78**	32,979	2.79	679	2.06
Discounted bills	**71,307**	**5.36**	**–**	**–**	102,549	8.65	–	–
Retail loans	**446,437**	**33.55**	**1,634**	**0.37**	381,877	32.20	1,723	0.45
Total loans and advances to customers	**1,330,765**	**100.00**	**8,850**	**0.67**	1,185,822	100.00	9,732	0.82

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

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

During the first half of 2010, under the guidelines of "setting definitive thresholds, encouraging the growth of some sectors while restraining the expansion of others, attempting at portfolio management, and strengthening structural adjustment", the Company continued to conduct in-depth researches on credit policies towards different industries and channel credits in an appropriate manner. In 2010, credit policies covering more than 30 industries were in place which clearly defined the requirements and limits on credit approvals for different customer types and industries. Differential treatments among industries and customers such as limits on industry proportions and loan balances, special treatment for shortlisted customers were applied which effectively refined the credit approval system. At the same time, the Group took steps to speed up the adjustments to loan structure, pushed on with self-reviews and corrective actions for projects related to government financing platforms, and tightened the limits on loans for property development purposes, with stringent credit risks control over loans to the "high pollution, high energy consumption and excess capacity industries" and those of backward technologies. As a result, a balanced growth of credits and optimized industry distribution were achieved in the reporting period.

In the first half of 2010, the increase in the loans by the Group were primarily contributed by the corporate loans granted to the manufacturing, wholesale and retail industries, and retail loans. The additional loan balances of the above industries accounted for 87.99% of the Group's total additional loan balance. Except that the non-performing loan ("NPL") ratio for the industry category of generation and supply of electric power, gas and water remained equal to that at the beginning of the year, the NPL ratio for other industries declined as compared to the end of the previous year.

3.4.4 Distribution of loans and non-performing loans by region

	As at 30 June 2010				As at 31 December 2009			
	Loan balance	Percentage of total %	Non-performing loan	Non-performing loan ratio(1) %	Loan balance	Percentage of total %	Non-performing loan	Non-performing loan ratio(1) %
	(in millions of RMB, excluding percentages)							
Eastern China	542,247	40.75	3,200	0.59	489,310	41.26	3,607	0.74
Southern China and Central China	346,107	26.01	3,094	0.89	308,909	26.05	3,378	1.09
Western China	142,915	10.74	1,360	0.95	126,600	10.68	1,437	1.14
Northern China	230,328	17.31	865	0.38	204,105	17.21	903	0.44
Others	69,168	5.19	331	0.48	56,898	4.80	407	0.72
Total loans and advances to customers	1,330,765	100.00	8,850	0.67	1,185,822	100.00	9,732	0.82

(1) Represents the ratio of non-performing loans attributable to a division to the total loans of such division.

With respect to regional credit policies and management, the Group has consistently adhered to the approach of combining unified credit strategy with varied regional policies. The Group formulated appropriate regional credit policies by fully taking into account variations in, among others, regional resources, features of industry clusters and financial environment. In the first half of 2010, regional credit structure of the Group was basically stable. Loans were mainly extended in Eastern China, Southern China and Central China. The Group strongly supported the pillar industries and quality customers in the respective regions with stronger competitive strengths and healthy growth in order to achieve an optimal regional credit structure.

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

	As at 30 June 2010				As at 31 December 2009			
	Loan balance	Percentage of total %	Non-performing loan	Non-performing loan ratio(1) %	Loan balance	Percentage of total %	Non-performing loan	Non-performing loan ratio(1) %
	(in millions of RMB, excluding percentages)							
Unsecured loans	282,250	21.21	1,491	0.53	263,666	22.23	1,575	0.60
Guaranteed loans	331,971	24.95	3,482	1.05	283,055	23.87	3,695	1.31
Collateralized loans	556,962	41.85	3,285	0.59	461,945	38.96	3,805	0.82
Pledged loans	88,275	6.63	592	0.67	74,607	6.29	657	0.88
Discounted bills	71,307	5.36	–	–	102,549	8.65	–	–
Total loans and advances to customers	1,330,765	100.00	8,850	0.67	1,185,822	100.00	9,732	0.82

(1) Represents the ratio of non-performing loans attributable to a division to the total loans of such division.

The Group has been always taking collaterals as an important means to mitigate credit risk. As at the end of the reporting period, the percentage of collateralized loans increased by 2.89 percentage points as compared to that at the beginning of the year whilst the unsecured loans declined by 1.02 percentage points as compared to that at the beginning of the year. All non-performing loans under different types of guarantees declined.

3.4.6 Loans to the top ten individual customers

Top ten borrowers	Industry	Loan balance as at 30 June 2010 (in millions of RMB)	% of net capital	% of total loans
A	Transportation, storage and postal services	6,267	4.00	0.47
B	Transportation, storage and postal services	4,420	2.82	0.33
C	Public administration and social organization	3,780	2.41	0.28
D	Transportation, storage and postal services	3,465	2.21	0.26
E	Leasing and commercial services	2,738	1.75	0.21
F	Leasing and commercial services	2,712	1.73	0.20
G	Transportation, storage and postal services	2,700	1.72	0.20
H	Transportation, storage and postal services	2,460	1.57	0.19
I	Transportation, storage and postal services	2,300	1.47	0.17
J	Property development	2,200	1.41	0.17
Total		**33,042**	**21.09**	**2.48**

As at the end of the reporting period, the loan balances of the Group's largest single borrower amounted to RMB6.267billion, representing 4.00% of the Group's net capital. The loan balances of top ten single borrowers totaled RMB33.042 billion, representing 21.09% and 2.48% of the Group's net capital and the Group's total loan balance respectively.

3.4.7 Distribution of loans by overdue term

	As at 30 June 2010		As at 31 December 2009	
	Amount	**Percentage of the total loans %**	Amount	Percentage of the total loans%
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	**5,170**	**0.39**	3,741	0.31
Overdue more than 3 months but within 1 year	**1,163**	**0.08**	2,114	0.18
Overdue more than 1 year but within 3 years	**2,875**	**0.23**	2,362	0.20
Overdue more than 3 years	**3,767**	**0.28**	3,914	0.33
Total overdue loans	**12,975**	**0.98**	12,131	1.02
Total loans to customers	**1,330,765**	**100.00**	1,185,822	100.00

As the Group's capability of identifying credit risks and managing credit risks enhanced successively, the overdue loans of the Group saw a further reduction in the first half of the 2010, with its percentage to the total loans decreasing from 1.02% at the beginning of the year to 0.98% as at the end of the reporting period.

3.4.8 Restructured loans

	As at 30 June 2010		As at 31 December 2009	
	Amount	**Percentage of the total loans %**	Amount	Percentage of the total loans%
	(in millions of RMB, excluding percentages)			
Restructured loans	**1,660**	**0.12**	1,569	0.13
Of which: restructured loans overdue more than 90 days	**914**	**0.07**	898	0.08

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

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

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the total repossessed assets of the Group amounted to RMB1,128 million. And after deduction of allowances for impairment losses of RMB1,058 million, the net repossessed assets amounted to RMB70 million.

3.4.10 Changes of allowances for impairment losses on loans

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

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

	In the first half of 2010	2009
	(in millions of RMB)	
As at 1 January	**24,005**	21,608
Charge for the period	**2,917**	4,016
Releases for the period	**(466)**	(943)
Unwinding of discount[1]	**(47)**	(106)
Recoveries of loans and advances previously written off	**30**	155
Write-offs	**(91)**	(772)
Transfers in/out	**14**	46
Foreign exchange rate movements	**(25)**	1
As at end of period	**26,337**	24,005

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

The Group continued to adopt a stable and prudent policy for making provisions. As the end of the reporting period, allowances for impairment losses on loans amounted to RMB26.337 billion, representing an increase of RMB2.332 billion from the beginning of the year. It was primarily due to the augment of loan scale. The non-performing loan allowances coverage ratio was 297.59%, representing an increase of 50.93 percentage points as compared with that at the beginning of the year, which indicated that the capability to resist risks was further enhanced.

3.5 Analysis of capital adequacy ratio

As at 30 June 2010, the capital adequacy ratio and core capital adequacy ratio of the Group were 11.60% and 8.05% respectively, representing an increase of 1.15 percentage points and 1.42 percentage points respectively as compared with those at the beginning of the year, while the capital adequacy ratio and core capital adequacy ratio of the Bank were 11.27% and 8.68% respectively, representing an increase of 1.22 percentage points and 1.32 percentage points respectively as compared with those at the beginning of the year. The capital adequacy ratio rose in the first half of the year as the proceeds of RMB21.567 billion from the Rights Issue of A Shares and H Shares were fully used to replenish capital so as to further enhance the Bank's capital base.

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

	As at 30 June 2010 (in millions of RMB)	As at 31 December 2009
Core capital		
Paid-up ordinary share capital	**21,577**	19,119
Reserves	**98,417**	69,154
Total core capital	**119,994**	88,273
Supplementary capital		
General provisions for loans and advances	**18,660**	16,057
Term subordinated debts	**30,000**	30,000
Other supplementary capital	**893**	–
Total supplementary capital	**49,553**	46,057
Total capital base before deductions	**169,547**	134,330
Deductions:		
Goodwill	**9,598**	9,598
Investments in unconsolidated subsidiaries and other long-term investments	**2,022**	1,168
Investments in commercial real estate	**1,273**	2,166
Total capital base after deductions	**156,654**	121,398
Risk-weighted assets	**1,350,084**	1,161,776
Core capital adequacy ratio	**8.05%**	6.63%
Capital adequacy ratio	**11.60%**	10.45%

3.6 Segment operating results

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

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

Business segments

The main businesses of the Group are corporate banking, retail banking and treasury business. For more information about the products and services of the respective main businesses, please refer to section headed "Business Operations".

The following table summarizes the operating results of the business segments of the Group for the period indicated.

Items	Jan – Jun 2010 (after adjustment) (Note) Profit before tax from the segments	Jan – Jun 2010 (after adjustment) (Note) Percentage (%)	Jan – Jun 2010 (before adjustment) Profit before tax from the segments	Jan – Jun 2010 (before adjustment) Percentage (%)	Jan – Jun 2009 Profit before tax from the segments	Jan – Jun 2009 Percentage (%)
	(in millions of RMB, excluding percentages)					
Corporate banking	**12,683**	**74.47**	**9,269**	**54.43**	5,409	53.14
Retail banking	**4,226**	**24.82**	**3,790**	**22.25**	1,352	13.28
Treasury business	**234**	**1.37**	**4,132**	**24.26**	3,267	32.10
Other businesses and adjustments	**(113)**	**(0.66)**	**(161)**	**(0.94)**	150	1.48
Total	**17,030**	**100.00**	**17,030**	**100.00**	10,178	100.00

Note: The format of disclosure for the performance, assets and liabilities of the Group's segments for 2010 was revised. To better facilitate bank operation and performance management, the Bank launched a new version of management accounting system in 2010. The data of the new version relies more on detailed division of businesses and is more direct as to the information collected upon products, customer attributes and operating units while less allocating factors would arise, so as to serve the purpose of delicacy management. Moreover, in view of the trend of integrated operation for the treasury business, the system clearly separates financial market businesses from traditional regional businesses, so that treasury businesses for regional markets (e.g. movement of funds between the Bank's branches and other banks and negotiation of bills in regional markets) previously grouped under the treasury business segment have been reclassified as corporate banking items and only the treasury business at headquarter level would maintain its status quo. Such revised management can better reflect our development strategies and allocation of resources, and thus facilitating the management and operation decision process.

Due to practical difficulties, comparative figures for the same period of 2009 have not been restated according to the logic and assumptions following the above changes. Segments information as at 30 June 2010 is displayed in accordance with both the above method and method previously used.

Geographical segments

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

	For the 6-month period ended 30 June 2010		For the 6-month period ended 30 June 2009	
	Revenue	**Percentage(%)**	Revenue	Percentage(%)
	(in millions of RMB, excluding percentages)			
Eastern China	**13,082**	**39.66**	8,796	35.48
Southern and Central China	**9,894**	**30.00**	10,696	43.15
Western China	**3,126**	**9.48**	1,834	7.40
Northern China	**5,566**	**16.88**	2,086	8.41
Overseas	**1,314**	**3.98**	1,379	5.56
Total	**32,982**	**100.00**	24,791	100.00

3.7 Other Information

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

The Group's off-balance sheet items include derivatives, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating lease commitments, capital commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and contingent liabilities. Credit commitments are the most important component. As at the end of the reporting period, the balance of credit commitments was RMB661.091 billion. For details of the contingent liabilities and commitments, please refer to the section headed "Contingent Liabilities and Commitments" in "Notes to the Financial Statements" of this Report.

3.7.2 Outstanding overdue debts

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

3.8 Business operations

3.8.1 Retail Banking Segment

The Company provides retail customers with diversified retail banking products and services, including retail loans, deposits, debit card, credit card, wealth management services, investment services, agency sale of insurance products and fund products, forex trading, and foreign exchange service, of which "All-in-one Card" (一卡通), "credit card" (信用卡), "Sunflower Wealth Management" (金葵花理財), private banking, personal online banking and "i-Wealth Management" (i理財) have won wide-spread recognition. The Company provides the above-mentioned services and products via various channels, including branches and sub-branches, self-service channels, online banking, remote banking and mobile banking services.

Retail loans

The Company provides retail customers with various loan products. Since 2010, the Company manages to achieve rapid growth of retail loan business through diversified development and adjusting loan structure. In response to the frequent issuance by the central government on new policies on residential loans and shrinking transaction activities in the housing market, the Company adopted a diversified expansion strategy so that businesses of personal automobile loans, personal business loans and personal commercial housing loans etc. were robustly promoted in addition to the extensive efforts made on the development of the personal residential loan business. The strategy has successfully mitigated the adverse effects of the cyclical movement of the housing industry and placed the Company at front place among its peers in terms of retail loan balance and new loan balance. Optimization of retail loan processing workflows continued throughout the period, resulting in enhanced operating efficiency, lowered operating cost and improved customer satisfaction. The Company maintained overall high quality of its retail loans as non-performing loan balance and non-performing loan ratio were both reduced. As at 30 June 2010, total retail loans amounted to RMB433.242 billion, increasing by 17.54% as compared to that at the end of the previous year, of which total residential mortgage loans increased by 11.40% as compared to the end of the previous year.

Retail customer deposits

The retail deposit products of the Company mainly consist of demand deposit, time deposit and call deposit. Retail customer deposit provided substantial low-cost capital for the Company. As at 30 June 2010, total retail customer deposits amounted to RMB625.439 billion, increasing by 6.59% from the end of the previous year. Total retail customer deposits accounted for 37.35% of total customer deposits, decreasing by 1.08 percentage points from the end of the previous year.

Retail non-interest income business

The Company has committed to developing non-interest income business in recent years. Since 2010, confronted with the complicated and changing global economic environment, the Company adhered to the "Second Transformation" strategy and proactively captured opportunities arising from the prevailing economic transformation and market development, and achieved a higher level and steady growth of non-interest income from retail banking through strengthening customers' assets allocation and enhanced capability of providing professional wealth management services. For the period ended 30 June 2010, the net non-interest income from retail banking was RMB3,417 million, an increase of RMB749 million, or 28.07%, as compared to that in the corresponding period of the previous year. Amongst which, commission income from bank cards (including credit card) was RMB1,650 million, an increase of 22.13% as compared to that in the corresponding period of the previous year; income from fund agency services was RMB588 million, an increase of 56.38% as compared to that in the corresponding period of the previous year; and income from agency sale of insurance was RMB449 million, an increase of 101.35% as compared to that in the corresponding period of the previous year.

Bank card business

All-in-one cards business

The Company has always been devoted to the expansion of cardholder base of "All-in-one card" and continued to improve integrated wealth management services offered by the cards with a view to achieving higher customer satisfaction and better awareness towards the brand of All-in-one card. In the Second Transformation in 2010, under the customer-oriented principle, the Company steadily revised the cardholders' mix by increasing the proportion of high-end customers while keeping a stable growth in issuance volume of new cards. As at 30 June 2010, the cumulative total volume of "All-in-one card" amounted to 54.57 million, including 1.20 million cards newly issued during the year. Total deposit balance of the cards was RMB511.134 billion, accounting for 81.72% of the total retail deposits. Average balance of the cards was RMB9,367 per card, increasing by RMB576 per card as compared to that at the beginning of the year.

Credit card business

As to credit card business, customer segmentation has continued to be our focus, and accordingly we intensified efforts to attract high net-worth customers. For instance, the "Centurion" China Merchants Bank American Express Card first launched in China is to provide professional and secure global travel and payment services for the elite class of China. Through in-depth operation, our customers' mix has refined successively, resulting in a steady improvement in the quality of the customers and a gradual increase in revenue contribution from customers. By the end of June 2010, the Company had issued 32.60 million credit cards, including 1.87 million cards newly issued during the reporting period. The total number of cards in circulation was 17.87 million, the cumulative transaction volume via credit cards so far for the year was RMB180.1 billion, the average transaction volume per month of each card in circulation was RMB1,713 and the percentage of revolving credit line balance increased to 38.02% from 33.50% at the end of the previous year. Interest income from credit cards amounted to RMB1.382 billion, an increase of 23.50% as compared to that in the corresponding period of the previous year. Non-interest income from credit card was RMB1.495 billion, an increase of 33.01% as compared to that in the corresponding period of the previous year.

Private banking business

Private banking of China Merchants Bank has set up a market analysing team, consisting of investment consultants and customer service managers. A complete customer service system has been established to provide the customers with a full range of wealth management services. The Company's private bank presents systematic and professional market research and analysis to customer service managers and private banking customers to facilitate their optimized asset allocation in the changing financial market environment. The investment advisors and customer service managers provide investment recommendation reports tailored for individual customers, and assist in the implementation of these recommendations and review them regularly.

In 2010, the Company's private banking business provided its customers with more personalized and customized consultation services. Meanwhile, an open product platform has been developed to present a more complete range of products in a bid to enhance the range of private banking products and value-added services. In 2010, the Company was again awarded the honour of "The Best Private Bank in China" by Euromoney.

As at the end of the reporting period, the Company has established private banking centres in 16 major cities across the state. By the end of June 2010, the total number of private banking customers of the Company has grown by 17.29% as compared to that at the beginning of the year, while total assets of private banking customers under management has grown by 19.88% as compared to that at the beginning of the year.

Customers

For the past few years, the Company has devoted its efforts to develop quality customers, consolidate customer base and optimize customer mix, thus laid a solid groundwork for business development. As at 30 June 2010, the total number of retail deposit accounts of the Company was 43.36 million, and the total deposit balance of retail customers was RMB625.439 billion, of which, the total number of Sunflower customers (i.e. high-end customers with financial assets with the Company of RMB500,000 or above) was 603,800. Their total deposit balance was RMB289.2 billion. The balance of Sunflower customers' total assets under management of the Company amounted to RMB1,026.8 billion, accounting for 65.84% of the balance of retail customers' total assets under management of the Company.

Marketing

With the sustained efforts of the Company in brand building for its products and services, the Company has been awarded "The Best Retail Bank in China" for three times and "The Best Joint Stock Retail Bank in China" for six consecutive years by *The Asian Banker*. In 2010, while continuously consolidating its brand advantages of "All-in-one Card", "All-in-one Net", "Sunflower Wealth Management" and China Merchants Bank credit card, the Company continued to enhance the Sunflower Exclusive value-added services, actively commenced targeted marketing based on customer database, and progressively promoted the integration of sales and service processes, strengthened the promotion of retail banking business and products.

The Company promotes its retail banking products primarily through its branches and sub-branches. In the meantime, the Company has established a multi-level marketing system in its branches to meet market changes. As at the end of June 2010, the Company had established and operated 51 branch-level wealth management centres based on existing Sunflower wealth management centres and Sunflower VIP rooms, which further improved its Diamond-class customer service system.

During the reporting period, the Company launched the "i-Wealth Management" business and became the first bank in China that initiated "Online Interactive Banking". The new idea has received wide recognition in the industry as it enriched the contents and coverage of online banking. Taking advantage of the low cost of management and customer services using the internet, "i-Wealth Management" was served by an online wealth management team with a view to raising customer loyalty and revenue contribution.

3.8.2 Corporate Banking

The Company provides corporate customers, financial institutions and government agencies with diversified quality banking products and services. As at 30 June 2010, the total corporate loans of the Company valued RMB754.348 billion, representing an increase of 14.44% as compared to the end of the previous year, accounting for 60.01% of the total customer loans; the balance of total discounted bills was RMB69.404 billion, representing a decrease of 31.79% as compared to the end of the previous year, accounting for 5.52% of the total customer loans; and total corporate customer deposits were RMB1,049.299 billion, representing an increase of 11.61% as compared to the end of the previous year, accounting for 62.65% of total customer deposits.

Corporate loans

Corporate loan products of the Company include working capital loans, fixed asset loans, trade finance and other loans such as corporate mortgage loans. In 2010, the Company continued to increase loan extension to quality industries. Meanwhile, the Company controlled its loans to industries which are subject to macroeconomic control by the State such as those "high pollution, high energy consumption and resources dependent industries". These all resulted in further optimization in the industry structure of corporate loans.

SME corporate loans

In the first half of 2010, the Company continued to stick to the strategy of prioritizing SME businesses. As a result, the segment underwent healthy and stable development. Pursuant to the classification standards for SMEs (Guo Tong Zi [2003] No.17) promulgated by the National Bureau of Statistics of China, as at 30 June 2010, the number of the Company's domestic SME corporate loans borrowers amounted to 14,966, representing an increase of 2,346, or 18.59%, as compared to that at the end of the previous year; the total amount of the Company's SME corporate loans within Mainland China reached RMB351.119 billion, representing an increase of RMB42.749 billion or 13.86% as compared to that at the end of the previous year. Loans to domestic SMEs accounted for 47.67% of the total corporate loans within Mainland China, remaining at a relatively high level. At the same time, the quality of assets of SME corporate loans was further improved, with both the volume and ratio of non-performing loans decreasing, and the ratio of non-performing loans was 1.44%, representing a decrease of 0.40 percentage point as compared to that at the end of the previous year. To boost the development of SME business, the Company mainly strengthened the following measures:

Firstly, the Company further intensified the specialised organizational construction and reform for SMEs. On one hand, the Company continued to improve the organizational system of the credit centre for small-sized enterprises in order to improve its risk management and control capability. As at 30 June 2010, the credit centre for small-sized enterprises had granted loans with a cumulative amount of RMB14.910 billion and had a loan balance of RMB11.312 billion, representing an increase RMB5.800 billion as compared to the end of the previous year; the credit centre had 1,933 borrowers, representing an increase of 1,003 as compared to the end of the previous year. Customers are mainly located in Yangtze River Delta; the average interest rate of the loans was about 22% above the benchmark interest rate, with zero NPL ratio, showing improved strength in business expansion, market pricing and risk control. On the other hand, the Company accelerated the test-run of specialised service for SMEs on branch level. The Company launched the test-run of specialised service for SMEs on branch level in 2009, SME financing sections were established in seven pilot-testing branches, and in 2010, the number of such pilot-testing branches was increased to 18, and half of the branches have established the first-class SME financing sections. Specialised operation has significantly improved the market developing capability and approval efficiency for the SME business and effectively boosted the development of SME business of those pilot-testing branches.

Secondly, the Company actively carried on product innovation and has successfully built up a new framework of innovation for SME financing products, featuring dynamic interaction between the headquarter and branches. The Company strived to launch financing products that fit the market circumstances and operational features of SMEs with product innovation authorization and research and development of general financing products to provide SME with personalised and full-range services. In the first half of the year, the Company deliberately designed and launched a new brand with prominent CMB characteristics, "Zhu Li Dai", for SME financing. Through continuous innovation, "Zhu Li Dai" offers highly operational financing products to meet the specific financing needs of SME and help them break through the funding bottlenecks for faster growth.

Thirdly, the Company strengthened risk management for the SME corporate loans. In the first half of 2010, the Company took proactive actions to minimize risks originated from SME corporate loans. The Company introduced a set of significant rules on SME double endorsement authorization, risk manager's operation code, loan granting officer dispatched to SME's finance department, etc., and tightened the control over the credit risks associated with SMEs with all kinds of risk management tools and special risk inspections. Meanwhile, the Company actively pursued product innovation and exercised effective control over the risks via SME featured products, with which the bank-wide risk-resilience of SME loans was strengthened steadily.

Fourthly, the Company has improved its pricing ability for SME corporate loans. While accelerating product innovation for SMEs and strengthening risk management, the Company placed great emphasis on improving its pricing ability for SME corporate loans. Product innovation for SMEs and effective risk management have not only reduced the credit risks, but also increased loan approval efficiency and shortened the loan-granting procedures. In addition, with those measures, the financing services could better fit in the market and meet the demands of SMEs, thus further expanding our competitive edge and improving our pricing ability for SME corporate loans. In the first half of 2010, our pricing level for SME corporate loans remained higher than the overall level of the Company's corporate loans, representing a significant improvement as compared with that at the beginning of the year.

Syndicated Loans

In 2010, for the purpose of enhancing inter-bank cooperation and information sharing, and diversifying risks associated with large amount loans, the Company vigorously promoted syndicated loan business. As at 30 June 2010, the balance of syndicated loans amounted to RMB48.72 billion, representing an increase of RMB4.512 billion or 10.21% as compared to the beginning of the year.

Discounted bills

Taking into consideration the combined factors of total loan amount, liquidity, yield and risks, the Company effectively managed the discounted bills operations in the first half of 2010. As at 30 June 2010, the balance of discounted bills loans was RMB69.404 billion.

Corporate client deposits

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

As at 30 June 2010, demand deposits accounted for 56.54% of corporate client deposits, representing an increase of 2.11 percentage points as compared to that at the end of previous year, which is 13.08 percentage points higher than that of time deposits. The high proportion of demand deposits helped reducing interest expenses on deposits.

Non-interest income business

While pushing the growth of interest income, the Company also steps up its efforts to maximize the percentage of non-interest income to total income from corporate banking business. In 2010, the external market environment has been improving as compared with that in 2009, while non-interest income business underwent rapid growth. The Company made great efforts in promoting the development of the innovative businesses including underwriting of debt financing instruments, financial advisory, asset custody, corporate wealth management, wealth management for financial peers, third party custody, online corporate banking channels, cash management, business card and corporate annuity etc.. Meanwhile, the Company continued to maintain the growth of income from traditional businesses including domestic and international settlement, acceptance, guarantee and commitments in order to ensure the diversification of the sources of non-interest income. While continuing to strengthen product innovation, the Company further strengthened product operations and compliance management as well as the brand building of key products. As a result, the marketing and customer application indicators for various core products continued to make breakthroughs. In the first half of 2010, net fee-based income of the Company was RMB2.305 billion, representing an increase of 22.35% over the same period of the last year.

With regard to online corporate banking business, the number of customers increased rapidly to a total of 124,237, representing an increase of 20.68% as compared with the beginning of the year. The application ratio by online corporate banking customers improved further, as the proportion of active transaction customers to total number of such customers grew steadily, and the number of core customers continued to increase. The substitution ratio of annualized debit transactions reached 45.71%, which outperformed its peers in China when compared to industry benchmarks. The online corporate banking business has grown to a stage with independent profitability and sales volume. It can support the Company's overall development, identify and integrate customer resources and fully demonstrate the Company's advantage of advanced science and technology.

As for cash management, there has been a remarkable increase in the comprehensive yield from our products, which contributed remarkably to the Company's efforts in developing and retaining basic customers, absorbing and expanding low-cost corporate settlement deposits, improving the utilization ratio and turnover ratio of banking facilities granted to customers and promoting the cross selling of other corporate and retail products. The number of customers using cash management services reached 123,475. The average daily balance of proprietary corporate deposits from customers using cash management services amounted to RMB700 billion, while the average balance of corporate loans exceeded RMB450 billion.

With regard to corporate wealth management, in the first half of 2010, the Company timely capitalized market trends by launching a series of new wealth management services, including "Go Fortune Account" (點金賬戶) and pledge of wealth management products, etc.. These products related to investments on treasury bonds traded in inter-bank bonds market, central bank notes, entrusted loans and high quality credit assets transfers. Despite the unfavourable market environment in the first half of the year, our corporate wealth management business still maintained a promising growth momentum, with the sale of corporate wealth management products reaching RMB189.844 billion, representing an increase of RMB4.639 billion over the same period of last year.

As for the international business, the Company seized the valuable opportunities of recovery of imports & exports, the Chinese enterprises "going global" trend and the test-run of cross-border RMB settling business and aggressively boosted the development of all its businesses. At the same time, our leading position in cross-border RMB settlement was further enhanced when we became the only joint-stock commercial bank among the first to be granted qualifications for overseas RMB financing business and the first bank to be granted the overseas RMB loan lending limit; we were also one of the three commercial banks designated by the People's Bank of China to provide RMB settlement bank accounts to the six overseas currency authorities under the Central Bank's currency swap arrangement. During the reporting period, the Company's international dual factoring business secured the second place in the domestic market, and was ranked No.5 in the world in export factoring services by FCI in 2009, and No.1 in the banking industry in China for a second year consecutively. In the first half of 2010, the Company completed international settlements of US$66.802 billion, representing an increase of 42.42% over the same period of last year, basically restoring the performance before the outbreak of global economic crisis. We completed coordinated international settlements of US$39.411 billion, representing an increase of 64.02% over the same period of last year. Foreign exchange settlements amounted to US$39.769 billion, representing an increase of 19.82% over the same period of last year. Cumulated balance of trade finance amounted to US$7.162 billion, representing an increase of 29.68% over the same period of last year. Balance of international factoring amounted to US$949 million, representing an increase of 168.44% over the same period of last year, and cumulated fee-based income from international business amounted to US$119,999,900, representing an increase of 21.81% over the same period of last year.

With regard to offshore business, the Company adheres to a balanced development of efficiency, quality and scale. Business indicators continued to rank the first among all domestic peers in terms of market share. As at 30 June 2010, deposits from offshore customers amounted to US$4.029 billion, representing an increase of 6.93% as compared to that at the beginning of the year, with credit assets of offshore customers reaching US$2.228 billion, representing an increase of 66.27% as compared to that at the beginning of the year. Credit assets quality remained good, with zero new overdue and non-performing loans. Cumulative incomes from fee-based businesses reached US$20.7208 million, representing an increase of 123.08% over the same period of last year, while the cumulative profits for the period amounted to US$22.5176 million.

With regard to businesses with the financial institutions, as at 30 June 2010, the balance of placements from banks and other financial institutions reached RMB226.656 billion, representing an increase of RMB50.757 billion or 28.86% as compared to the beginning of the year. The balance of over-the-counter asset business with other banks such as inter-bank placements and credit assets transfer of repurchase nature amounted to RMB27.857 billion as at the end of the reporting period, representing a decrease of RMB29.563 billion or 51.49% as compared to the beginning of the year. As for third party custody business, the Company had 3.565 million clients, including 195,000 new clients. Funds under third-party custody amounted to RMB125.050 billion, both the number of customers and amount of funds continued to rank the first among domestic joint stock commercial banks and ranked the third among all domestic peers. The Company sold wealth management products in a total amount of RMB93.990 billion through inter-bank channels, representing an increase of RMB54.437 billion, or 137.63%. In addition, the Company successfully launched financing services with gold leasing and gold pledging.

With respect to the asset custody business, in the first half of the year, the Company managed to overcome unfavourable conditions where the domestic stock market plunged by 30%, and strengthened its efforts on promoting high-yielding custody products. As a result, income from custody fees, assets under custody and deposits under custody all reached record high level: the Company recorded an income from custody fees of RMB147 million, representing an increase of 52.16% over the same period of last year, assets under custody of RMB274.788 billion, representing an increase of 32.03% as compared to the beginning of the year, and daily average deposits under custody of RMB30.679 billion, representing an increase of 30.39% over the same period of last year. Our brokerage wealth management custody business ranked No.1 among all domestic peers and our newly-added custody fund climbed up to No.3 in the banking industry, with all custody indicators remaining the best among the joint stock commercial banks, for which we were dubbed the "Best Professional Custody Bank in China" by the international authoritative magazine *The Asset*, and our 6S Comprehensive Assets Custody Service System was granted the "Award of Financial Innovation of People's Government of Shenzhen".

As for corporate annuity business, the total number of individual accounts of newly contracted corporate annuity customers was 93,400 in the first half of 2010, the newly entrusted assets (including those under ancillary custody) reached RMB1.621 billion.

With respect to investment banking business, the Company successfully issued debt financing instruments for a total of 35 enterprises in the first half of 2010, with a total lead underwriting volume of RMB46.170 billion, representing an increase of 55.98% over the same period of last year, and an income from debt underwriting business of RMB236.407 million, representing an increase of 45.00% over the same period of last year, among which, the Company issued short-term commercial papers for 18 entities with a total lead underwriting volume of RMB23.770 billion, in addition to the issuance of mid-term bills for 17 entities with a total lead underwriting volume of RMB22.400 billion. At the same time, the Company actively boosted its special financial advisory business, and earned an aggregate of special financial advisory fee of RMB326.379 million in the first half of 2010, representing an increase of 89.76% over the same period of last year.

As for the corporate card business, the Company totally issued 64,023 corporate cards as at 30 June 2010 through coordinated marketing activities. Total revenue from corporate cards amounted to RMB38,072,900 for the first half of 2010, representing an increase of 75.75% over the same period of last year, among which the non-interest income from domestic transactions was RMB18,538,100, the non-interest income from overseas transactions was US$451,600, and the income from recurring interest, the interest from cash advance loan and the overdue fine of RMB16,464,000.

Customer base

Over the past 23 years of development, the Company has developed 368,600 corporate depositors and nearly 18,400 corporate borrowers, including domestic leading enterprises and enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinational enterprises. Meanwhile, the Company reinforced the development of SME business to form a balanced customer structure. In addition, the Company's products and services have been widely recognized by our clients who maintain a high level of satisfaction with our services.

3.8.3 Treasury

Operating strategy

As for the RMB investment business, we conducted an in-depth study on the macroeconomic environment and policies and timely seized upcoming investment opportunities to improve the returns of RMB investment portfolio. During the reporting period, the Company's strategy for debt investments denominated in RMB was mainly to increase the credit bond investments in the first-tier market, and offer interest rate products with floating rates and of mid-term nature, which have relatively low risks, and sell as appropriate those long-term products with higher risks and short-term products with low returns. In the second quarter of 2010, the central bank restarted the issuance of 3-year-term central bank notes, and we seized the opportunity to make active tenders for it, with which we have recorded an investment return higher than that in the second-tier market and successfully had the interest rate risks under control while maintaining stable interest income. As at the end of the reporting period, the average duration of the debt investments denominated in RMB was 2.33 years.

As for the foreign currency investment business, the Company adopted flexible investment strategies and made timely stock adjustment, thus realized a relatively high return in this segment. In the first half of the year, in view of the influence of the debt crisis among the Euro Zone countries on the market, we made timely adjustment on our foreign currency investment strategies and actively participated in the investment in credit bonds in the first-tier market while increasing our portfolio of mid & long-term fixed-rate bonds and reducing that of short-term floating-rate bonds, which effectively increased the interest rate income of the portfolio. As at the end of the reporting period, the average duration of the debt investments denominated in foreign currencies was 2.14 years.

Operating results

For the first six months of 2010, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio was 2.89%, down by 72 basis points over the same period of last year. The decrease in investment yield was mainly due to the decrease in interests generated from floating rate bonds, newly conducted investments, reinvestment of matured securities as a result of lower market yield. For the first six months of 2010, the Company's annual yield on financial assets under reverse repo agreement and placements to other financial institutions was 2.23%, up by 64 basis points as compared with the same period of previous year.

As of the end of June 2010, the Company's proprietary investment portfolio reached RMB366.390 billion, up by 4.01% as compared with the end of the previous year. In addition, assets under management on behalf of customers denominated in both foreign currencies and RMB reached RMB136.573 billion, up by 13.84% as compared with the end of 2009. In the first half of 2010, the Company's income from wealth management on behalf of customers reached RMB339 million, representing a decrease of 33.66% over the corresponding period of previous year.

Business development

In the first half of 2010, the Company aggressively explored new business and profit models in dealing operation, and strived to achieve continuous, stable and long-term profitability with controllable risks under the support of advanced electronic business systems. In the first half of 2010, we issued 757 wealth management products, which amounted to RMB726.70 billion, representing an increase of 32% as compared to the corresponding period in the previous year. In the first half of 2010, the Company positioned itself as a market maker. The Company's interbank bond transaction volume reached RMB6.71 trillion, ranking first among the domestic banks in the bond market for three years in a row since 2008. The transaction volume of foreign exchange settlement on the inter-bank quotation market amounted to US$175.3 billion, representing an increase of 30.5% over the same period of last year.

3.8.4 Product Pricing

Loans

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

The Company prices its products based on various criteria, including the borrower's financial condition, value of collaterals, the intended use and term of the loan, cost of loan, credit risk and other risks, expected return, the Company's market positioning and the prices of competitors. The Company has started using the self-developed product pricing system and the pricing risk calculator to guide the pricing of various loans. The branches are allowed to set prices at their own discretion within the established ranges of these internal benchmark prices so as to compete in the market with greater flexibility.

Deposits

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

Pricing for non-interest based products and services

The Company prices its various intermediary business services based on reasonably estimated costs under the principles of rationality, openness, integrity and consistence with quality. The Company is in strict compliance with the requirements imposed by regulatory authorities, and has fulfilled relevant procedures on reporting and public announcement before applying such service prices, and provide inquiries on counters, by telephone and via the Internet and so on. In addition to formulating the "China Merchants Bank's Regulations on the Price Management of Intermediary Business Services", the Company has established the price management committees of intermediary business services at its Head Office and branches respectively, with subordinated service price management offices to take charge of daily service price management. Furthermore, the Company has also established a relatively complete multiple-layer supervision and inspection mechanism.

3.8.5 Distribution Channels

The Company provides products and services via multiple distribution channels. As at 30 June 2010, in more than 70 large and medium cities across Mainland China, the Company had 62 branches, 706 sub-branches, 2 exclusive operation centers equivalent to a branch (a credit card center and a small enterprise credit center),1 representative office, 1,820 self-service centers and over 1,700 off-bank self-service machines and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd.; two wholly-owned subsidiaries in Hong Kong, namely Wing Lung Bank and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States; a representative office in London. The efficiently operating outlets of the Company are primarily located in China's relatively more economically affluent regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other regions.

The Company also makes efforts in developing and improving e-banking channels such as online banking and telephone banking, which is highly recognized and has effectively relieved the pressure on the business outlets of the Company. In the first half of 2010, the integrated counter-replacement ratio in respect of retail e-banking channels reached 80.98%; whereas it was 45.71% in respect of corporate e-banking channels. As at 30 June 2010, the total cumulative number of online banking transactions was 168,230,000, up by 37.19% as compared to that in the corresponding period of the previous year, and the accumulated transaction amount was RMB4,345.3 billion, up by 131.21% as compared to that in the corresponding period of the previous year. In particular, the accumulated online banking transaction amount was 96,026,900, up by 40.78% as compared to that in the corresponding period of the previous year, and the accumulated transaction amount was RMB43.577 billion, up by 72.00% as compared to that in the corresponding period of the previous year. The number of transactions done through U-BANK, the online corporate bank, was 12.72 million, up by 8.26% as compared to that in the previous period, and the accumulated transaction amount was RMB8,170 billion, up by 128.85% as compared to the corresponding period of the previous year. In respect of telephone banking, as at 30 June 2010, the Company sold various types of wealth management products, such as funds, through telephone banking for a total amount of RMB30,020 million. The total transaction amount with Quick & Easy Wealth Management (快易理財) was RMB124.1 billion and the number of newly opened accounts reached 1,073,000, both representing a relatively significant increase as compared to that in the corresponding period of the previous year.

In respect of services provided for small enterprises, as at 30 June 2010, the small enterprise credit center has set up 11 first-tier centers in Suzhou, Hangzhou, Shanghai, Nanjing, Ningbo, Beijing, Dongguan, Shenzhen, Qingdao, Xiamen and Fuzhou, 4 second-tier centers in Nantong, Wenzhou, Wuxi and Taizhou and 11 third-tier centers in Changshu, Zhangjiagang, Kunshan, Rui'an, Jiangyin, Wujiang, Yixing, Yuyao and Cixi etc, with more than 50 marketing teams. The Company has preliminarily finished its goal of setting up small enterprise credit centers in major cities in Yangzi River Delta and at the same time started to commence operations of small enterprise credit centers in Pearl River Delta and Bohai Rim. Besides, leveraging on the extensive branches and sub-branches network of the Company, the small enterprise credit centers have set up joint marketing mechanism with those branches and sub-branches for cross referral as well as by using the e-banking channels such as online corporate banking and remote banking to broaden service coverage which has achieved initial results.

3.8.6 Overseas businesses

Hong Kong Branch

The Company's Hong Kong Branch, established in 2002, provides banking services including corporate and retail banking. Corporate banking services provided by the Hong Kong Branch include loans and deposits, remittance, factoring, international trade facilities and settlement, initiating or participating in syndicated loans, and participating in inter-bank transactions of funds, bonds and foreign exchange. Retail banking mainly includes providing cross-border electronic banking services for individual customers between Hong Kong and Mainland China.

The featured products of Hong Kong Branch are the "Hong Kong All-in-one Card" and "Bank-Securities Express" etc. The cardholders of "Hong Kong All-in-one Card" can withdraw cash from ATM and pay with their cards via POS through "China UnionPay", "Hong Kong JETCO" and "EPS" in both Hong Kong and Mainland China and enjoy online remittance services between the two places. The "Bank-Securities Express" services of Hong Kong Branch allow customers to trade Hong Kong stocks through online banking and telephone banking, enjoying unparalleled ease and convenience in investment and wealth management.

During the reporting period, relying on strengths of the brand of China Merchants Bank and quick response to market demand, Hong Kong Branch constantly optimized its allocation of resources, which has boosted sustainable development of all core businesses. Meanwhile, its operating efficiency and asset quality have been further enhanced and income structure improved as well.

New York Branch

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

The New York Branch of the Company is positioned as a bank committed to facilitating economic cooperation between China and the US. It is committed to offering tailored services for Chinese enterprises "going global" and US enterprises investing in China. The services provided by the New York Branch include corporate deposit-taking, corporate lending, project financing, trade financing, M&A financing, financial advisory, cash management, US dollar clearing and internet banking. Its website has been opened and the internet banking system has reached the final testing stage.

The year of 2010 was the second year of full operation of the New York Branch. With US's recovering from the economic crisis, the Branch seized the opportunities for Chinese banks arising from the changes in the US financial market and prudentially launched a number of basic businesses. The Branch has participated in a series of syndicated loans of the leading enterprises in various industries. Meanwhile, the Branch has also played an important role in facilitating Chinese enterprises "going global" and foreign enterprises "coming into China". It proactively launched domestic-overseas interactive businesses with domestic branches, providing domestic and overseas integration services for customers, and strived to satisfy the diversified financial service demands of customers arising from their international operations.

3.8.7 Information Technology and Research & Development

The Company highly stresses the building of and investments in IT infrastructure. In the first half of 2010, while maintaining the operation safety of the information system, we focused on strengthening the IT infrastructure building and normative research & development management and improved the basic management levels with great efforts to provide systematic protection capability for business development.

We strengthened the protection on the systems to secure the support for business development. As at the end of the reporting period, the overall operation of the information system maintained steady and our indicators of UnionPay system continued to lead our peers. Main servers and networks saw zero abnormal shutdown, which ensured the smooth operation of bank-wide businesses.

We boosted IT-based governance and bolstered strategic transformation with technologies. We successfully passed the CMMI2-level evaluation and improved the overall IT-based management level. We finished consultation and design for building of the information technology risk management system to clarify framework design and working plans for the bank-wide IT risk management system.

We supported establishing two centers to improve the infrastructure level. We accelerated and improved the construction of the Hangzhou Development Center and completed development business extension and personnel planning in Shenzhen and Hangzhou. The Shanghai Data warehouse, which was constructed to high standards, is under construction.

The Company put more resources into research & development and ensured that significant projects can be developed and started. In the first half of the year, we completed 488 development projects, with the system integration efficiency being notably improved, which has supported core businesses and management and development requirements. By supporting the innovative development of various businesses, the Company exerted great efforts in putting resources into the operating and control systems.

3.8.8 Businesses of Wing Lung Group

3.8.8.1 *Profile of Wing Lung Bank*

Wing Lung Bank, founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with Prudence, Service with Sincerity" in providing personalized and sincere service to the public. The principal operations of Wing Lung Group comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities broking, wealth management service, insurance business, financial lease, property trustee and nominees service. As at 30 June 2010, the registered capital of Wing Lung Bank was HK$1,500 million.

3.8.8.2 Business Operation Overview of Wing Lung Group

For the six months ended 30 June 2010, Wing Lung Group recorded an unaudited consolidated profit after tax of HK$637 million, representing an increase of 39.07% from the same period of last year, which was mainly driven by the net interest income. In the first half of 2010, net interest income amounted to HK$727 million, representing an increase of 19.31% from the same period of last year. The increase was mainly attributable to the growth in loan balance of 29.06% on average as compared to the first 6 months of the previous year. Loan-to-deposit ratio as at the end of June 2010 was 69.28%, representing an increase of 20.35 percentage points from 48.93% as at the end of June of last year. The net interest margin for the first half of the year was 1.34%, an increase of 9 basis points compared with the same period of last year. Net fees and commission income amounted to HK$181 million, representing an increase of 6.33% from the same period of the previous year. The insurance business achieved a net income of HK$43.81 million, representing an increase of HK$13.64 million or 45.22% over the corresponding period of the previous year. Operating expenses amounted to HK$473 million, down 15.38% from the same period of last year, which was mainly due to provisions made for the Lehman Brothers Minibonds incident in the same period of last year.

As at 30 June 2010, total assets and net assets of WL Group increased by 1.12% and 4.51% from HK$117.310 billion and HK$11.404 billion as at the end of 2009 to HK$118.625 billion and HK$11.918 billion respectively.

The consolidated capital adequacy ratio and core capital adequacy ratio as at the end of June 2010 were 15.41% and 9.81% respectively, and the average liquidity ratio for the period was 48.37%.

Deposits

As at 30 June 2010, total deposits of WL Group, including structured deposits, decreased by 3.31% to HK$89.242 billion, as compared with that at the end of 2009, which was mainly due to the shift of deposits to investments or relocation of deposits under the prevailing low interest rate environment and keen competition among peer banks.

Among the various kinds of deposits, Hong Kong Dollar deposits decreased by HK$4,801 million or 7.94%; the US Dollar deposits after conversion increased by HK$301 million or 2.49%; and deposits in other foreign currencies after translated into Hong Kong Dollar rose by HK$1,441 million or 7.29%, among which Renminbi deposits after translation surged substantially by HK$1,220 million or 67.10%.

Loans

As at 30 June 2010, WL Group's total advances to customers, including trade bills, grew by 19.08% to HK$62.955 billion, as compared with that at the end of 2009. Impaired loan ratio was 0.46% and non-performing loan ratio was 0.55%. The overall loan quality remained sound.

Corporate banking business recorded a total corporate lending of HK$28.770 billion, an increase of 30.65% from that at the end of 2009. During the first half of the year, Wing Lung Bank proactively solicited syndicated loans, Sino-Hong Kong corporate lending, bilateral loans and club deals etc. to further expand its lending assets. The Bank will continue to pursue new businesses, such as IPO bridging loans with a view to opening up new sources of revenue. Moreover, the Bank will further enhance its cooperation with CMB and strive to secure more trade finance customers so as to bolster profit growth.

As to commercial banking business, the balance of loans amounted to HK$1,718 million at the end of June 2010, representing an increase of 97.01% as compared to that at the end of 2009, which was mainly contributed by the construction and property loans. As the recovery of the European and US economies remained weak, trade orders shifted to large enterprises rather than small and medium enterprises. Wing Lung Bank will proactively secure more medium sized corporate clients in the PRC through closer collaboration with CMB. In addition, the Bank will keep on promoting Usance Letter of Credits and Renminbi Non-delivery Forward Contracts so as to achieve growth in business volume and loan balance. To expand revenue avenues, the Bank will also strive to promote cross-border Renminbi trade settlement business.

Total loans of mortgage and personal loan business (including all branches) amounted to HK$25.305 billion, representing an increase of 1.25% from the end of 2009. Of the total, residential mortgage loan balance amounted to HK$9,184 million, representing a decrease of 2.59% as compared with that at the end of 2009. Given the robust property market and keen competition among banks, Wing Lung Bank will strengthen its marketing efforts to acquire the residential mortgage business. Moreover, the Bank will offer more competitive mortgage terms in line with the market conditions in order to enlarge market share.

Investments

As at 30 June 2010, WL Group's debt securities investment amounted to HK$26.833 billion, representing a decrease of 7.05% from that at the end of the previous year. As at 30 June 2010, WL Group's foreign currencies (including Hong Kong dollar) debt securities investment amounted to HK$26.453 billion. More than 89.40% of the foreign currencies (including Hong Kong dollar) debt securities were rated A3 or above and their risks were comparatively low.

Treasury business

For the first half of 2010, revenue from foreign exchange trading amounted to HK$36.30 million, representing an increase of 12.99% over the corresponding period of 2009. Depreciation of Australian Dollar, New Zealand Dollar and British Pound caused foreign exchange trading activities to rise, thereby improving foreign exchange income. Revenue from foreign currency money exchange amounted to HK$20.50 million, representing an increase of 15.65% over the same period of 2009.

Wealth management

For the six months ended 30 June 2010, wealth management business realised a revenue of HK$14.35 million, an increase of 7.97% as compared to the corresponding period of last year.

Wing Lung Bank will focus on developing its wealth management service branded "Sunflower", providing a comprehensive service platform to customers in pursuit of expanding its high net-worth customer groups. To strive for high net-worth customers in the PRC, Wing Lung Bank will also concentrate its efforts on strengthening its collaboration with CMB's branches in the Pearl River Delta region through organization of training and roadshow programs on coordinated businesses and products. The Bank is committed to diversifying its wealth management product so as to meet various investment objectives and risk parameters of customers.

Credit card

Wing Lung Bank issued more than 240,000 credit cards as at 30 June 2010, remaining at the same level as that at the end of 2009. The credit card receivables amounted to HK$280 million, down 33.81% from the prior year-end. Merchant business turnover was HK$1,321 million, up 31.88% as compared to the corresponding period of 2009, reflecting the efforts in promoting the merchant business.

To secure for high net-worth individual and corporate customers, Wing Lung Bank launched diamond credit card "Luxe Visa Infinite" and the World MasterCard Corporate Card in the Greater China, both of which recorded steady growth in card base. The Bank will also strengthen the close collaboration with CMB for sharing more mutual promotion programs from merchants, allowing cardholders to enjoy favourable offers.

Securities broking

Given unfavourable external factors, the Hong Kong stock market remained on downside with the Hang Seng Index falling to 19,000 point level, depressing investor confidence. However, the stock market became gradually turnaround in July with the Hang Seng index breaking through 21,000 point level. In the first half of 2010, Wing Lung Securities Limited ("Wing Lung Securities") realised a commission income of HK$92.24 million, representing a decrease of 9.79% as compared to the corresponding period of the previous year.

Wing Lung Securities will keep on launching various securities trading offers and new account welcome offers in the hope of attracting more new customers. Continuous effort has been placed on enhancing the facilities of the securities centres in order to attract customers in the vicinity, thus enlarging market share.

Wing Lung Insurance

For the six months ended 30 June 2010, Wing Lung Insurance Company Limited ("Wing Lung Insurance") recorded a gross premium income of HK$317 million, representing a decrease of 9.02% as compared to the corresponding period of the previous year. Total insurance claims amounted to HK$151 million, a decrease of 17.28% as compared to the prior year same period. Underwriting profit amounted to HK$9.02 million, representing an increase of 44.64% over the corresponding period of 2009.

After adjusting its strategies in 2009, Wing Lung Insurance emphasised more on profit growth rather than market share expansion, thereby achieving steady growth in business. To increase overall income, Wing Lung Insurance has shifted its focus to motor vehicle insurance, which generates higher returns. Wing Lung Insurance will also work closely and interact proactively with CMB in order to secure more corporate customers, thus increasing the relevant revenue.

Branch network

To increase its distribution network for retail business, Wing Lung Bank proactively expands its branch network. The first additional Tseung Kwan O Branch was opened on 16 July 2010, and the second additional branch, Kwun Tong Shing Yip Street Branch, is expected to commence operation soon. At present, the Bank has a total of 40 banking offices, including headquarter and branches in Hong Kong. All branches will line up with business departments to foster the overall business growth.

Currently, Wing Lung Bank has 2 branches, a sub-branch and a representative office in the PRC, and two overseas branches, one in Los Angeles and the other in Cayman Islands.

To enhance the distribution network in the Pearl River Delta region, Wing Lung Bank is now preparing for the upgrade of Guangzhou representative office to branch status. Wing Lung Bank's application for opening a branch in Macau has been approved by the Monetary Authority of Macao, and the preparation work for the set up of Macau Branch is in progress.

Human resources

As at 30 June 2010, the total number of employees of Wing Lung Bank is 1,693 (31 December 2009: 1,711), of which 1,579 are in Hong Kong, 97 are in the PRC and 17 are overseas.

3.8.8.3 *Progress of Integration with Wing Lung Bank*

After the acquisition of Wing Lung Bank, the Company attached great importance to integration of business, and prepared a detailed integration plan. We aim to "lay a foundation within one year, achieve remarkable results within three years and obtain success within five years" and strive to build China Merchants Bank and Wing Lung Bank upon integration into a modernized, internationalized and integrated commercial bank that is most competitive in the cross-border financial service field with significant influence in the PRC, Taiwan and Hong Kong and even in the international financial market in five years.

In the first half of 2010, the Company kept stable integration with Wing Lung Bank and further strengthened the implementation of all measures based on the results achieved in 2009, which has effectively facilitated rapid, sustainable and healthy development of all businesses and remarkable improvement of profitability of Wing Lung Bank.

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and Wing Lung Bank jointly put great efforts and focused on the main business opportunities arising from demand from cross-border financial market. Sharing the customer resources and connecting the domestic and overseas businesses brought new breakthrough to us and achieved sound effect. The Company and Wing Lung Bank worked together in various areas, such as accepting guarantees from domestic enterprise as security for loans granted to overseas entities, accepting guarantees from overseas entities as security for loans granted to domestic enterprises, inter-company syndicated loans, assets transfer, bank acceptance, international settlement, financial market trading business, central purchase, receiving business for IPO and swapping of credit card-settled discount businesses. As at the end of the reporting period, with respect to wholesale business, our branches within China have successfully recommended corporate customers to Wing Lung Bank with loans of HK$9.599 billion and deposits of HK$1.402 billion. The revenues generated from corporate intermediary business during the domestic and overseas collaboration in the reporting period amounted to HK$60.05 million. With respect to retail businesses, the Company has successfully recommended individual customers to Wing Lung Bank with loans of HK$123 million, and total customer assets under management amounted to HK$166 million, while securities trading volume from recommended customers reached HK$408 million in the first half of the year. During the reporting period, Wing Lung Bank successfully launched the service of being a dividend distributing bank for listing companies and proactively expanded other new businesses, such as "Offshore China-Hong Kong Express Link" (離岸匯款快線) and "Professional Investor Program" (專業投資者計劃) etc. Wing Lung Bank also intended to extend the service of "Account Opening Witnessed by CMB Manager" (見證開戶) to other areas outside the Pearl River Delta so as to further improve its financial product portfolio.

Secondly, operational management was continually strengthened and key competencies were steadily enhanced. During the reporting period, Wing Lung Bank continued to improve its channel building and operational management, with the processes including accounting business, deposit-taking, credit cards, lending and documentary bills being streamlined. Its remote channel capability was constantly improved, and the service of trading reminder through short messages was launched. The first phase of the new "Call Center" project was also in smooth progress. Meanwhile, Wing Lung Bank and China Merchants Bank continued to strengthen the management of significant risk exposure through combining financial statements at the group level, established the mechanism of interactive reporting and warning of financial market risks and jointly negotiated preparation of the program for implementation of Basel II. IT integration of Wing Lung Bank was carried out smoothly, with a goal of "providing cross-border services, building comprehensive platform for cross-border services". During the reporting period, Wing Lung Bank also continued to promote its outlet improvements and image-building, as the Sunflower center rebuild project in Mongkok has been completed while renovation work of Tsim Sha Tsui branch is underway and its Macao Branch was approved in May 2010.

3.8.9 Business of CMB Financial Leasing

CMB Financial Leasing Co., Ltd. ("CMBFL") was one of the five pilot bank-affiliated financial leasing firms approved by the State Council. It is wholly owned by the Company and commenced its business on 23 April 2008 in Shanghai. The primary businesses of CMBFL are guided by national industrial policies. It provides financial services such as financial leasing, asset management and investment and financial advisory to customers including large-and-medium scale equipment producers in aviation transportation, power and telecommunication and mining and manufacturing industries and SMEs.

As of 30 June 2010, CMBFL had a registered capital of RMB2 billion and 74 employees. Total asset was RMB17.678 billion, an increase of 72.62% as compared to the end of the previous year. Net asset was RMB2.237 billion, an increase of 5.02% as compared to the end of the previous year. Realized net profit was RMB107 million in the first half of 2010, an increase of 463.16% year-on-year.

CMBFL has taken active initiatives in exploring professional commercial development models. In addition, it has strengthened its risk management system in an all-round way and improved team building. It has also developed its proprietary "Leasing Business System" and has established an effective internal incentive system, thereby rationalizing its business structure and diversifying its business mode. In June 2010, 4 single-aircraft leasing firms under CMBFL were established in Shanghai Comprehensive Bonded Zone, which marked a substantive stride forward by CMBFL towards aircraft leasing business.

3.8.10 Business of CMB International Capital

CMB International Capital Corporation Limited ("CMBIC") is a licensed corporation and a wholly-owned investment banking subsidiary of the Company in Hong Kong. Currently, the principal business scope of CMBIC and its subsidiaries mainly cover investment banking, securities brokerage, asset management and direct investment business.

As of 30 June 2010, CMBIC had a registered capital of HK$250 million and 77 employees. Total asset was HK$738 million, an increase of 4.76% as compared to the beginning of the year. Net asset was HK$342 million, an increase of 0.29% as compared to the beginning of the year. Realized operating income amounted to HK$35.1533 million in the first half of 2010, an increase of 115.74% over the corresponding period of the previous year. Realized net profits were HK$0.4318 million.

3.8.11 Business of China Merchants Fund Management

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

As of 30 June 2010, CMFM, with 179 employees, reported total assets of RMB604 million and net assets of RMB489 million. Realized operating income totaled RMB260 million in the first half of 2010, an increase of 15.04% as compared to the corresponding period of the previous year. Realized net profits were RMB85 million, an increase of 22.44% as compared to the corresponding period of the previous year. CMFM had altogether 15 open-ended mutual funds with assets under management totaling RMB31.201 billion.

3.9 Risk management

3.9.1 Credit risk management

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

Risk Control Committee of Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management strategy, policies and authorizations approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. The Company separately reviews the credit risk according to business risk and approval system. The decision-making entities include: Committee of Loan Assessment of Head Office, Professional Committee of Loan Assessment of Head Office, Risk Control Committee of Branch and Professional Committee of Loan Assessment of Branch. Based on business origination, due diligence, review and approval of credit, loan granting and post-loan management, the Company has established a credit risk management system with clear workflow. By utilizing a number of management measures, including formulation of credit policies, credit inspection, risk early-warning, management of the Group's client, collecting and accountability of non-performing assets, provision by classification and internal rating, the Company invented and introduced advanced risk quantified model tools and risk management system to ensure an effective implementation of the risk management workflow. The Company adhered to the principle of "classification by month, statistics by quarter, real-time adjustment". According to factors such as borrowers' ability to repay, guarantor's position, condition of pledges and overdue period, and based on the 5-tier supervision, the Company managed credit assets under the internal 7-tier categorization, the recognition of which was initiated by relationship manager or risk manager, and then reviewed by credit management departments of the Head Office and branches according to their respective authorization.

In the first half of 2010, although the macro-economy showed continuous rebound, financial environment remained complex and volatile. The basis for continuous economic recovery is not yet stable, and therefore structural adjustment will face significant pressure. By closely adhering to the guidelines of "Implementing transformation, Optimizing process, Solidifying foundation and Enhancing management", the Company implemented the overall optimization scheme and basic improvement plan, clarified the bottom line for credit policy access, strengthened risk pricing management, accelerated system building on risk manager, improved the risk management on Group customers, deepened the building of risk early warning system, optimized the internal rating system, and promoted the trial operation of a new information system on credit risk management. Meanwhile, the Company conscientiously complied with the requirements of "Three Rules and One Guideline" issued by the CBRC. Thus, the Company enhanced the supervision of fund using, imposed a dual management on the quota and name list of loans to financing platforms of local governments, consistently propelled depackaging and risk inspection, and strengthened the control on total loans to real estate industry. The Company also actively reduced and terminated loans to high pollution, high energy consumption industries and industries with excessive production capacity. As a result, the collection and elimination of risk asset received promising results, and the credit structure and asset quality improved consistently.

3.9.2 Liquidity risk management

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

In the first half of 2010, the PRC government continued to adopt a moderately loose monetary policy, to improve the pertinence and flexibility of the policies, and centered on the control and adjustment of liquidity. As a result, the overall liquidity of RMB in the market exhibited a pattern characterized by "loose at first, but tight afterwards". Major overseas economies experienced monetary policies that were loose in quantity, European sovereign debt crises, and the second bailout and liquidity injection by the central bank in sequences. After a tension in the market liquidity, it gradually stepped to a moderate state. In the first half of the year, the Company stressed on assessment of deposit and loan businesses, coordinated position in funds, bonds and notes, adopted FTP pricing curve and interest rate pricing management to guide quantity and direction of capital flow. Also, the Company reinforced supervision and allocation of fund position, improved the efficiency of fund, and enhanced external financing activity to expand fund source, thus guaranteeing the safety of liquidity denominated in RMB and foreign currencies.

3.9.3 Interest rate risk management

Interest rate risk refers to the risk of adverse impact of fluctuating interest rates on the financial condition or market capitalization of banks. The interest rate risks faced by the Company include the basis risk of assets and liabilities, re-pricing risk, yield curve risk and option risk. In particular, basis risk is the primary risk faced by the Company, followed by the re-pricing risk. The yield curve risk and option risk are relatively insignificant. In adherence to our prudent approach in risk management, the Company's overall objective of interest rate risk management is to achieve steady growth of net interest income under acceptable range of interest rate risk exposure. The Company mainly uses the scenario simulation analysis, re-pricing gap analysis and duration gap analysis and other methods to measure and study the interest rate risk of its bank account, and to manage its tail risk in combination with stress test results.

In the first half of 2010, as the recovery of economy was below market's expectation, the decision to raise interest rate was postponed by central banks. Meanwhile, the market interest rate showed significant volatility in conjunction with the changes in liquidity. Pursuant to requirements by relevant regulation and quota management, the Company adhered to the principle of "balancing between risk and income". Based on the monthly macroeconomic situation study reports, interest rate risk indicators and forecasts on net interest income, the Company detected problems, analyzed the underlying causes, proposed and implemented solutions in a timely manner. Furthermore, the Company conducted off- balance sheet hedging business for foreign currency accounts on a rolling basis, thus reducing interest rate risk of its bank accounts to a certain extent.

3.9.4 Exchange rate risk management

Exchange rate risk refers to the negative impact arising from fluctuating exchange rates on the foreign currency denominated assets and liabilities of banks. The exchange rate risk of the Company is mainly measured through foreign exchange exposure analysis, sensitivity analysis, stress tests and Value at Risk ("VAR").

In the first half of 2010, the central bank decided to further propel reform in RMB exchange rate regime by re-pegging it to a basket of currencies for determination of its exchange rate, so as to increase its flexibility. It is expected that upon further reform in exchange rate, RMB will not incur any substantial appreciation once and for all, but will experience greater fluctuations. While closely monitoring the changes in exchange rate, the Company divided exchange rate risks into structural exchange rate risk and transaction exchange rate risk in order to manage them better. Structural exchange rate risk refers to the exposure arising from the mismatch between the currencies of structural assets and liabilities. The Company carries out such business under the principle of matching the source of funds denominated in various currencies with its utilization. Transaction exchange rate risk arises mainly from the provision of foreign exchange trading services by the Company to its customers. Exposure risks exist when the Company fails to immediately hedge all of the foreign exchange positions and when the Company holds a foreign exchange position based on the expectation of future trend with a view to profit from exchange rate differences. The Company manages its foreign exchange transaction risk primarily through setting risk exposure and stop-loss limits.

3.9.5 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, incompetent personnel or IT systems, or external events. By implementing the New Basel Capital Accord, the Company aimed to complete operational risk management framework system, strengthened basic operational risk management building in management regime, management tools, management system, capital measurement and some other aspects, so as to enhance the capability and effectiveness of operational risk management of the Company. Major measures taken during the reporting period were as follows:

1. The Board of Directors of the Company reviewed and approved "Policies on Operational Risk Management by China Merchants Bank Co., Ltd.", which further completed operational risk management system of the Company;

2. Pursuant to the requirements of the section "Standardized Approaches" under the "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by CBRC, the Company completed the measurement of its operational risk regulatory capital in 2009;

3. The Company completed the development of management tools in primary business lines in Head Office and four branches, which substantially covered key steps including identification, assessment, monitoring, control and mitigation of operational risks;

4. The Company commenced design and development of the information system on operational risk management, so as to consistently improve electronic application in its operational risk management.

3.9.6 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, and reputation diminishing as a result of their failure to observe the laws, rules and guidelines. Our goal for the management of compliance risks is to achieve an effective identification and management of compliance risks by establishing a sound compliance risk management framework to facilitate the building of comprehensive risk management system and ensure operations in a legal and compliant manner.

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

During the reporting period, the Company continued to promote the building of organizational system and established qualification and assessment mechanism for compliance officers in branches to ensure effective performance of duties by compliance officers and supervisors. It also launched compliance risk management system, so as to provide a powerful technical platform for the identification, monitoring, assessment and control of compliance risks. Meanwhile, it focused on key issues on compliance risk management and engaged in control of risk for business innovation in an in-depth manner, to improve the quality and promptness of analysis of new regulatory requirements. The Company also streamlined risk origins and established database on compliance risk origins and compliance events for all business lines and units.

3.9.7 Reputation risk management

Reputation risk refers to the risk that the Company might be unfavourably evaluated by interest-relevant parties as a result of the Company's operations, management and other activities or external events.

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

In the first half of 2010, the Company took the following steps to improve its reputation risk management. Firstly, the Company formulated the "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd.", established a bank-wide reputation risk management system and clearly defined the duties and responsibilities of the heads of various departments and divisions and those assumed by liaison persons. Secondly, the Company formulated specific and systematic measures to deal with major reputation events, attached great importance to the operability and assessability of the administrative measures and various initiatives, clearly defined the relevant management duties and limits of rights, and ensured continuity among all business sectors and procedures, thus laying a solid foundation for establishing a bank-wide highly efficient reputation risk management system. Thirdly, the Company started the development of the reputation risk management system, which, on the structure of overall reputation risk management, covers all the units and risk points associated with the reputation risk events. The system is currently under construction.

3.9.8 Anti-money laundering management

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

During the reporting period, adhering to the principle of "understanding your customer", the Company implemented risk-based philosophy, conducted bank-wide due diligence investigation focusing on "three types of customers" for existing customers; strengthened monitoring and analysis on suspicious transaction, and reduced invalid reports on suspicious events, therefore improved the quality of report on suspicious transactions. The Company also re-assessed criteria on parameters for information extracted, hence further improved anti-money laundering system, and focused on effectiveness of report on suspicious transactions to conduct anti-money laundering training in a constant manner.

3.9.9 Implementation of Basel II

In February 2007, CBRC released the "Guidelines on the Implementation of Basel II Framework by China's Banking Sector", which decided that the first group of commercial banks would be regulated based on Basel II framework from 2010 or, with approval, no later than 2013. Driven by the underlying needs to pursue an internationalization strategy and improve reputation as well as operation and management, the Company strives to become one of the first batch of banks to be approved by CBRC to adopt Basel II. To this end, the Company had set up the Basel II Implementation Office under the Head Office to lead various preparation work for the implementation of Basel II. Based on a detailed gap analysis, the Office developed an overall plan of Basel II implementation, which adjusted the task to 13 enforceable project groups based on actual progress of implementation, to refine and optimize the existing risk management system. Currently, all projects underway are in sound progresses, and have achieved promising results in their respective stages. In February 2010, the Company made application to CBRC for preliminary appraisal of Basel II implementation, while in March 2010, it received on-spot inspection carried out by specific team for preliminary appraisal on Basel II implementation under CBRC, but the preliminary appraisal results have not been announced officially. The Company's official timeline for application of Basel II implementation will be dependent on preliminary appraisal results concluded by CBRC.

3.10 Changes in external environment and responding measures

3.10.1 Operating environment, change in macro economy and its impact

1. Operating environment

In the first half of 2010, the macro-economic situation demonstrated good momentum of development, featuring high economic growth and low inflation. The consumer spending surged and enterprises achieved much higher productivity. The complicated and changing operating environment that banks faced, the transition of mode in the growth of traditional credit business, the pressure on maintaining quality of existing deposits and loans under the circumstance of economic transition, the tightening of regulatory restrictions and the uncertainties of expected interest rate hikes, had collectively exercised a direct influence over banks operation. Facing the significant change of the macro-managing environment, the Company set objectives for its "Second Transformation", i.e. deepening the adjustment of management strategy and proactively optimizing the asset/liability structure. Concurrently with rapid expansion of its management scale, the Company managed to maintain a prudent and steady operation strategy. As a result, we achieved continuous improvement in asset quality, higher efficiency and steady operation.

2. *Real estate loans*

In order to curb the asset bubbles fueled by surging property prices in some cities, the government promulgated this year a series of stringent policies to regulate and control the property market, which are now paying off. These policies have provided a good external environment for the healthy development of the housing loans and are helpful in maintaining the quality of assets. In the first half of 2010, the Company firmly carried out the State's real estate market control policies and implemented various measures to strengthen monitoring of housing loans. These measures included: (i) setting up threshold and limitation for credit granting; (ii) strengthening investigation and screening of credit risks related to real estate loans extended to enterprise and individuals; and (iii) strengthening use and management of the collaterals of real estate loans. During the reporting period, real estate loans presented a general development trend of slow growth, but enjoyed an optimized structure and better quality.

3. *Lending and deposit taking business*

In response to the extremely complicated external operating environment, the Company adopted a series of measures including intensified efforts in policy promotion and window guidance while taking into account loan control requirements, with a view to ensure a smooth and balanced lending of loans. Accordingly, its loan-to-deposit ratio complied with regulatory requirements in the first half of the year. For the second half of the year, the Company will strengthen the management of its assets and liabilities, exercise effective control over its total loans, optimize its loan structure and uplift the loan pricing. Meanwhile, expansion of liability business will become the core element of business development. The Company will accomplish its mission of "attracting more depositors, boosting deposit amount and retaining deposit account holders", to ensure that its loan-to-deposit ratio meets regulatory requirements, and promote further improvement of its operational results.

4. *Investment Strategies*

Looking ahead to the second half of 2010, market expectation of interest rate hikes will be further postponed. However, following a flat yield curve that prevailed in the first half of the year, the debt market will face downward pressure of adjustment. Currently, both medium- and long-term yields in the debt market are at historical low levels, therefore it is not a good timing to increase our holding of medium- and long-term notes. From a perspective of asset and liability allocation, the Company will maintain its current strategy of a neutral duration, and seize good opportunities to invest in certain notes with higher credit ratings.

3.10.2 Key issues emerged in the course of operation and measures adopted

1. *Government's financing platform*

During the first half of 2010, the Company strictly performed the "Open Package Inspection" of loans given through local governments' financing platform by strictly adhering to the management requirements i.e.. "unpacking each project, checking every transaction, revaluing and reshuffling loan classification and preserving assets" issued by CBRC. Meanwhile, the Company aggressively initiated structural adjustment in accepting or refusing loan projects and conducted a thorough and direct inspection of the loans granted through local governments' financing platform. During the reporting period, the growth of the Company's loans granted through local governments' financing platform dropped significantly to a level below the average growth rate of bank-wide corporate loans. Incremental loans were mainly granted to quality customers in capital cities of more developed regions and primarily concentrated on enterprises engaged in urban investment and construction projects as well as traffic transportation. Thus, structural optimization has worked out effectively and asset quality remained sound.

2. *Net non-interest income*

The Company's net non-interest income has maintained its healthy development momentum, recording a substantial growth as compared with the same period of the previous year. The Company's net non-interest income as a percentage of the net operating income dropped slightly due to the substantial increase of net interest income. The Company's fees and commission income grew rapidly driven by revenue from credit card POS income, income from fund agency services, income from agency sale of insurance, income from securities underwriting and revenue from credit assets transfers. It is expected that the growth of the Company's income from wealth management will slow down due to the policy effect on bank/trust cooperation in the second half of the year. In the second half of the year, the Company will concentrate efforts on construction of the mechanism governing the pricing of intermediary business and further establishment of the organizational system, further improve our pricing level and ensure the steady growth of net non-interest income.

3. *Trend of NIM (Net Interest Margin) changes*

In the first half of 2010, under the guidance of the strategic goals of the second transformation, the Company capitalized on the favorable opportunity of credit adjustment to take the following initiatives. The Company vigorously deepened the adjustment of the customer portfolio of corporate loans and the structure of retail loan products, while proactively optimizing the risk-based pricing process and enhancing the incentive and restrictive pricing mechanism to raise the loan-pricing capability on a best-effort basis. In addition, the Company also endeavored to control the funding costs, and took a number of measures including internal improvement and adjustment to facilitate the sustainable improvement in the net interest spread of the Company, which posed a good growth momentum during the economic upturn cycle, thereby accelerating the growth of net interest income.

4. *Cost/income ratio*

In the first half of 2010, the cost/income ratio of the Company showed a significant decline as compared with the corresponding period of the previous year, which was mainly attributable to the substantial increase in net operating income and moderate growth in cost. As one of the goals of the second transformation, the Company focused on the refinement of cost management, further tightened its cost control and made admirable achievement through various approaches which include regulating the calculation items of operating expenses, pressing on the preparation of refined expense budget, enhancing the propaganda of relevant policies and cultivating an austere operating environment.

3.11 Outlook and measures

Looking ahead to the second half of 2010, both domestic and global financial situations will remain complicated and subject to changes. Internationally, the choppiness of global economic recovery is beyond expectation, the speed of recovery for major economies gradually slows down, certain developed countries face hovering high unemployment rate, and global capital market and bulk commodity prices fluctuate. Domestically, credit expansion continuously slows down, signs of slower economic growth gradually appear, and the tasks of speeding up structural adjustment, strengthening energy-saving and emission reduction, and transforming economic growth modes remain tough, which have put the macro-control policies in a dilemma.

It is expected that the complex and ever-changing external environment will pose severe challenges to the operation and management of the Company. For liabilities business, the pressure on expansion of liabilities business will remain, as it is anticipated that, during the second half of the year, the policy tightening loan-to-deposit ratio is unlikely to relax and the decreasing momentum in loan-driven deposits is unlikely to reverse. In addition, investment sentiment in the public will become strong, the trend in asset allocation diversification is increasingly prominent and more uncertainties regarding the increase in saving deposits lie ahead. For asset business, as continuously affected by policies such as the macro-control over the real estate industry, the restructuring of loans extended through governmental financing platforms, loan-extension restrictions on "High pollution, high energy consumption and excess capacity" industries as well as the "Three Rules and One Guideline" policy, the expansion of lending business, being one of the traditional business for banks, is significantly restricted. At the same time, in view of the gradual slowdown in economic growth and the downward trend of demand for loans, if we cannot expand our customer base and nurture and explore new customers and markets in a timely and effective manner, the ability of our asset business to maintain steady and rapid growth will be tested. For risk management, amidst the complex economic environment, credit risks in loans extended through local government financing platforms and to the real estate industry and industries with overcapacity may expose quickly. The banking industry may encounter more challenging external risks, with increasing number of cases and larger amounts involved. In addition, the interest rate fluctuation in money market, together with the new round of exchange rate reform, will also make it more difficult to manage market risk and liquidity risk.

In spite of the grim challenges that confront our operation and management under current situation, many new opportunities emerge in areas such as the accelerated structural transformation process, the further progress in regional development, the deepening reform of income distribution and integrated and balanced development between urban and rural areas, the fast growth of direct financing and the increasing demand for personal wealth management.

Responding to the new circumstances, the Company will seize the opportunity, face the challenges, strengthen the management capability, be down-to-earth, and continue to push forward the second transformation, so as to strike a balance among effectiveness, quality, structure and size. To this end, the Company will focus on the following aspects in the second half of the year. Firstly, it will strengthen the assessment and guidance of the loan pricing, define the bottom line of the loan rate for big customers and large projects, proactively develop the small enterprise business, adjust and optimize the structure of personal loans, and strongly enforce to uplift the pricing for loans. Secondly, it will spare no efforts to improve the employees' work efficiency by strictly controlling the total number of staff, activating the workforce, strengthening and improving the employee performance management and enhancing the staff quality. Thirdly, it will concentrate more efforts on the marketing of corporate lending and assets business, reasonably conduct the loan operation, accelerate the development of wholesale fee-based business, enlarge the customer base of wholesale banking, and enhance the product innovation and promotion, so as to improve the production capacity of wholesale banking. Fourthly, it will deepen the resources integration of retail banking, exploit retail-value customers, proactively expand the wealth management business, continue to promote the transformation of the credit card business, and strive to increase profit contribution from retail banking. Fifthly, it will fully implement the requirements of risk management; strengthen the management of credit risk, market risk, liquidity risk, operation risk and reputation risk; enhance the compliance management and audit supervision; and steadily promote the implementation of the rules of the New Basel Capital Accord. Sixthly, it will strongly conduct the workflow optimization and IT management, further improve the management system. Seventhly, it will focus on promoting the coordination of domestic and overseas business, accelerating the integration with Wing Lung Bank, and supporting the healthy development of New York Branch and Hong Kong Branch.

4.1 Changes in shares of the Company during the reporting period

	As at 31 December 2009		Changes in the reporting period	As at 30 June 2010	
	Quantity (Share)	Percentage (%)	Increase as a result of the Rights Issue (Share)	Quantity (Share)	Percentage (%)
I. Shares which are subject to trading moratorium	**0**	**0**	**0**	**0**	**0**
II. Shares which are not subject to trading moratorium	**19,119,490,016**	**100.00**	**2,457,118,869**	**21,576,608,885**	**100.00**
1. Common shares in RMB (A Shares)	15,658,890,016	81.90	2,007,240,869	17,666,130,885	81.88
2. Foreign shares listed domestically	0	0	0	0	0
3. Foreign shares listed overseas (H Shares)	3,460,600,000	18.10	449,878,000	3,910,478,000	18.12
4. Others	0	0	0	0	0
III. Total shares	**19,119,490,016**	**100.00**	**2,457,118,869**	**21,576,608,885**	**100.00**

As at the end of the reporting period, the Company had a total of 760,223 shareholders, including 43,170 holders of H Shares and 717,053 holders of A Shares, and all shares held by A shareholders are not subject to trading moratorium.

Based on the public information available to the Company and its directors, as at 30 June 2010, the Company had met the public float requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Hong Kong Listing Rules").

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

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital %	Type of shares	Changes in the reporting period (share)	Number of Shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.(1)	/	3,844,384,599	17.82	H Shares	439,206,026	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal persons	2,675,612,600	12.40	A Shares not subject to trading moratorium	311,026,228	–	–
3	China Ocean Shipping (Group) Company	State-owned legal persons	1,284,140,156	5.95	A Shares not subject to trading moratorium	147,732,938	–	–
4	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	636,788,489	2.95	A Shares not subject to trading moratorium	73,258,853	–	–
5	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	631,287,834	2.93	A Shares not subject to trading moratorium	72,626,034	–	–
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	556,333,611	2.58	A Shares not subject to trading moratorium	64,002,982	–	–
7	China Communications Construction Company Ltd.	State-owned legal persons	383,445,439	1.78	A Shares not subject to trading moratorium	44,113,192	–	–
8	Shanghai Automotive Industry Corporation	State-owned legal persons	368,079,979	1.71	A Shares not subject to trading moratorium	42,345,484	–	–
9	CNOOC Investment Co., Ltd.	State-owned legal persons	301,593,148	1.40	A Shares not subject to trading moratorium	34,696,557	–	–
10	Qinhuangdao Port Group Company Ltd.	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–
10	China Shipping (Group) Company	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–
10	Shandong State-owned Assets Investment Holdings Company Ltd.	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–
10	Guangdong Provincial Highways Administration Bureau	State-owned	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–

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

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Ltd., Shenzhen Yan Qing Investment and Development Company Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd.; Guangzhou Maritime Transport (Group) Company Ltd. is a wholly-owned subsidiary of China Shipping (Group) Company. The Company is not aware of any co-relationship of other shareholders.

(3) The Company completed the Rights Issue of A Shares and H Shares on 19 March 2010 and 9 April 2010 respectively on the basis of 1.3 Rights Shares for every 10 Shares held.

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

As at 30 June 2010, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	3,886,912,452#	1	22.00	18.01*
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	2,675,612,600	1	15.15	12.40
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	18,177,752#	1		
		Long	Interest of controlled corporation	1,193,122,100	1		
				1,211,299,852#		6.85	5.61
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	636,788,489	1		
		Long	Interest of controlled corporation	556,333,611	1		
				1,193,122,100		6.75	5.53
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,284,140,156		7.26	5.95
China Shipping (Group) Company	A	Long	Beneficial owner	258,470,781			
		Long	Interest of controlled corporation	695,697,834			
				954,168,615	2	5.40	4.42
JPMorgan Chase & Co.	H	Long	Beneficial owner	26,934,273			
		Long	Investment manager	315,322,681			
		Long	Custodian	169,345,040			
				511,601,994	3	13.08	2.37
		Short	Beneficial owner	8,708,577	3	0.22	0.04
BlackRock, Inc.	H	Long	Interest of controlled corporation	247,519,096	4	6.33	1.15
		Short	Interest of controlled corporation	10,180,050	4	0.26	0.05

* As at 30 June 2010, China Merchants Group Ltd. indirectly held an aggregate of 18.27% of the total issued shares of the Company, which consists of 18.07% of the A shares of the Company and 0.20% of the H shares of the Company respectively.

\# The above numbers of shares were recorded in the interests disclosure forms completed by the relevant substantial shareholders before 30 June 2010. During the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2010, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation in accordance with the SFO.

Notes:

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

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

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

(1.3) Shenzhen Yan Qing Investment Development Co. Ltd. held 636,788,489 A shares (Long position) in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.

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

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

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

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

(3) JPMorgan Chase & Co. held interest in a total of 511,601,994 H shares (Long position) and 8,708,577 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) JPMorgan Chase Bank, N.A. held 192,957,484 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.

(3.2) J.P. Morgan Whitefriars Inc. held 25,237,353 H shares (Long position) and 7,208,577 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc.

(3.3) J.P. Morgan Securities Ltd. held 1,696,920 H shares (Long position) and 1,500,000 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.

(3.4) JF Asset Management Limited, JPMorgan Asset Management (Taiwan) Limited, JPMorgan Asset Management (Singapore) Limited and JPMorgan Asset Management (Japan) Limited held 18,855,998 H shares (Long position), 5,592,282 H shares (Long position), 2,528,400 H shares (Long position) and 373,735 H shares (Long position) in the Company respectively.

All the above companies were wholly-owned by JPMorgan Asset Management (Asia) Inc. JPMorgan Asset Management (Asia) Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co.

(3.5) J.P. Morgan Investment Management Inc. held 81,943,055 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.4) above.

(3.6) JPMorgan Asset Management (UK) Limited held 182,416,767 H shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, which in turn was wholly-owned by JPMorgan Asset Management International Limited, which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.4) above.

The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 169,345,040 H shares (Long position). Besides, 11,318,783 H shares (Long position) and 7,208,577 H shares (Short position) were held through derivatives as follows:

727,000 H shares (Long position) and 700,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
227,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
10,281,577 H shares (Long position) and 6,281,577 H shares (Short position)	–	through physically settled derivatives (off exchange)
310,206 H shares (Long position)	–	through cash settled derivatives (off exchange)

(4) BlackRock, Inc. held interest in a total of 247,519,096 H shares (Long position) and 10,180,050 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(4.1) BlackRock Investment Management, LLC held 2,467,562 H shares (Long position) in the Company. BlackRock Investment Management, LLC was a wholly-owned subsidiary of Trident Merger, LLC, which in turn was a wholly-owned subsidiary of BlackRock, Inc.

(4.2) BlackRock Fund Advisors held 176,275,315 H shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company, N.A., the latter was deemed to hold interest in 176,275,315 H shares (Long position). BlackRock Institutional Trust Company, N.A. was deemed to be interested and held direct interest in a total of 199,293,356 H shares (Long position) in the Company. BlackRock Institutional Trust Company, N.A. was a wholly-owned subsidiary of BlackRock Delaware Holdings, Inc., which in turn was wholly-owned by BlackRock Holdco 6 LLC. BlackRock Holdco 6 LLC was wholly-owned by BlackRock Holdco 4 LLC, which in turn was wholly-owned by BlackRock Financial Management, Inc. BlackRock Financial Management, Inc. was a wholly-owned subsidiary of BlackRock Holdco 2, Inc., which in turn was wholly-owned by BlackRock, Inc.

(4.3) BlackRock Advisors UK Limited held 31,414,208 H shares (Long position) and 3,275,050 H shares (Short position) in the Company. BlackRock International Ltd held 2,204,011 H shares (Long position). Both of them were wholly-owned subsidiaries of BlackRock Group Limited. BlackRock Group Limited was wholly-owned by BR Jersey International LP, which in turn was wholly-owned by BlackRock International Holdings Inc. BlackRock International Holdings Inc. was a wholly-owned subsidiary of BlackRock Advisors Holdings Inc., which in turn was wholly-owned by BlackRock Financial Management, Inc., referred to in (4.2) above.

(4.4) BlackRock Fund Managers Ltd held 235,459 H shares (Long position) in the Company. BlackRock Fund Managers Ltd was wholly-owned by BlackRock Investment Management (UK) Ltd, which was in turn wholly-owned by BlackRock Group Limited, referred to in (4.3) above.

(4.5) BlackRock Asset Management North Asia Ltd held 5,590,000 H shares (Long position) and 5,590,000 H shares (Short position) in the Company. BlackRock Asset Management North Asia Ltd was wholly-owned by BlackRock HK Holdco Limited, which in turn was wholly-owned by BR Jersey International LP, referred to in (4.3) above.

(4.6) BlackRock Capital Management, Inc. held 140,400 H shares (Long position) in the Company. BlackRock Capital Management, Inc. was wholly-owned by BlackRock Institutional Management Corporation. BlackRock Institutional Management Corporation was a wholly-owned subsidiary of BlackRock Advisors, LLC., the latter was deemed to be interested in 140,400 H shares (Long position). BlackRock Advisors, LLC. was deemed to be interested and held direct interest in a total of 6,314,500 H shares (Long position) and 1,315,000 H shares (Short position) in the Company. BlackRock Advisors, LLC. was a wholly-owned subsidiary of BlackRock Capital Holdings, Inc., which in turn was wholly-owned by BlackRock Advisors Holdings Inc., referred to in (4.2) above.

Among the entire interest of BlackRock, Inc. in the Company, 500 H shares (Long position) were held through cash settled derivatives (on exchange) and 1,315,000 H shares (Short position) were held through physically settled derivatives (off exchange).

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2010 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4.4 Undertakings associated with the share reform

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

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

The H-Share Appreciation Rights Incentive Scheme for the Senior Management of the Company was approved by the shareholders of the Company at the 2007 First Extraordinary General Meeting held on 22 October 2007. Details of the Scheme were disclosed in the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

5.1 Directors, supervisors and senior management

Name	Gender	Date of birth(Y/M)	Title	Term of office	Shareholding at the beginning of the reporting period (shares)	Shareholding at the end of the reporting period (shares)
Qin Xiao	Male	1947.4	Chairman & Non-Executive Director	2010.6-2013.6	0	0
Wei Jiafu	Male	1949.12	Vice Chairman & Non-Executive Director	2010.6-2013.6	0	0
Fu Yuning	Male	1957.3	Non-Executive Director	2010.6-2013.6	0	0
Li Yinquan	Male	1955.4	Non-Executive Director	2010.6-2013.6	0	0
Fu Gangfeng	Male	1966.12	Non-Executive Director note 1	2010.8-2013.6	0	0
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2010.6-2013.6	0	0
Sun Yueying	Female	1958.6	Non-Executive Director	2010.6-2013.6	0	0
Wang Daxiong	Male	1960.12	Non-Executive Director	2010.6-2013.6	0	0
Fu Junyuan	Male	1961.5	Non-Executive Director	2010.6-2013.6	0	0
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2010.6-2013.6	0	0
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2010.6-2013.6	0	0
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2010.6-2013.6	0	0
Wu Jiesi	Male	1951.10	Independent Non-Executive Director	2010.6-subject to adjustment as required by regulatory policies	0	0
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2010.6-2013.6	0	0
Yan Lan	Female	1957.1	Independent Non-Executive Director	2010.6-2013.6	0	0
Chow Kwong Fai, Edward	Male	1952.8	Independent Non-Executive Director	2010.6-subject to adjustment as required by regulatory policies	0	0
Liu Yongzhang	Male	1956.12	Independent Non-Executive Director	2010.6-adjustment as required by regulatory policies	0	0
Liu Hongxia	Female	1963.9	Independent Non-Executive Director	2010.6-subject to adjustment as required by regulatory policies	0	0
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors note 2	2010.8-2013.6	0	0
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2010.6-2013.6	0	0
Hu Xupeng	Male	1975.10	Shareholder Supervisor	2010.6-2013.6	0	0
Li Jiangning	Male	1959.4	Shareholder Supervisor	2010.6-2013.6	0	0
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2010.6-2013.6	0	0

Name	Gender	Date of birth(Y/M)	Title	Term of office	Shareholding at the beginning of the reporting period (shares)	Shareholding at the end of the reporting period (shares)
Shao Ruiqing	Male	1957.9	External Supervisor	2010.6-subject to adjustment as required by regulatory policies	0	0
Shi Shunhua	Male	1962.12	Employee Supervisor	2010.6-2013.6	0	0
Yang Zongjian	Male	1957.4	Employee Supervisor	2010.6-2013.6	0	0
Zhou Qizheng	Male	1964.11	Employee Supervisor	2010.6-2013.6	0	0
Tang Zhihong	Male	1960.3	Executive Vice President	2010.6-2013.6	0	0
Yin Fenglan	Female	1953.7	Executive Vice President	2010.6-2013.6	0	0
Ding Wei	Male	1957.5	Executive Vice President	2010.6-2013.6	0	0
Zhu Qi	Male	1960.7	Executive Vice President	2010.6-2013.6	0	0
Tang Xiaoqing	Male	1954.8	Secretary of Party Discipline Committee	2008.12 up to now	0	0
Wang Qingbin	Male	1956.12	Executive Assistant President	2009.5 up to now	0	0
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 up to now	0	0
Fan Peng	Male	1953.2	Chief Audit Officer	2010.6-2013.6	0	0
Lan Qi	Male	1956.6	Secretary of Board of Directors	2010.6-2013.6	0	0

Notes

1. Mr. Fu Gangfeng's appointment qualification as a director has been approved by CBRC, Shenzhen Office on 10 August 2010.

2. Mr. Han Mingzhi's appointment qualification as the chairman of the Board of Supervisors has been approved by CBRC on 9 August 2010.

5.2 Appointment and resignation of directors, supervisors and senior management

The Board of Directors and the Board of Supervisors of the Company completed their general elections during the first half of 2010. "Resolutions in Relation to the Eighth Session of the Board of Directors", "Resolutions in Relation to the Shareholder Representative Supervisors and External Supervisors of the Eighth Session of the Board of Supervisors" and "Resolution Regarding the Addition of One Candidate For External Supervisor of China Merchants Bank" were considered and passed at the 2009 Annual General Meeting held on 23 June 2010. According to the above resolutions, Fu Gangfeng was newly elected as a member of the Eighth Session of the Board of Directors (his appointment qualification as a director has been approved by CBRC, Shenzhen Office) whereas Ding Anhua no longer served as a director of the Company. Save as above, there were no changes to other members of the Board of Directors. Han Mingzhi, Hu Xupeng and Wen Jianguo were newly elected as members of the Eighth Session of the Board of Supervisors while Shi Jiliang and Dong Xiande no longer served as supervisors of the Company. Save as above, there were no changes to other shareholder supervisors and external supervisors of the Board of Supervisors.

During the reporting period, Shi Shunhua, Yang Zongjian and Zhou Qizheng were elected democratically as employee representative supervisors of the Eighth Session of the Board of Supervisors by the staff of the Company, whereas Zhou Song no longer served as an employee representative supervisor.

The announcements in relation to the membership of the Eighth Session of the Board of Directors and of the Eighth Session of the Board of Supervisors of the Company were published on *China Securities Journal, Shanghai Securities News, Securities Times,* and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 24 June 2010 respectively.

5.3 H share appreciation rights incentive scheme

To further establish and enhance its incentive system for the combined interests of shareholders, the Company and the senior management members, the Company approved the H-Share Appreciation Rights Incentive Scheme for Senior Management at the 2007 First Extraordinary General Meeting held on 22 October 2007. On 30 October 2007 and 7 November 2008, the Board of Directors of the Company made grants for Phases I and II under the Scheme respectively. For details please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Following the Profit Appropriations Scheme for 2008, the Company adjusted the number and granted price of H Share appreciation rights granted to senior management for Phases I and II in accordance with the requirements of "The H-Share Appreciation Rights Incentive Scheme of China Merchants Bank". For details of the adjustment, please refer to the announcement in respect of the resolutions passed at the 47th meeting of the 7th Session of the Board of Directors which was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company (the date of the announcement was 16 November 2009).

On 16 November 2009, the Board of Directors of the Company made grants of H Share appreciation rights for Phase III and issued an announcement. The target and proportion for the grants are as follows:

Aggregate Number and Allocation of H Share Appreciation Rights for Phase III

No.	Name	Title	Number of share appreciation rights granted (in ten thousand)	Percentage of target shares in respect of granted appreciation rights to total shares	Percentage of granted appreciation rights to total appreciation rights for the period
1	Ma Weihua	President	30	0.0016%	18.87%
2	Zhang Guanghua	Executive Vice President	15	0.0008%	9.43%
3	Li Hao	Executive Vice President	15	0.0008%	9.43%
4	Tang Zhihong	Executive Vice President	15	0.0008%	9.43%
5	Yin Fenglan	Executive Vice President	15	0.0008%	9.43%
6	Ding Wei	Executive Vice President	15	0.0008%	9.43%
7	Tang Xiaoqing	Secretary of Party Discipline Committee	15	0.0008%	9.43%
8	Wang Qingbin	Executive Assistant President	12	0.0006%	7.55%
9	Xu Lianfeng	Chief Technology Officer	9	0.0005%	5.66%
10	Fan Peng	Chief Audit Officer	9	0.0005%	5.66%
11	Lan Qi	Secretary of Board of Directors	9	0.0005%	5.66%
	Total		**159**	**0.0083%**	**100.00%**

These H Share appreciation rights for Phase III are granted at the price of HK$21.95 and will remain valid for ten years effective from 16 November 2009, within which two years from 16 November 2009 is defined as a restricted exercising period, when no share appreciation rights can be exercised. The effective exercising period is 8 years after the expiry of the restricted exercising period. During the first 4 years of the effective exercising period, the annual effective exercisable rights is 25% of the total granted rights. The effective exercisable share appreciation rights granted are exercisable from the effective date till the end of the exercising period; the target receiving the incentive scheme may exercise their effective exercisable share appreciation rights once and for all or in several tranches. The share appreciation rights shall only be exercised within the exercising period. As at 30 June 2010, the closing price of the Company's H Shares was HK$18.90.

5.4 Employees information

As at 30 June 2010, the Company had 40,391 employees, including 11,842 of management, 27,072 ordinary employees and 1,477 supporting staff. Among them, 38,937 have received higher education, accounting for 96.4%. Currently, retirees numbered 142.

5.5 Branches and representative offices

The Company continues its organic expansion in 2010. In the first half of the year, 10 branch-level outlets commenced business and the Company received approval for setting up another three branches. Specifically, on 19 January 2010, the Company's Huainan Branch was given an approval by CBRC Anhui Office to commence business; on 25 January 2010, the Company's Zhenjiang Branch was given an approval by CBRC Jiangsu Office to commence business; on 2 February 2010, the Company's Lijiang Branch was given an approval by CBRC Lijiang Office to commence business; on 12 March 2010, the Company's Zibo Branch was given an approval by CBRC Shandong Office to commence business; on 21 April 2010, the Company's Leshan Branch was given an approval by CBRC Sichuan Office to commence business; on 4 May 2010, the Company's Yingkou Branch was given an approval by CBRC Liaoning Office to commence business; on 21 May 2010, the Company's Hengyang Branch was given an approval by CBRC Hunan Office to commence business; on 27 May 2010, the Company's Linyi Branch was given an approval by CBRC Shandong Office to commence business; and on 28 May 2010, the Company's Luoyang Branch was given an approval by CBRC Henan Office to commence business; on 12 June 2010, the Company's Zhongshan Branch was given an approval by CBRC Guangdong Office to commence business. On 4 January 2010, the Company obtained the approval from CBRC to set up its Yinchuan Branch; on 9 March 2010, the Company obtained the approval from CBRC Jiangsu Office to set up its Taizhou Branch; and on 13 June 2010, the Company obtained the approval from CBRC to set up its Shijiazhuang Branch.

The following table sets out the branches and representative offices as at 30 June 2010

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Size of asset (in millions of RMB)
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,964	749,108
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	68	2,767	132,899
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	55	2,411	117,713
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	22	1,154	40,316
Yichang Branch	70 Yiling Road, Yichang	443002	5	136	4,855
Huangshi Branch	76 Hangzhou Road West, Tuanchengshan Development Zone, Huangshi	435000	5	125	3,870
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	51	2,544	116,104
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	1,026	37,576
Dandong Branch	Block 11, Nanjinqiao Estate, Zhenxing District, Dandong	118000	3	92	2,730
Guangzhou Branch	138 Tiyu Road East, Tianhe District, Guangzhou	510620	39	1,525	47,648
Chengdu Branch	1 Section III, Renmin Road South, Wuhou District, Chengdu	610000	26	1,016	32,400
Leshan Branch	90 Boyang Road Central, Shizhong District, Leshan	614000	1	26	332
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	623	21,656
Xi'an Branch	107 Heping Road, Xi'an	710001	24	979	35,311
Yulin Branch	1-2/F, Changfeng Building, Hangyu Road Central, Yulin	719000	1	38	739
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	21	1,088	42,932
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	416	18,623
Changzhou Branch	125 Heping Road South, Changzhou	213003	6	197	7,462
Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	4	169	5,350
Zhenjiang Branch	Tower 3, 18 Dianli Road, Zhenjiang	212000	1	70	780
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	13	570	48,635
Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	2	93	4,987
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	26	999	33,243
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	16	661	22,188
Yingkou Branch	19 Bohai Revenue East, Zhanqian District, Yingkou	115000	1	75	872
Hangzhou Branch	23 Hangda Road, Hangzhou	310007	26	1,154	53,357
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	14	633	36,927
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	10	383	19,588
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	8	310	14,060
Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	3	137	6,375
Taizhou Branch	535 Shifu Road, Taizhou	318000	3	137	568
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	19	738	26,262
Ganzhou Branch	66 Hongqi Street, Zhanggong District, Ganzhou	341000	1	48	1,274
Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	21	878	33,667
Hengyang Branch	Huijing Garden, Hengyang	421000	1	36	426
Fuzhou Branch	60 Guping Road, Fuzhou	350003	14	628	19,474
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Fengze District, Quanzhou	362000	7	250	10,813
Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	16	825	35,554
Weihai Branch	19 Qingdao Road North, Weihai	264200	1	79	2,272
Zibo Branch	A1, 12 Renmin Road West, Zibo	255000	1	71	1,327
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	23	873	35,284
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	724	35,289
Yantai Branch	237 Nanda Street, Yantai	264000	7	243	8,271
Weifang Branch	5151 Shengli Street East, Kuiwen District, Weifang	261041	2	123	3,632

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Size of asset (in millions of RMB)
Linyi Branch	9 Xinhua Road One, Linyi	276000	1	53	608
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	414	13,644
Kunming Branch	48 Dongfeng Road East, Kunming	650051	20	688	31,129
Qujing Branch	1-2/F, Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	1	47	1,269
Lijiang Branch	222 Changshui Road, Gucheng District, Lijiang	674100	1	34	1,100
Hefei Branch	436 Changjiang Road Central, Hefei	230061	14	551	23,462
Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	2	93	2,999
Huainan Branch	Xintiandi Central Plaza, Longhu Road, Huainan	232000	1	55	2,173
Xiamen Branch	862 Xiahe Road, Xiamen	361004	12	465	21,774
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	13	526	16,272
Zhengzhou Branch	39 Huayuan Road, Zhengzhou	450000	16	556	24,420
Luoyang Branch	Xiyuan Tower, 7 Nanchang Road, Jianxi District, Luoyang	471000	1	57	–
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	15	600	20,027
Foshan Branch	1-3/F, Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	12	470	21,081
Zhongshan Branch	Tower A3, Shengjing Garden Phase III, Zhongshan Road IV, Eastern District, Zhongshan City	528400	1	61	373
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	7	323	9,634
Hohhot Branch	56 Xinhua Street, Hohhot	010010	6	331	15,211
Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	2	112	15,425
Nanning Branch	1-6/F, New City International Building, 92-1 Minzu Avenue, Nanning	530022	3	174	7,461
Hong Kong Branch	12 Harcourt Road, Hong Kong	–	1	103	28,152
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	6	1
USA Representative Office	509 Madison Aveune, Suite 306, New York, 10022, U.S.A	–	1	1	1
London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	1	–
New York Branch	535 Madison Aveune	–	1	35	2,086
Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,128	42,613
Credit Center for Small Sized Enterprises	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	446	11,092
Other assignments	–	–	–	27	–
TOTAL	–	**–**	**776**	**40,391**	**2,184,756**

6.1 Overview of corporate governance

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

1. During the reporting period, the Company organized and convened in aggregate 36 meetings of various nature, among which, there were 1 general meeting, 10 board meetings (1 by way of physical meeting, 2 by way of video conference and 7 by way of written resolutions); 15 meetings by the specialized committees under the Board of Directors (2 by the Nomination Committee, 4 by the Risk Management Committee, 4 by the Audit Committee, 4 by the Related-Party Transactions Control Committee and 1 by the Remuneration and Appraisal Committee); 7 meetings by the Board of Supervisors (1 by way of physical meeting, 1 by way of telephone conference, 2 by way of video conference, 2 by way of written resolutions and 1 in the form of research and investigation), 3 meetings by the specialized committees under the Board of Supervisors (1 by the Supervision Committee and 2 by the Nomination Committee).

2. All specialized committees under the Board of Directors of the Company carried out their duties in a compliant and effective manner. During the reporting period, these committees held a total of 15 meetings at which 41 proposals were studied and reviewed. Among which, the Nomination Committee studied and reviewed the proposal on the re-election of the Eighth Session of the Board of Directors of the Company, and verified the qualifications of the candidates for the directors of the Eighth Session of the Board of Directors. The Remuneration and Appraisal Committee considered and approved the resolution on the effective implementation of the granting under H Shares Appreciation Rights Scheme Phase I of the Company. The Risk Management Committee proactively studied and expedited the integration of the overall risk management duties of the Company, put more efforts to take various risks under control, helped facilitate the implementation of New Basel II Capital Accord, and conducted a study and decision-making on the significant policies for various risk management functions such as risk appetite, consolidated management, internal evaluation system, market risk management, operational risk management and reputation risk management. The Audit Committee considered and approved the annual report for 2009 and the auditor's review reports for 2009 of the Company as well as the re-appointment of the accountants' firm. The Audit Committee also studied and reviewed the management's report on the operations and the progress of significant matters of the Company for 2009. The Related-Party Transactions Control Committee considered and approved the report on related party transactions for 2009, the audit report on related party transactions for 2009 and the management plan on related party transactions for 2010. The specialized committees under the Board of Directors fully contributed their expertise and research capability, and as the matters under their review had covered most of the resolutions proposed to the Board of Directors, thus it enhanced the efficiency and scientific decision making ability of the Board of Directors of the Company.

3. Members of the Board of Supervisors were organized to conduct a research and inspection on the Tianjin branch of the Company, and also carried out a research on the consistent implementation by the branch of the "Second Transformation" strategy promulgated by the Head Office and the status of loans extended through the governmental financing platforms. With such research and inspection, the Board of Supervisors gained a comprehensive and systematic understanding of the implementation of the "Second Transformation" by the branches as well as the progression of business workflow improvement, risk control, loan structure and pricing levels of the branches.

   Having conducted a careful self-inspection, the Company was not aware of any non-compliance of its corporate governance practice with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies. There had not been any irregularities in the Company's corporate governance, nor had there been any disclosure of information provided to its major shareholders or the beneficial controlling shareholders before such information being published.

   During the reporting period, the Company fully complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Hong Kong Listing Rules, and continued its efforts to maintain a high standard of corporate governance.

6.2 Information about general meetings

During the reporting period, the Company convened its 2009 Annual General Meeting in Shenzhen on 23 June 2010. The notice and the convening, holding and voting procedures of the meeting all complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on *China Securities Journal, Shanghai Securities News, Securities Times*, and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 24 June 2010.

6.3 Meetings held by the Board and its specialized committees

During the reporting period, the Seventh Session of the Board of Directors of the Company held its 50th, 51st, 52nd, 53rd, 54th, 55th, 56th, 57th and 58th meetings, and the Eighth Session of the Board of Directors of the Company held its 1st meeting.

During the reporting period, the specialized committees of the Board of Directors of the Company held a total of 15 meetings, including 2 Nomination Committee meetings, 4 Risk Management Committee meetings, 4 Audit Committee meetings, 4 Related-Party Transactions Control Committee meetings and 1 Remuneration and Appraisal Committee meeting. During the reporting period, the specialized committees reviewed 22 proposals, heard and studied 19 special work reports.

6.4 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2010.

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

6.5 Board of Supervisors

During the reporting period, the Seventh Session of the Board of Supervisors of the Company held its 19th, 20th, 21st, 22nd and 23rd, and the Eighth Session of the Board of Supervisors held its 1st meeting, and carried out one special investigation.

6.6 Internal audit and internal control

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

1. *Internal Control System*

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

2. *The Internal Control Structure and Duties of the Company*

Under the requirements of the relevant laws, regulations and rules, and taking into account the asset structure, operation mode and business characteristics of the Company, the Company has established a relatively complete corporate governance structure of check and balance across the Board of Directors, the Board of Supervisors and the senior management. The Board of Directors is responsible for ensuring the sound establishment and efficient implementation of the internal control of the Company. The Board of Supervisors is responsible for monitoring the establishment and implementation of the internal control conducted by the Board of Directors and the senior management. The senior management is responsible for organizing the daily operation of internal control of the Company.

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

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

The Company has put in place an effective internal control system, which ensures that risks incurred in operation and the realization of internal control targets are within the Company's risk appetite. During the reporting period, the Company organized a number of staff training and management activities to maintain its well-established compliance culture and internal control environment. By adhering to the principle of putting regulations and internal control first, the Company strived hard to optimize the system improvement and management of its operation systems. During the reporting period, the Company formulated and revised 66 regulations, including the "Management Measures of Self-inspection and Internal Self-evaluation for Internal Control of China Merchants Bank". The Company organized its branches and sub-branches to evaluate their internal control in order to gain a comprehensive and accurate understanding of the current status of their internal control management. The Company carried on the construction of an operational risk management system pursuant to the New Basel Capital Accord and relevant requirements of the CBRC. The Company optimized the resources allocation and continued to streamline and improve the procedures of credit, accounting and retail banking in accordance with the principle of separating front office, middle office and back office. The Company continued to upgrade its computer hardware facilities and develop software systems so as to enhance the support and control of information technology on operating activities and risk management. The Company examined the consistent implementation of various internal control policies and management system through conducting the internal audit and the bank-wide inspection on various segments of the business lines of the Company, thus facilitating the continuous improvement in the level of its internal control. The Company performed standardized audit on the accounting information which was of truthfulness and completeness, therefore, the financial statements gave a true and fair view of the state of the Company. The Company made information disclosure in adherence to the principle of truthfulness, accuracy, completeness, timeliness and fairness. During the reporting period, there was no material error in the disclosure of information by the Company. With the improvement of the PRC legal system as well as the further strengthening of its own management and development, the Company will continue to improve the comprehensiveness, reasonability and effectiveness of its internal control.

6.6.2 Internal audit

The internal Audit Department of the Company is responsible for inspecting and assessing all the business and management activities of the Company and providing improvement suggestions to the senior management. To solve problems identified in such audits, the Company will follow up the audit findings and requires the audited entities to conduct rectification.

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

In the first half of 2010, the internal audit departments utilized on-site and off-site means to conduct audit on the status of the credit business, treasury business, international operations, intermediary business, accounting, retail banking and information technology system of the Company. The scope of audit included: any non-compliance with the applicable laws and regulations and internal policies and procedures of the Company; effectiveness of its risk management policies and procedures, generality and effectiveness of its internal control system; and follow-up observation of whether rectification on the shortcomings identified in the audits was done.

7.1 Implementation of Profit Appropriation of the Year 2009

The annual general meeting of 2009 held on 23 June 2010 passed the Company's Profit Appropriation Plan for Year 2009 as follows: 10% of the Company's profit after tax of RMB17.651 billion as stated in the audited financial statement (domestic section) of 2009 was appropriated to the statutory surplus reserve, totaling RMB1.765 billion. 1% of the total amount of the increased risk assets, totalling RMB4.100 billion, was appropriated to the general reserve. Profits distributable to shareholders for the year was RMB30.777 billion. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company declared a cash dividend (tax included) of RMB2.10 for every 10 shares to all shareholders of the Company or a total cash dividends of approximately RMB4.531 billion, payable in RMB for A Share-shareholders and in HKD for H Share-shareholders. The Board of Directors of the Company has already implemented the above-mentioned profit appropriation plan. For further details relating to the implementation, please refer to the announcements published by the Company on designated newspapers and websites for information disclosure on 25 June 2010 respectively.

7.2 Interim dividend appropriation for the year 2010

The Company did not propose to distribute 2010 interim dividend, nor would it propose to capitalize the capital reserve (for January-June 2009: Nil).

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

Shareholdings in non-listed financial companies

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/ (losses) for the reporting period (Note 1) ('000)	Changes in owners' equity for the reporting period ('000)	Nature of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	415,065	307,578	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	(117)	1,051	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	2,000,000	100.00	N/A	2,000,000	107,316	107,316	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914	33.40	70,000,000	258,291	23,933	(38,549)	Equity investment
Taizhou City Commercial Bank Co., Ltd.	306,671	10.00	90,000,000	345,708	–	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.75	110,000,000	155,000	–	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2	HK$8,400	–	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	189,620	–	–	Equity investment
Bank Consortium Holding Ltd.	HK$20,000	13.33	20,000,000	HK$62,015	HK$3,446	HK$(254)	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	2.88	20,000	HK$7,853	HK$496	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$68,852	HK$2,987	HK$142	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	21,000,000	HK$37,712	HK$(2,529)	–	Equity investment

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/ (losses) for the reporting period (Note 1) ('000)	Changes in owners' equity for the reporting period ('000)	Nature of shares
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$3,722	HK$895	HK$(66)	Equity investment
Equity Underwriters Ltd.	HK$2,173	40.00	1,580,000	HK$0 (Note 2)	HK$0	–	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$3,175	HK$(63)	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$5,639	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment

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

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

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Percentage of total investment at end of period (%)	Profits/ (losses) for the reporting period ('000)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	417	983,500	120,675	28.91	–
03988.HK	Bank of China Ltd.	HK$	35,865	12,000,000	47,640	11.41	–
01398.HK	Industrial and Commercial Bank of China Ltd.	HK$	26,106	5,000,000	28,650	6.86	–
00005.HK	HSBC Holdings plc	HK$	30,285	369,506	26,845	6.43	–
00349.HK	Industrial and Commercial Bank of China (Asia) Ltd.	HK$	21,669	1,231,270	25,610	6.13	–
02778.HK	Champion Real Estate Investment Trust	HK$	31,755	6,164,000	22,375	5.36	–
00939.HK	China Construction Bank Corporation	HK$	10,190	3,500,000	22,190	5.32	–
00941.HK	China Mobile Ltd.	HK$	20,931	274,300	21,382	5.12	–
00996.HK	Oriental Ginza Holdings Ltd.	HK$	25,670	10,000,000	12,600	3.02	–
02388.HK	BOC Hong Kong (Holdings) Ltd.	HK$	5,902	687,000	12,270	2.94	–
Other securities investments at end of period		HK$	42,630	2,698,812	77,225	18.50	(95)
Total		**HK$**	**251,420**	**42,908,388**	**417,462**	**100.00**	**(95)**

Notes: 1. The above table ranked the securities according to their carrying values at the end of the period to show the top 10 holdings held by the Group;

2. Other securities investments refer to those other than the top 10 holdings.

7.4 Shareholdings and trading in equity interest of other listed companies

During the reporting period, the Company had not held or traded any equity interest of other listed companies.

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

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

7.6 Use of raised fund and major investment not financed by the raised fund

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

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

Major investment(s) not financed by the raised fund

As of 30 June 2010, the total investment in Shanghai Lujiazui Project was RMB1.071 billion, of which RMB85 million was invested during the reporting period.

7.7 Interests and short positions of directors and supervisors

As at 30 June 2010, none of the directors, supervisors and senior management of the Company held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (as defined in the SFO), which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules, nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

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

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

7.9 Undertakings made by the Company

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

7.10 Significant connected transactions

7.10.1 Overview of connected transactions

All the connected transactions of the Company have been conducted on normal commercial terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company in the reporting period were those conducted between the Company and China Merchants Group Ltd. ("CM Group") and its subsidiaries and associates, subject to the requirements of non-exempt continuing connected transactions set by the Hong Kong Stock Exchange.

7.10.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company in the reporting period were those conducted between the Company and CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance"), China Merchants Fund Management Company Limited ("CMFM") and China Merchants Securities Company Limited ("CM Securities"), respectively.

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

CIGNA & CMC Life Insurance

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

China Merchants Steam Navigation Company Limited is a substantial shareholder of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company Limited and currently holds approximately 18.27% indirect equity interest in the Company (including those interest deemed to be held through connected companies). CM Group is an indirect controlling shareholder of Shenzhen Dingzun Investment Advisory Company, Ltd. ("Dingzun"), which in turn holds 50% equity interest in CIGNA & CMC Life Insurance. Pursuant to the Hong Kong Listing Rules, CIGNA & CMC Life Insurance is an associate of the connected person of the Company and therefore a connected person of the Company.

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

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

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

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

(3) where there are no prescribed fees or State guided fee rates, to follow the fees to be agreed between the parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CIGNA & CMC Life Insurance for 2010 was set at RMB500,000,000. Those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2010, the aggregate value of connected transactions between the Company and CIGNA & CMC Life Insurance amounted to RMB34,800,000.

CMFM

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

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

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

The annual cap of the continuing connected transactions between the Company and CMFM for 2010 was set at RMB800,000,000. Those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2010, the aggregate value of connected transactions between the Company and CMFM amounted to RMB34,690,000.

CM Securities

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

China Merchants Steam Navigation Company Limited is a substantial shareholder of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company Limited and currently holds approximately 18.27% indirect equity interest in the Company (including those interest deemed to be held through connected companies). As CM Group also holds a 45.88% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

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

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

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

(3) where there are no prescribed fees or State guided fee rates, to follow the fees to be agreed between the parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CM Securities for 2010 was set at RMB1,000,000,000. Those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2010, the aggregate value of connected transactions between the Company and CM Securities amounted to RMB34,180,000.

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

(1) the transactions were conducted in the ordinary and usual course of business of the Company;

(2) the terms of the related transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole;

(3) the transactions were entered into on normal commercial terms and conditions which were no more favorable than those to or from independent third parties; and

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

7.11 Material litigation and arbitration

As of 30 June 2010, the Company was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases involving the Company totaled 1,061, with a total principal amount of approximately RMB1,265,436,800 and interest of approximately RMB278,778,200. In particular, there were a total of 98 pending litigation and arbitration cases against the Company as at 30 June 2010, with a total principal amount of approximately RMB305,359,800 and total interest of RMB4,357,200. There were two pending cases with a principal amount exceeding RMB100,000,000, involving an aggregate amount of RMB260,000,000. The Bank does not expect any material adverse effect from the above-mentioned legal proceedings on the Bank's financial position or operational results.

7.12 Material contracts and their performance

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

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

Significant guarantees

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

Significant entrustments in respect of fund and asset management

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

7.13 Major activities in asset acquisition, disposal and reorganization

7.13.1 Progress of acquisition of CIGNA & CMC Life Insurance

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

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

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

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008. In the first half of 2010, the Company had made submissions concerning this acquisition to relevant regulatory authorities in accordance with the Pilot Administrative Measures for Commercial Banks to Make Equity Investment in Insurance Companies, and is still pending for the approval from relevant regulatory authorities.

7.13.2 Progress of acquisition of Tibet Trust

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

In September 2008, the Company entered into a framework agreement with relevant parties including Tibet Autonomous Region Finance Bureau in relation to the acquisition of equity interest in Tibet Trust. On 3 August 2009, the Company entered into an agreement on the transfer of interests and rights in Tibet Trust with the relevant parties including Tibet Autonomous Region Finance Bureau. Pursuant to the agreement, the Company will acquire 60.5% equity interest in Tibet Trust at a consideration of RMB363,707,028.34. The acquisition is still pending for the approval of relevant regulatory authorities.

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

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

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

7.15 Use of funds by related parties

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

7.16 Social responsibilities

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

I. Continuous effort in poverty alleviation

The year 2010 marked the twelfth year for the Company to provide designated poverty relief to Wuding County and Yongren County in Yunnan Province. In the first half of the year, Wuding County and Yongren County were significantly affected by a drought rarely seen in a hundred years in Yunnan Province. With our continuous effort in poverty alleviation and to support the people in these two counties in fighting the drought, our employees had donated a total of RMB5.83 million in cash, 28,220 pieces of clothing, and 4,000 cartons of water to the two counties. The Company also provided cycling additional small loans with an amount of RMB4 million, so as to intensify the aid to the self-rescue production program for the impoverished farmers.

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

In the first half of 2010, the Company continued to adhere to our strategy of supporting SMEs for growth and intensified the strength of support to SMEs. The Company increased its specialized service for SMEs through an addition of 11 branches, decentralized the authority of innovation of regional finance products for SMEs, implemented fast-track approval by the Head Office within three working days; enhanced the promotion of product innovation for SMEs, and established specialized teams for the innovation of single product to conduct the innovation of important products such as personal loan, home mortgage loan, purchase order loan, creditor loan and guaranteed loan; created new service models for franchisees, car dealers and transportation carriers. As at 30 June 2010, the Company had 14,966 SME customers, representing an increase of 2,346 as compared to the beginning of the year, with the balance of loans amounting to RMB351.119 billion, accounting for 47.67% of the total corporate loans, representing an increase of RMB42.749 billion or 13.86% as compared to the beginning of the year.

III. Proactively developing green finance business

During the reporting period, the Company launched innovative solutions to its six major categories of green finance products, namely emission-right-backed loans, energy-efficiency gain-backed loans, AFD (French Development Agency) long-term low interest loans, green equipment buyer's credit loan, green finance lease and CDM (Clean Development Mechanism) financing; signed a memorandum of understanding with the French Development Agency in respect of the Sino-French Intermediate Credit Phase II Project, and thus secured EUR40 million long-term low-interest funds for green projects; established cooperative relationship with the French Development Agency, Tianjin Emission Exchange, IFC (International Finance Corporation), WWF (World Wide Fund for Nature), UNEP FI (United Nations Environment Program Finance Initiative), the Ministry of Finance, the National Energy Research Institute and the State Environmental Protection Association of China to strengthen external cooperation in green finance and expand the scope of business. As at 30 June 2010, the Company had a green credit loan balance of RMB45.911 billion, representing an increase of 14.73% as compared to the same period last year. In particular, RMB9.507 billion was granted to renewable energy and power generation projects based on comprehensive utilization of resources, RMB1.126 billion to clean energy projects and RMB35.278 billion to environmental protection projects.

IV. Organizing "Sunflower Cup" National Teenagers' Piano Contest

The Company's 2010 "Sunflower Cup" National Teenagers' Piano Contest was officially launched in January 2010, with over 4,000 contestants taking part in the event. Meanwhile, the Piano and Arts Program under the "Sunflower Children's Growth Fund", which was jointly established by China Children and Teenagers' Fund and CMB, was also officially launched. Financed by the "Sunflower Children's Growth Fund", the program aims to provide financial and material support for children who love piano and who have a passion for further education in the art of piano.

V. Donations for the victims of the Qinghai Yushu earthquake

Shortly after the Qinghai Yushu earthquake, the Company donated RMB5 million to the quake-hit areas through the China Red Cross in order to fully support the earthquake relief work and the rebuilding of the community. This donation was designated for the reconstruction of Children's facilities and schools in the Qinghai Yushu quake-hit areas. This was also the Company's another triggering of its emergency relief plans for domestic natural disasters since the 2008 snowstorm disaster and the Wenchuan earthquake. At the same time, by setting up various donation bank accounts and other donation channels, the Company initiated the "Special Action of Donating for the Qinghai Earthquake Victims", appealing to the whole society to actively take part in the contribution of emergency relief funds and materials and make long-term contribution to the post-earthquake reconstruction.

VI. Internal concerted efforts to promote low-carbon operation

At the beginning of the year, the Company internally issued "14 Rules on Low-carbon Green Operation", setting out specific requirements on various aspects of our daily operation and impose constraints on staff behaviour. The purpose of which is to further reduce carbon emission, preserve energies and protect the environment. Thanks to the implementation of a series of measures, the Group has already made significant achievement in its work of energy preservation and emission reduction.

VII. Participating in activities organized by public welfare organizations

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

7.17 Compliance statement for corporate governance

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

7.18 Review on interim results

The Audit Committee under the Board of Directors of the Company has reviewed and approved the results and financial report of the Company for the period ended 30 June 2010.

7.19 Publication of interim report

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

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

By Order of the Board

Qin Xiao
Chairman of Board of Directors

18 August 2010

VIII Review Report to the Board of Directors and Interim Financial Report for 2010

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 88 to 151 which comprises the consolidated balance sheet of China Merchants Bank Co., Ltd as of 30 June 2010 and the related consolidated income statement, and consolidated statement of changes in equity and consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

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

18 August 2010

Unaudited Consolidated Income Statement

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2010	2009
Interest income	4	**39,226**	31,502
Interest expense	5	**(12,883)**	(12,879)
Net interest income		**26,343**	18,623
Fee and commission income	6	**5,836**	4,588
Fee and commission expense		**(490)**	(546)
Net fee and commission income		**5,346**	4,042
Other net income	7	**1,123**	1,939
Insurance operating income		**170**	187
Operating income		**32,982**	24,791
Operating expenses	8	**(13,454)**	(11,880)
Charge for insurance claims		**(132)**	(160)
Operating profit before impairment losses		**19,396**	12,751
Impairment losses	9	**(2,394)**	(2,603)
Share of profit of associates		**24**	23
Share of profit of jointly controlled entities		**4**	7
Profit before tax		**17,030**	10,178
Income tax	10	**(3,827)**	(1,916)
Profit for the period		**13,203**	8,262
		RMB	RMB (Restated)
Earnings per share			
Basic	12(a)	**0.65**	0.43
Diluted	12(b)	**0.65**	0.43

The notes on pages 95 to 151 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 29.

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2010	2009
Other comprehensive income for the period (after tax and reclassification adjustments)	11		
Exchange differences		**(139)**	11
Available for sale investments: net movement in fair value reserve		**1,958**	(1,711)
Share of investment revaluation reserve of jointly controlled entities		**–**	4
		1,819	(1,696)
Total comprehensive income for the period		**15,022**	6,566

The notes on pages 95 to 151 form part of this interim financial report.

Unaudited Consolidated Balance Sheet

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2010	31 December 2009
Assets			
Cash and balances with banks and other financial institutions	13	**35,784**	56,544
Balances with central bank	14	**245,235**	208,554
Placements with banks and other financial institutions	15	**262,417**	221,194
Loans and advances to customers	16	**1,304,428**	1,161,817
Investments	17	**389,160**	377,072
Interest in associates	18	**262**	306
Interest in jointly controlled entities	19	**156**	160
Fixed assets	20	**15,711**	16,008
Intangible assets	21	**2,474**	2,477
Deferred tax assets	22	**2,205**	2,786
Goodwill	23	**9,598**	9,598
Other assets		**15,052**	11,425
Total assets		**2,282,482**	2,067,941
Liabilities			
Deposits from banks and other financial institutions	24	**230,456**	186,201
Placements from banks and other financial institutions	25	**71,328**	78,918
Deposits from customers	26	**1,752,400**	1,608,146
Trading liabilities	17(e)	**395**	30
Financial liabilities designated at fair value through profit or loss	17(f)	**995**	1,173
Derivative financial liabilities	32(b)	**1,637**	1,474
Certificates of deposit issued	27(a)	**3,956**	4,462
Other debts issued	27(b)	**4,999**	4,998
Subordinated notes issued	27(c)	**31,262**	31,271
Current taxation		**2,183**	1,159
Deferred tax liabilities	22	**950**	941
Other liabilities		**57,080**	56,385
Total liabilities		**2,157,641**	1,975,158

The notes on pages 95 to 151 form part of this interim financial report.

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**30 June 2010**	31 December 2009
Equity			
Share capital	28	**21,577**	19,119
Capital reserve		**37,508**	18,399
Surplus reserve		**8,418**	6,653
Investment revaluation reserve		**1,728**	(230)
Regulatory general reserve		**15,067**	14,976
Exchange reserve		**(161)**	(22)
Retained profits		**40,704**	27,592
Proposed profit appropriations	29(b)	**–**	6,296
Total equity		**124,841**	92,783
Total equity and liabilities		**2,282,482**	2,067,941

Approved and authorised for issue by the board of directors on 18 August 2010.

Qin Xiao
Director

Ma Wei Hua
Director

Company Chop

The notes on pages 95 to 151 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 2010								
	Note	**Share capital**	**Capital reserve**	**Surplus reserve**	**Investment revaluation reserve**	**Regulatory general reserve**	**Exchange reserve**	**Retained profits**	**Proposed profit appropriations**	**Total**
At 1 January 2010		**19,119**	**18,399**	**6,653**	**(230)**	**14,976**	**(22)**	**27,592**	**6,296**	**92,783**
Appropriations to statutory surplus reserve for the year 2009		**–**	**–**	**1,765**	**–**	**–**	**–**	**–**	**(1,765)**	**–**
Approved cash dividends for the year 2009	29(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,531)**	**(4,531)**
Approved issued shares for the year 2009	28	**2,458**	**19,109**	**–**	**–**	**–**	**–**	**–**	**–**	**21,567**
Transfer of retained profits to regulatory general reserve		**–**	**–**	**–**	**–**	**91**	**–**	**(91)**	**–**	**–**
Total comprehensive income for the period	11	**–**	**–**	**–**	**1,958**	**–**	**(139)**	**13,203**	**–**	**15,022**
At 30 June 2010		**21,577**	**37,508**	**8,418**	**1,728**	**15,067**	**(161)**	**40,704**	**–**	**124,841**

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

The notes on pages 95 to 151 form part of this interim financial report.

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2010	2009
Operating activities			
Profit before tax		**17,030**	10,178
Adjustments for:			
– Impairment losses charged on loans and advances		**2,451**	2,650
– Impairment losses released on investment		**(13)**	(44)
– Impairment losses released on other assets		**(44)**	(3)
– Unwind of interest income on impaired loans		**(47)**	(54)
– Depreciation		**1,171**	1,072
– Amortisation of other asset		**106**	124
– Amortisation of discount and premium of debt investments		**(146)**	(211)
– Amortisation of discount and premium of issued debts		**6**	6
– Net gain on debt investments		**(177)**	(798)
– Interest income on debt investments		**(4,181)**	(4,196)
– Interest expense on issued debts		**936**	1,000
– Share of profit of associates		**(24)**	(23)
– Share of profit of jointly controlled entities		**(4)**	(7)
– Net gain on sale and disposal of fixed assets		**(1)**	(1)
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(42,173)**	(31,663)
Decrease/(increase) in balances and placements with banks and other financial institutions with original maturity over 3 months		**387**	(68,881)
Increase in loans and advances to customers		**(141,851)**	(278,017)
Increase in other assets		**(8,782)**	(6,668)
Increase in deposits from customers		**144,254**	290,034
Increase in deposits and placements from banks and other financial institutions		**36,665**	86,497
(Decrease)/increase in other liabilities		**(4,278)**	21,927
Net cash inflow from operating activities		**1,285**	22,922
Income tax paid		**(2,819)**	(3,408)

The notes on pages 95 to 151 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2010	2009
Investing activities			
Payment for investments purchased		**(831,624)**	(449,718)
Proceeds from disposal of investments		**803,343**	415,116
Interest received from debt investments		**3,674**	2,854
Payment for purchase of fixed assets and other assets		**(1,025)**	(1,153)
Proceeds from sale of fixed assets and other assets		**75**	106
Payment for other investments		**–**	(39)
Repayment of loan to jointly controlled entity		**3**	–
Net cash outflow from investing activities		**(25,554)**	(32,834)
Net cash outflow before financing activities		**(27,088)**	(13,320)
Financing activities			
Proceeds from issuance of certificates of deposit		**930**	975
Repayment of certificates of deposit issued		**(1,575)**	(918)
Repayment of subordinated notes		**–**	(2,500)
Interest paid on issued debts		**(54)**	(18)
Proceeds from issuance of share capital		**21,744**	–
Cost of issuing share, net of interest income		**(177)**	–
Net cash inflow/(outflow) from financing activities		**20,868**	(2,461)
Net decrease in cash and cash equivalents		**(6,220)**	(15,781)
Cash and cash equivalents at 1 January		**183,631**	186,671
Effect of foreign exchange rate changes		**(1,167)**	419
Cash and cash equivalents at 30 June	30(a)	**176,244**	171,309
Cash flows from operating activities include:			
Interest received		**34,430**	26,717
Interest paid		**10,794**	11,790

The notes on pages 95 to 151 form part of this interim financial report.

(Expressed in millions of Renminbi unless otherwise stated)

1 REPORTING ENTITY

China Merchants Bank Co., Ltd. ("the Bank") is a bank domiciled in the People's Republic of China (the "PRC"). The condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2010 comprise the Bank and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 are available upon request from the Bank's registered office at China Merchants Bank Tower, Shenzhen, the PRC.

The particulars of the Bank's subsidiaries as at 30 June 2010 are set out below.

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

2 BASIS OF PREPARATION

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

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

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

3 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Improvements to IFRSs (2009)
- IFRIC 17, *Distributions of non-cash assets to owners*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The above developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

  In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

Further details of these changes in accounting policy are as follows: *(continued)*

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, *Investments in associates*, and IAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:

  – If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

  Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- IFRIC 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the Group measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in IFRIC 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

(Expressed in millions of Renminbi unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated

4 INTEREST INCOME

	Six months ended 30 June	
	2010	2009
Loans and advances (note)	**32,052**	24,394
Balances with central bank	**1,577**	1,356
Balances and placements with		
– banks	**1,018**	1,207
– other financial institutions	**252**	138
Debt investments	**4,327**	4,407
Interest income on financial assets that are not at fair value through profit or loss	**39,226**	31,502

Note: Included in the above is interest income of RMB47 million accrued on impaired loans (for the six months ended 30 June 2009: RMB54 million).

5 INTEREST EXPENSE

	Six months ended 30 June	
	2010	2009
Deposits from customers	**9,804**	10,096
Deposits and placements from		
– banks	**767**	886
– other financial institutions	**1,370**	891
Issued debts	**942**	1,006
Interest expense on financial liabilities that are not at fair value through profit or loss	**12,883**	12,879

(Expressed in millions of Renminbi unless otherwise stated)

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2010	2009
Bank cards fees	**1,701**	1,385
Remittance and settlement fees	**660**	508
Agency services fees	**1,550**	1,109
Commissions from credit commitment and loan business	**568**	364
Trust services fees	**708**	735
Others	**649**	487
	5,836	4,588

Note: Included above is fee and commission income earned by the Group arising from financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB1,984 million (for the six months ended 30 June 2009: RMB1,275 million).

7 OTHER NET INCOME

	Six months ended 30 June	
	2010	2009
Trading profits arising from		
– foreign exchange	**644**	534
– securities, derivatives and other trading activities	**461**	188
Net (loss)/income on financial instruments designated at fair value through profit or loss	**(201)**	296
Net gain on disposal of available-for-sale financial assets	**111**	704
Distributions on investment in funds	**10**	5
Rental income	**90**	74
Others	**8**	138
	1,123	1,939

(Expressed in millions of Renminbi unless otherwise stated)

8 OPERATING EXPENSES

	Six months ended 30 June 2010	2009
Staff costs		
– salaries, bonuses and staff welfare	**5,468**	4,715
– contributions to defined contribution retirement schemes	**731**	584
– housing allowances	**312**	305
– others	**256**	256
	6,767	5,860
Business tax and surcharges	**1,910**	1,457
Depreciation	**1,171**	1,072
Rental expenses	**913**	904
Other general and administrative expenses	**2,693**	2,587
	13,454	11,880

9 IMPAIRMENT LOSSES

	Six months ended 30 June 2010	2009
Impairment losses charged/(released) on:		
– loans and advances (note 16(c))	**2,451**	2,650
– investments		
– available-for-sale investments	**(13)**	(14)
– held-to-maturity investments (note 17(c))	**–**	(30)
– other assets	**(44)**	(3)
	2,394	2,603

(Expressed in millions of Renminbi unless otherwise stated)

10 INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2010	2009
Current tax		
– Mainland China	**3,797**	1,428
– Hong Kong	**67**	36
– Overseas	**3**	6
	3,867	1,470
Deferred tax (note 22(b))	**(40)**	446
	3,827	1,916

The current tax provision is based on the estimated assessable profit for 2010, and is determined by using tax rates applicable to the Group's operations in different areas.

(Expressed in millions of Renminbi unless otherwise stated)

11 OTHER COMPREHENSIVE INCOME

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

	Six months ended 30 June					
	2010			2009		
	Before-tax amount	**Tax expense**	**Net-of-tax amount**	Before-tax amount	Tax benefit	Net-of-tax amount
Exchange differences	**(139)**	**–**	**(139)**	11	–	11
Available-for-sale investments	**2,598**	**(640)**	**1,958**	(2,085)	374	(1,711)
Share of investment revaluation reserve of jointly controlled entities	**–**	**–**	**–**	4	–	4
Other comprehensive income	**2,459**	**(640)**	**1,819**	(2,070)	374	(1,696)

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

	Six months ended 30 June	
	2010	2009
Available-for-sale investments:		
Changes in fair value recognised during the period	**2,039**	(889)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains/(loss) on disposal	**(81)**	(811)
– impairment losses	**–**	(11)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**1,958**	(1,711)

(Expressed in millions of Renminbi unless otherwise stated)

12 EARNINGS PER SHARE

Movements of the share capital are included in note 28.

(a) Basic earnings per share

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

	Six months ended 30 June	
	2010	2009 (restated)
Net profit	**13,203**	8,262
Weighted average number of shares in issue (in million)	**20,273**	19,119
Basic earnings per share (in RMB)	**0.65**	0.43

(b) Diluted earnings per share

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

	Six months ended 30 June	
	2010	2009 (restated)
Net profit	**13,203**	8,262
Interest expense on convertible bonds issued	**–**	–
Diluted net profit	**13,203**	8,262
Weighted average number of shares in issue (in million)	**20,273**	19,119
Effect of deemed conversion of convertible bonds (in million)	**–**	1
Weighted average number of shares in issue after dilution (in million)	**20,273**	19,120
Diluted earnings per share (in RMB)	**0.65**	0.43

(Expressed in millions of Renminbi unless otherwise stated)

13 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2010	31 December 2009
Cash	**7,899**	7,613
Balances with banks	**27,870**	48,899
Balances with other financial institutions	**43**	60
	35,812	56,572
Less: Impairment allowances		
– banks	**(23)**	(24)
– other financial institutions	**(5)**	(4)
	(28)	(28)
	35,784	56,544

14 BALANCES WITH CENTRAL BANK

	30 June 2010	31 December 2009
Statutory deposit reserve funds (note i)	**214,310**	172,137
Surplus deposit reserve funds (note ii)	**28,780**	35,240
Fiscal deposits	**2,145**	1,177
	245,235	208,554

Notes:

(i) The statutory deposit reserve funds are not available for the Group’s daily operations. The statutory deposit reserve funds are calculated at 15% and 5% for eligible Renminbi deposits and foreign currency deposits respectively as at 30 June 2010 (31 December 2009: 13.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

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

(Expressed in millions of Renminbi unless otherwise stated)

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2010	31 December 2009
Money market placements		
– banks	**41,244**	51,070
– other financial institutions	**22,755**	11,327
	63,999	62,397
Balances under resale agreements (note)		
– banks	**192,299**	147,733
– other financial institutions	**6,119**	11,064
	198,418	158,797
	262,417	221,194
Maturing		
– within one month	**136,693**	87,116
– between one month and one year	**125,545**	133,804
– after one year	**179**	274
	262,417	221,194

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

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2010	31 December 2009
Corporate loans	**813,021**	701,396
Discounted bills	**71,307**	102,549
Retail loans	**446,437**	381,877
Gross loans and advances to customers	**1,330,765**	1,185,822
Less: impairment allowances		
– individually-assessed	**(5,702)**	(5,969)
– collectively-assessed	**(20,635)**	(18,036)
Net loans and advances to customers	**1,304,428**	1,161,817

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	30 June 2010	31 December 2009
Domestic enterprises:		
State-owned enterprises	**234,953**	231,771
Joint-stock enterprises	**87,533**	71,668
Other limited liability enterprises	**198,496**	163,030
Others	**108,249**	80,598
	629,231	547,067
Foreign-invested enterprises	**114,259**	101,138
Enterprises operating in the Mainland	**743,490**	648,205
Enterprises operating outside the Mainland	**69,531**	53,191
Corporate loans	**813,021**	701,396
Discounted bills	**71,307**	102,549
Retail loans	**446,437**	381,877
Gross loans and advances to customers	**1,330,765**	1,185,822

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by borrowers' industry sector:

Operation in Mainland China

	30 June 2010		31 December 2009	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**225,825**	**27**	191,890	27
Transportation, storage and postal services	**117,310**	**27**	106,456	27
Wholesale and retail	**99,787**	**47**	75,310	48
Property development	**79,658**	**65**	63,611	63
Production and supply of electric power, gas and water	**63,232**	**14**	65,797	12
Leasing and commercial services	**51,137**	**29**	45,978	24
Water, environment and public utilities management	**31,474**	**36**	28,626	35
Construction	**30,609**	**25**	26,027	25
Mining	**22,107**	**18**	19,668	14
Education	**7,290**	**7**	7,055	5
Others	**27,976**	**25**	26,944	25
Corporate loans	**756,405**	**32**	657,362	31
Discounted bills	**71,307**	**100**	102,549	100
Credit cards	**43,342**	**–**	39,942	–
Mortgages	**294,024**	**100**	263,997	99
Others	**96,520**	**98**	65,076	96
Retail loans	**433,886**	**89**	369,015	88
Gross loans and advances to customers	**1,261,598**	**56**	1,128,926	47

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

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

Operation outside Mainland China

	30 June 2010		31 December 2009	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and Advances covered by collateral or other security
Property development	**31,962**	**72**	26,916	59
Wholesale and retail trade	**8,273**	**91**	4,935	42
Financial concerns	**5,538**	**18**	3,800	7
Manufacturing	**3,729**	**34**	2,497	25
Transport and transport equipment	**3,211**	**66**	3,125	40
Recreational activities	**89**	**81**	966	1
Information technology	**694**	**66**	159	3
Others	**3,120**	**53**	1,636	37
Corporate loans	**56,616**	**65**	44,034	47
Credit cards	**243**	**–**	372	–
Mortgages	**9,238**	**100**	9,662	100
Others	**3,070**	**97**	2,828	97
Retail loans	**12,551**	**97**	12,862	96
Gross loans and advances to customers	**69,167**	**71**	56,896	58

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

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

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

	30 June 2010			
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**
Manufacturing and processing	**2,512**	**2,584**	**1,856**	**4,571**
Mortgages	**3,065**	**364**	**–**	**2,645**

	31 December 2009			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing and processing	2,618	2,882	1,877	3,920
Mortgages	2,517	383	476	2,392

(iii) Analysed by borrowers' geographical areas:

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. At 30 June 2010, over 90% of the Group's loans and advances to customers was classified under People's Republic of China (unchanged from the positions at 31 December 2009).

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Six months ended 30 June 2010			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	**16,638**	**1,398**	**5,969**	**24,005**
Charge for the period (note 9)	**2,670**	**24**	**223**	**2,917**
Releases for the period (note 9)	**(10)**	**(1)**	**(455)**	**(466)**
Unwinding of discount	**–**	**(1)**	**(46)**	**(47)**
Recoveries of loans and advances previously written off	**–**	**6**	**24**	**30**
Write-offs	**–**	**(89)**	**(2)**	**(91)**
Transfers in	**14**	**–**	**–**	**14**
Exchange difference	**(14)**	**–**	**(11)**	**(25)**
At 30 June	**19,298**	**1,337**	**5,702**	**26,337**

	2009			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	13,795	1,086	6,727	21,608
Charge for the year	2,862	400	754	4,016
Releases for the year	(19)	(2)	(922)	(943)
Unwinding of discount	–	(1)	(105)	(106)
Recoveries of loans and advances previously written off	–	5	150	155
Write-offs	–	(90)	(682)	(772)
Transfers in	–	–	46	46
Exchange difference	–	–	1	1
At 31 December	16,638	1,398	5,969	24,005

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	30 June 2010					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	16,405	–	4	16,409	0.02	–
– non-financial institution customers	1,305,558	1,552	7,246	1,314,356	0.67	1,053
	1,321,963	1,552	7,250	1,330,765	0.66	1,053
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(37)	–	(4)	(41)		
– non-financial institution customers	(19,261)	(1,337)	(5,698)	(26,296)		
	(19,298)	(1,337)	(5,702)	(26,337)		
Net loans and advances to						
– financial institutions	16,368	–	–	16,368		
– non-financial institution customers	1,286,297	215	1,548	1,288,060		
	1,302,665	215	1,548	1,304,428		

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	31 December 2009					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	21,777	–	6	21,783	0.03	–
– non-financial institution customers	1,154,447	1,631	7,961	1,164,039	0.82	1,344
	1,176,224	1,631	7,967	1,185,822	0.81	1,344
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(28)	–	(4)	(32)		
– non-financial institution customers	(16,610)	(1,398)	(5,965)	(23,973)		
	(16,638)	(1,398)	(5,969)	(24,005)		
Net loans and advances to						
– financial institutions	21,749	–	2	21,751		
– non-financial institution customers	1,137,837	233	1,996	1,140,066		
	1,159,586	233	1,998	1,161,817		

Notes:

(i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.

(ii) Impaired loans and advances include loans for which objective evidence of impairment has been identified:

– individually; or

– collectively; that is portfolios of homogeneous loans.

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

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	30 June 2010		31 December 2009	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**6,491**	**7,104**	2,530	2,936
After 1 year but within 5 years	**10,144**	**10,972**	6,486	7,022
After 5 years	**502**	**556**	223	231
	17,137	**18,632**	9,239	10,189
Impairment allowances:				
– individually-assessed	**(9)**	**(9)**	(11)	(11)
– collectively-assessed	**(188)**	**(188)**	(110)	(110)
Unearned future income on finance lease	**–**	**(1,495)**	–	(950)
Net investment in finance leases and hire purchase contracts	**16,940**	**16,940**	9,118	9,118

17 INVESTMENTS

	30 June 2010	31 December 2009
Financial assets at fair value through profit or loss (note 17(a))	**19,228**	16,855
Available-for-sale investments (note 17(b))	**249,365**	244,916
Held-to-maturity debt securities (note 17(c))	**86,525**	80,201
Receivables (note 17(d))	**34,042**	35,100
	389,160	377,072

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

(i) Trading assets

	30 June 2010	31 December 2009
Listed		
In the Mainland		
– PRC government bonds	**622**	458
– bonds issued by the PBOC	**597**	1,319
– bonds issued by policy banks	**845**	726
– bonds issued by commercial banks and other financial institutions	**2,561**	3,266
– other debt securities	**6,222**	2,532
– equity investments	**4**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**368**	541
– other debt securities	**13**	188
– equity investments	**12**	23
	11,244	9,053
Unlisted		
In the Mainland		
– PRC government bonds	**38**	46
– bonds issued by policy banks	**63**	64
– bonds issued by commercial banks and other financial institutions	**110**	118
– Investment in funds	**–**	2
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**165**	187
– other debt securities	**1,985**	1,610
	2,361	2,027
Derivative financial instruments (note 32(b))	**1,592**	999
	15,197	12,079

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

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

	30 June 2010	31 December 2009
Listed		
In the Mainland		
– PRC government bonds	**247**	251
– policy banks	**300**	–
– commercial banks and other financial institution	**498**	–
– other debt securities	**662**	713
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**313**	401
– other debt securities	**1,337**	2,710
Unlisted		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**155**	183
– other debt securities	**519**	518
	4,031	4,776
	19,228	16,855
Financial assets at fair value through profit or loss (excluding derivative financial instruments)		
Issued by:		
Sovereigns	**3,498**	3,868
Banks and other financial institutions	**5,378**	5,486
Public sector entities	**5**	177
Corporates	**8,755**	6,325
	17,636	15,856

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	30 June 2010	31 December 2009
Listed		
In the Mainland		
– PRC government bonds	**17,660**	18,199
– bonds issued by the PBOC	**10,776**	25,058
– bonds issued by policy banks	**41,459**	47,167
– bonds issued by commercial banks and other financial institutions	**83,209**	84,837
– other debt securities	**77,253**	48,778
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**3,529**	4,417
– other debt securities	**1,607**	2,224
– equity investments	**465**	456
– investments in funds	**21**	18
	235,979	231,154
Unlisted		
In the Mainland		
– bonds issued by commercial banks and other financial institutions	**720**	2,120
– equity investments	**669**	669
– other debt securities	**4**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**11,576**	10,518
– other debt securities	**369**	402
– equity investments	**48**	53
	13,386	13,762
	249,365	244,916

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

	30 June 2010	31 December 2009
Issued by:		
Sovereigns	**28,697**	43,588
Banks and other financial institutions	**141,204**	149,835
Corporates	**79,464**	51,493
	249,365	244,916

(c) Held-to-maturity debt securities

	30 June 2010	31 December 2009
Listed		
In the Mainland		
– PRC government bonds	**36,466**	22,760
– bonds issued by the PBOC	**12,110**	12,210
– bonds issued by policy banks	**4,037**	4,360
– bonds issued by commercial banks and other financial institutions	**25,823**	29,105
– other debt securities	**1,110**	1,110
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**1,802**	1,761
– other debt securities	**985**	993
Unlisted		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**4,164**	7,872
– other debt securities	**212**	214
	86,709	80,385
Less: Impairment allowances	**(184)**	(184)
	86,525	80,201

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

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

	30 June 2010	31 December 2009
Issued by:		
Sovereigns	**48,627**	35,185
Banks and other financial institutions	**35,662**	42,933
Public sector entities	**9**	9
Corporates	**2,227**	2,074
	86,525	80,201
Fair value of listed debt securities	**83,468**	75,302
Movements of allowances for impairment losses		
At 1 January	**184**	215
Released for the period/year	**–**	(31)
At 30 June/31 December	**184**	184

(d) Receivables

	30 June 2010	31 December 2009
Unlisted		
In the Mainland		
– PRC government bonds	**5,341**	5,600
– bonds issued by the PBOC	**13,967**	16,889
– bonds issued by commercial banks and other financial institutions	**1,328**	778
– Other debt securities	**12,540**	10,959
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**928**	936
	34,104	35,162
Less: Impairment allowances	**(62)**	(62)
	34,042	35,100

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

	30 June 2010	31 December 2009
Issued by:		
Sovereigns	**19,308**	22,489
Banks and other financial institutions	**2,194**	1,651
Corporate	**12,540**	10,960
	34,042	35,100

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

(e) Trading liabilities

	30 June 2010	31 December 2009
Short positions in exchange fund bill and notes at fair value:		
– listed	**4**	1
– unlisted	**391**	29
	395	30

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

	30 June 2010	31 December 2009
Unlisted		
Outside the Mainland China		
– certificates of deposit issued	**995**	1,173

17 INVESTMENTS *(continued)*

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

On 18 September 2008, the Bank entered into the framework agreement with the Tibet Autonomous Region Finance Bureau to acquire 60.5% equity interest in Trust & Investment Corporation of Tibet Autonomous Region ("Tibet Trust"). As of 30 June 2010, the completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the China Securities Regulatory Commission ("CSRC") and China Banking Regulatory Commission ("CBRC").

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

On 5 May 2008, the Bank entered into an agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interest in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance") for a total consideration of RMB141.9 million. The completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the CSRC, the CBRC and the China Insurance Regulatory Commission ("CIRC"). As of 30 June 2010, the proposed acquisition is not yet approved by the relevant regulatory authorities.

18 INTEREST IN ASSOCIATES

	30 June 2010	31 December 2009
Share of net assets	**149**	193
Goodwill	**114**	114
	263	307
Less: Impairment allowance	**(1)**	(1)
	262	306

The following list contains only the particulars of associates as of 30 June 2010, which is unlisted corporate entities and principally affected the results or assets of the Group:

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

19 INTEREST IN JOINTLY CONTROLLED ENTITIES

	30 June 2010	31 December 2009
Share of net assets	**112**	112
Loan to jointly controlled entities	**44**	48
	156	160

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

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

Note (i): The Bank's subsidiary, Wing Lung Bank holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.

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

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS

2010

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other	Total
Cost:							
At 1 January 2010	8,510	2,474	3,016	5,256	3,091	1,849	24,196
Additions	57	–	280	269	202	140	948
Transfers	681	(75)	(653)	–	47	–	–
Disposals/write-offs	(13)	–	–	(130)	(81)	(44)	(268)
Exchange difference	(32)	(20)	–	(1)	(1)	–	(54)
At 30 June 2010	9,203	2,379	2,643	5,394	3,258	1,945	24,822
Accumulated depreciation:							
At 1 January 2010	1,936	303	–	3,669	1,252	1,028	8,188
Depreciation	216	60	–	507	243	145	1,171
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/ write-offs	(3)	–	–	(119)	(79)	(42)	(243)
Exchange difference	(3)	(2)	–	–	–	–	(5)
At 30 June 2010	2,151	356	–	4,057	1,416	1,131	9,111
Net book value:							
At 30 June 2010	7,052	2,023	2,643	1,337	1,842	814	15,711

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

2009

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2009	8,004	2,594	2,305	4,838	2,294	1,534	21,569
Additions	173	–	1,189	744	786	396	3,288
Transfers	433	(120)	(478)	–	136	16	(13)
Disposals/write-offs	(100)	–	–	(326)	(125)	(97)	(648)
At 31 December 2009	8,510	2,474	3,016	5,256	3,091	1,849	24,196
Accumulated depreciation:							
At 1 January 2009	1,565	188	–	2,932	947	875	6,507
Depreciation	393	123	–	1,034	403	241	2,194
Transfers	7	(8)	–	–	–	–	(1)
Written back on disposals/ write-offs	(29)	–	–	(297)	(98)	(88)	(512)
At 31 December 2009	1,936	303	–	3,669	1,252	1,028	8,188
Net book value:							
At 31 December 2009	6,574	2,171	3,016	1,587	1,839	821	16,008

(Expressed in millions of Renminbi unless otherwise stated)

21 INTANGIBLE ASSETS

2010

	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2010	**1,110**	**521**	**10**	**1,156**	**2,797**
Additions	**–**	**77**	**–**	**–**	**77**
At 30 June 2010	**1,110**	**598**	**10**	**1,156**	**2,874**
Amortization:					
At 1 January 2010	**135**	**129**	**6**	**50**	**320**
Additions	**12**	**34**	**2**	**32**	**80**
At 30 June 2010	**147**	**163**	**8**	**82**	**400**
Net book value:					
At 30 June 2010	**963**	**435**	**2**	**1,074**	**2,474**

2009

	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2009	1,021	330	10	1,156	2,517
Additions	76	191	–	–	267
Transfers	13	–	–	–	13
At 31 December 2009	1,110	521	10	1,156	2,797
Amortization:					
At 1 January 2009	43	82	1	10	136
Additions	91	47	5	40	183
Transfers	1	–	–	–	1
At 31 December 2009	135	129	6	50	320
Net book value:					
At 31 December 2009	975	392	4	1,106	2,477

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX

	30 June 2010	31 December 2009
Deferred tax assets	**2,205**	2,786
Deferred tax liabilities	**(950)**	(941)
	1,255	1,845

(a) Nature of deferred tax assets and liabilities

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

	30 June 2010	31 December 2009
Impairment losses on loans and advances to customers and other assets	**2,235**	2,199
Investment revaluation reserve	**(544)**	96
Deductible salary	**481**	454
Others	**(917)**	(904)
	1,255	1,845

(b) Movements of deferred tax

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary	Others	Total
At 1 January 2010	2,199	96	454	(904)	1,845
Recognised in the consolidated income statement	36	–	27	(23)	40
– due to timing differences	(95)	–	–	(23)	(118)
– due to income tax rate change	131	–	27	–	158
Recognised in reserves	–	(640)	–	–	(640)
– due to timing differences	–	(646)	–	–	(646)
– due to income tax rate change	–	6	–	–	6
Exchange difference	–	–	–	10	10
At 30 June 2010	2,235	(544)	481	(917)	1,255

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX *(continued)*

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

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2009	3,198	(708)	–	(817)	1,673
Recognised in the consolidated income statement	(999)	–	454	(86)	(631)
– due to timing differences	(837)	–	454	(84)	(467)
– due to income tax rate change	(162)	–	–	(2)	(164)
Recognised in reserves	–	804	–	(1)	803
– due to timing differences	–	909	–	(1)	908
– due to income tax rate change	–	(105)	–	–	(105)
At 31 December 2009	2,199	96	454	(904)	1,845

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

23 GOODWILL

	30 June 2010	31 December 2009
At 1 January	**9,598**	9,598
Impairment	**–**	–
At 30 June/31 December	**9,598**	9,598

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

(Expressed in millions of Renminbi unless otherwise stated)

24 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2010	31 December 2009
Deposits from banks	**46,761**	30,656
Deposits from other financial institutions	**183,695**	155,545
	230,456	186,201

25 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2010	31 December 2009
Money market takings		
– banks	**50,479**	44,321
Balances under repurchase agreements (note)		
– banks	**14,608**	27,109
– other financial institutions	**2,193**	1,573
	16,801	28,682
Rediscounted bills	**4,048**	5,915
	71,328	78,918

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

(Expressed in millions of Renminbi unless otherwise stated)

26 DEPOSITS FROM CUSTOMERS

	30 June 2010	31 December 2009
Demand deposits		
– corporate customers	**603,281**	520,734
– retail customers	**382,186**	359,783
	985,467	880,517
Time deposits		
– corporate customers	**473,956**	448,391
– retail customers	**292,977**	279,238
	766,933	727,629
	1,752,400	1,608,146

27 ISSUED DEBT SECURITIES

(a) Certificates of deposits issued

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

Terms	Date of issue	Annual interest rate (%)	Nominal value	Carrying amount 30 June 2010	Carrying amount 31 December 2009
			(in US$ million)		
12 months	25 May 2009	LIBOR+0.26%	50	**–**	341
12 months	28 July 2009	LIBOR+0.29%	62	**419**	424
12 months	14 September 2009	LIBOR+0.25%	20	**135**	137
24 months	29 September 2009	LIBOR+0.32%	40	**270**	274
18 months	2 November 2009	LIBOR+0.34%	50	**338**	342
12 months	19 May 2010	LIBOR+0.55%	35	**238**	–

(Expressed in millions of Renminbi unless otherwise stated)

27 ISSUED DEBT SECURITIES *(continued)*

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

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

Terms	Date of issue	Annual interest rate (%)	Nominal value	Carrying amount 30 June 2010	Carrying amount 31 December 2009
			(in HK$ million)		
24 months	16 April 2008	HIBOR+0.40%	220	**–**	194
12 months	24 July 2009	HIBOR+0.19%	78	**68**	68
12 months	2 September 2009	HIBOR+0.24%	268	**234**	235
24 months	3 September 2009	HIBOR+0.26%	200	**175**	176
24 months	28 October 2009	HIBOR+0.30%	150	**131**	132
18 months	12 November 2009	HIBOR+0.26%	150	**131**	132
24 months	12 November 2009	HIBOR+0.30%	150	**131**	132
24 months	20 November 2009	HIBOR+0.30%	150	**131**	132
12 months	7 May 2010	HIBOR+0.45%	300	**261**	–
24 months	25 June 2010	HIBOR+0.94%	150	**131**	–
18 months	25 June 2010	HIBOR+0.90%	150	**131**	–
18 months	29 June 2010	HIBOR+0.96%	150	**131**	–
				3,055	2,719

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

Terms	Date of issue	Annual interest rate (%)	Nominal value	Carrying amount 30 June 2010	Carrying amount 31 December 2009
			(in US$ million)		
12 months	4 September 2009	LIBOR+0.185%	100	**678**	682
			(in HK$ million)		
36 months	8 March 2007	HIBOR+0.08%	120	**–**	106
24 months	24 January 2008	HIBOR+0.10%	110	**–**	97
36 months	24 January 2008	HIBOR+0.18%	100	**88**	88
12 months	7 April 2009	HIBOR+0.20%	380	**–**	334
12 months	26 May 2009	HIBOR+0.27%	340	**–**	299
12 months	6 July 2009	HIBOR+0.23%	156	**135**	137
				901	1,743
				3,956	4,462

Interest on all these certificates of deposit are payable quarterly.

(Expressed in millions of Renminbi unless otherwise stated)

27 ISSUED DEBT SECURITIES *(continued)*

(b) Other debts issued

Particulars	Terms	Date of issue	Annual fixed interest Rate (%)	Nominal value (in RMB million)	Carrying amount 30 June 2010	Carrying amount 31 December 2009
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000	**4,999**	4,998

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

(c) Subordinated notes issued

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

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal value (in RMB million)	Carrying amount 30 June 2010	Carrying amount 31 December 2009
Fixed rate notes (note)	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from 6 year onwards, if the notes are not called by the Bank)	19,000	**18,973**	18,969
Fixed rate notes (note)	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	**6,987**	6,987
Floating rate notes (note)	120 months	4 September 2008	R*+1.53% (for the first 5 years); R*+4.53% (from 6 years onwards, if the notes are not called by the Bank)	4,000	**3,995**	3,994
					29,955	29,950

(Expressed in millions of Renminbi unless otherwise stated)

27 ISSUED DEBT SECURITIES *(continued)*

(c) Subordinated notes issued *(continued)*

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

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal value (in HKD million)	Carrying amount 30 June 2010	Carrying amount 31 December 2009
Fixed rate notes	144 months	28 February 2009	5.70	1,500	**1,307**	1,321
					31,262	31,271

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

Note: The CBRC and PBOC approved the Bank's issuance of RMB30 billion subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitle "Decision on Administrative Approval from the People's Bank of China"). The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

28 SHARE CAPITAL

	Registered and issued share capital No. of shares (in million)	Amount
At 1 January 2010	**19,119**	**19,119**
Shares issued	**2,458**	**2,458**
At 30 June 2010	**21,577**	**21,577**
At 1 January 2009	14,707	14,707
Stock dividends	4,412	4,412
At 31 December 2009	19,119	19,119

(Expressed in millions of Renminbi unless otherwise stated)

28 SHARE CAPITAL *(continued)*

By type of share:

	No. of shares (in million)	
	30 June 2010	31 December 2008
Listed shares		
– without trading moratorium	**17,666**	15,659
– H-Shares	**3,911**	3,460
	21,577	19,119

29 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	Six months ended 30 June 2010	Year ended 31 December 2009	Six months ended 30 June 2009
Dividends in respect of the previous year, approved, declared and paid during the period:			
Approved and declared cash dividends RMB2.1 per every 10 shares	**4,531**	–	–
Approved, declared and paid during the period of RMB1 per every 10 shares, 3 shares per every 10 shares	**–**	5,883	5,883

(b) Proposed profit appropriations

	Amount appropriated in respect of		
Items	**the six months ended 30 June 2010**	the year ended 31 December 2009	the six months ended 30 June 2009
Statutory surplus reserve	**–**	1,765	–
Dividends:			
– cash dividends: Nil (2009: RMB2.1 per every 10 shares)	**–**	4,531	–
	–	6,296	–

2009 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 13 April 2010 and was approved in the annual general meeting held on 23 June 2010.

(Expressed in millions of Renminbi unless otherwise stated)

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

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

	30 June 2010	30 June 2009
Cash	**7,899**	7,360
With original maturity within 3 months:		
– balances with banks and other financial institutions	**24,939**	42,622
– balances with central bank	**30,925**	39,648
– placements with banks and other financial institutions	**111,536**	79,789
– investment securities:		
– at fair value through profit or loss	**945**	867
– available-for-sale	**–**	1,023
	176,244	171,309

(b) Significant non-cash transactions

There were no other significant non-cash transactions.

31 OPERATING SEGMENTS

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. Business lines information is used as the management's primary reporting format as it is more relevant to its operating activities. Segment reporting data is principally derived from the multi-dimensional profitability report of the Bank's management accounting system.

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

– Corporate banking

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

– Retail banking

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

– Treasury business

It covers interbank and capital market activities and proprietary trading at head office level.

31 OPERATING SEGMENTS *(continued)*

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates and jointly controlled entities and the head office's assets, liabilities, income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

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

Changes in disclosure of segment results and assets and liabilities in 2010

In 2010, the Bank implemented a new management accounting system to align with its operations and meet its performance management. Compared with data from the previous system, the new data relies more on specifications of the business system. The new system also promotes a better understanding of the collection and categorisation of integrated information about products, customers' attributes and operations, reduces allocation factors, and refines management. In addition, to accommodate the trend for intensive treasury operations and to clearly differentiate between financial market and traditional regional market businesses, the management carried out a re-segmentation of treasury business operating in the regional market originally categorised as the treasury segment (e.g. fund transfers between its branches and other banking institutions, and discounted bill businesses in the regional market). It classified this business as corporate banking business, with treasury business only including that conducted at the head office level. This change better reflects the development strategies and resource input direction and is more conducive to management and decision-making of business operations.

The 2009 comparative figures have not been restated as it is impractical to apply the revised logics, assumptions and estimations to them. Segment information as at 30 June 2010 has been presented using both the new and old methods.

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities

	Corporate banking			Retail banking			Treasury business			Others			Total		
	Six months ended 30 June 2010 (After)	**Six months ended 30 June 2010 (Before)**	Six months ended 30 June 2009	**Six months ended 30 June 2010 (After)**	**Six months ended 30 June 2010 (Before)**	Six months ended 30 June 2009	**Six months ended 30 June 2010 (After)**	**Six months ended 30 June 2010 (Before)**	Six months ended 30 June 2009	**Six months ended 30 June 2010 (After)**	**Six months ended 30 June 2010 (Before)**	Six months ended 30 June 2009	**Six months ended 30 June 2010 (After)**	**Six months ended 30 June 2010 (Before)**	Six months ended 30 June 2009
External net interest income	**14,187**	**13,581**	10,083	**6,481**	**6,387**	2,112	**5,623**	**6,323**	6,422	**52**	**52**	6	**26,343**	**26,343**	18,623
Internal net interest income/(expense)	**2,938**	**(78)**	294	**2,427**	**2,001**	3,399	**(5,215)**	**(1,916)**	(3,696)	**(150)**	**(7)**	3	**–**	**–**	–
Net interest income	**17,125**	**13,503**	10,377	**8,908**	**8,388**	5,511	**408**	**4,407**	2,726	**(98)**	**45**	9	**26,343**	**26,343**	18,623
Net fee and commission income	**2,338**	**2,195**	1,431	**2,967**	**2,986**	2,414	**(66)**	**(3)**	(2)	**107**	**107**	101	**5,346**	**5,285**	3,944
Other net income	**388**	**485**	512	**470**	**167**	254	**191**	**401**	1,027	**74**	**96**	144	**1,123**	**1,149**	1,937
Insurance operating income	**–**	**–**	–	**14**	**14**	–	**–**	**–**	–	**156**	**156**	187	**170**	**170**	187
Operating income	**19,851**	**16,183**	12,320	**12,359**	**11,555**	8,179	**533**	**4,805**	3,751	**239**	**404**	441	**32,982**	**32,947**	24,691
Operating expenses															
– depreciation and amortization	**(350)**	**(214)**	(287)	**(808)**	**(590)**	(644)	**(12)**	**(21)**	(35)	**(118)**	**(351)**	(81)	**(1,288)**	**(1,176)**	(1,047)
– others	**(5,082)**	**(4,819)**	(4,656)	**(6,818)**	**(6,646)**	(5,512)	**(101)**	**(664)**	(493)	**(165)**	**(84)**	(56)	**(12,166)**	**(12,213)**	(10,717)
Charge for insurance claims	**–**	**–**	–	**–**	**–**	–	**–**	**–**	–	**(132)**	**(132)**	(160)	**(132)**	**(132)**	(160)
	(5,432)	**(5,033)**	(4,943)	**(7,626)**	**(7,236)**	(6,156)	**(113)**	**(685)**	(528)	**(415)**	**(567)**	(297)	**(13,586)**	**(13,521)**	(11,924)
Reportable segment profit before impairment losses	**14,419**	**11,150**	7,377	**4,733**	**4,319**	2,023	**420**	**4,120**	3,223	**(176)**	**(163)**	144	**19,396**	**19,426**	12,767
Impairment losses	**(1,736)**	**(1,881)**	(1,968)	**(507)**	**(529)**	(671)	**(186)**	**12**	44	**35**	**4**	(5)	**(2,394)**	**(2,394)**	(2,600)
Share of profit of associates and jointly controlled entities	**–**	**–**	–	**–**	**–**	–	**–**	**–**	–	**28**	**28**	30	**28**	**28**	30
Reportable segment profit before tax	**12,683**	**9,269**	5,409	**4,226**	**3,790**	1,352	**234**	**4,132**	3,267	**(113)**	**(131)**	169	**17,030**	**17,060**	10,197
Capital expenditure (note)	**273**	**273**	376	**717**	**717**	858	**27**	**27**	46	**7**	**7**	2	**1,024**	**1,024**	1,282

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

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

	Corporate banking			Retail banking			Treasury business			Others			Total		
	30 June 2010 (After)	30 June 2010 (Before)	31 December 2009	30 June 2010 (After)	30 June 2010 (Before)	31 December 2009	30 June 2010 (After)	30 June 2010 (Before)	31 December 2009	30 June 2010 (After)	30 June 2010 (Before)	31 December 2009	30 June 2010 (After)	30 June 2010 (Before)	31 December 2009
Reportable segment assets	**1,143,164**	**853,540**	783,961	**463,678**	**463,678**	394,862	**648,851**	**938,475**	865,581	**4,723**	**4,723**	6,956	**2,260,416**	**2,260,416**	2,051,360
Reportable segment liabilities	**1,306,240**	**1,061,568**	949,317	**711,111**	**711,111**	673,355	**118,602**	**363,274**	336,875	**2,312**	**2,312**	4,313	**2,138,265**	**2,138,265**	1,963,860
Interest in associates and jointly controlled entities	**–**	**–**	–	**–**	**–**	–	**–**	**–**	–	**418**	**418**	466	**418**	**418**	466

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

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

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

	Six months ended 30 June 2010 (After)	**Six months ended 30 June 2010 (Before)**	Six months ended 30 June 2009
Revenues			
Total revenues for reportable segments	**32,982**	**32,947**	24,691
Other revenues	**–**	**35**	100
Consolidated revenue	**32,982**	**32,982**	24,791
Profit			
Total profit or loss for reportable segments	**17,030**	**17,060**	10,197
Other (loss)/profit	**–**	**(30)**	(19)
Consolidated profit before income tax	**17,030**	**17,030**	10,178

	30 June 2010 (After)	**30 June 2010 (Before)**	31 December 2009
Assets			
Total assets for reportable segments	**2,260,416**	**2,260,416**	2,051,360
Goodwill	**9,598**	**9,598**	9,598
Intangible assets	**1,074**	**1,074**	1,110
Deferred tax assets	**2,205**	**2,205**	2,786
Other unallocated assets	**9,189**	**9,189**	3,087
Consolidated total assets	**2,282,482**	**2,282,482**	2,067,941
Liabilities			
Total liabilities for reportable segments	**2,138,265**	**2,138,265**	1,963,860
Current taxation	**2,183**	**2,183**	1,159
Deferred tax liabilities	**950**	**950**	941
Other unallocated liabilities	**16,243**	**16,243**	9,198
Consolidated total liabilities	**2,157,641**	**2,157,641**	1,975,158

(Expressed in millions of Renminbi unless otherwise stated)

31 OPERATING SEGMENTS *(continued)*

(c) Geographical segments

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

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

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

– "Eastern China" region refers to the following areas serviced by the subsidiary and branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;

– "Southern and Central China" region refers to the Head Office and the following areas serviced by the associate and branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province, Henan Province and Guangxi Autonomous Region;

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

– "Northern China" region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Liaoning Province, Jilin Province, Heilongjiang Province, Shanxi Province and Inner Mongolia Autonomous Region; and

– "Outside Mainland China" refers to operations of Hong Kong branch, New York branch and the overseas operations of subsidiaries.

	Revenues		**Non-current assets**	
Geographical information	**Six months ended 30 June 2010**	Six months ended 30 June 2009	**30 June 2010**	31 December 2009
Eastern China	**13,082**	8,796	**4,784**	4,500
Southern and Central China	**9,894**	10,696	**14,537**	14,938
Western China	**3,126**	1,834	**1,493**	1,400
Northern China	**5,566**	2,086	**1,231**	1,326
Outside Mainland China	**1,314**	1,379	**6,156**	6,225
Total	**32,982**	24,791	**28,201**	28,389

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

(i) Credit commitments

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

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

	30 June 2010	31 December 2009
Contractual amount		
Irrevocable guarantees	**101,071**	86,736
Irrevocable letters of credit	**41,726**	31,051
Bills of acceptances	**362,432**	319,758
Irrevocable loan commitments		
– with an original maturity of under one year	**4,725**	5,461
– with an original maturity of one year or over	**36,377**	32,643
Credit card commitments	**113,855**	110,880
Shipping guarantees	**2**	3
Others	**903**	–
	661,091	586,532

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 RMB911.6 billion at 30 June 2010 (31 December 2009: RMB793.6 billion) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

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

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

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

(i) Credit commitments (continued)

	30 June 2010	31 December 2009
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	**161,702**	151,828

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

There are no relevant standards prescribed by IFRSs in calculating the above credit risk weighted amounts.
The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

(ii) Capital commitments

Authorised capital commitments not provided for were as follows:

	30 June 2010	31 December 2009
For purchase of fixed assets:		
– Contracted for	**1,461**	1,511
– Authorised but not contracted for	**148**	184
	1,609	1,695

(iii) Operating lease commitments

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

	30 June 2010	31 December 2009
Within 1 year	**1,658**	1,427
After 1 year but within 5 years	**4,577**	4,256
After 5 years	**1,976**	1,643
	8,211	7,326

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

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

(iv) Outstanding litigations

At 30 June 2010, the Group was a defendant in certain pending litigations with gross claims of RMB312 million (31 December 2009: RMB349 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the interim financial report.

(v) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the Ministry of Finance (the "MOF") and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

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

	30 June 2010	31 December 2009
Redemption obligations	**10,396**	9,200

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 mainly include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

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

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

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	30 June 2010 Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	2,227	8,997	3,339	56	14,619	49	(118)
Currency derivatives							
Spot	15,588	–	–	–	15,588	12	(10)
Forwards	36,651	85,236	3,207	–	125,094	1,068	(912)
Foreign exchange swaps	41,764	50,279	1,543	–	93,586	276	(226)
Options purchased	5,558	1	–	–	5,559	138	–
Options written	6,022	–	–	–	6,022	–	(143)
	105,583	135,516	4,750	–	245,849	1,494	(1,291)
Other derivatives							
Equity swaps	269	144	92	–	505	6	(6)
Equity options purchased	134	25	–	–	159	16	–
Equity options written	134	25	–	–	159	–	(3)
Credit default swaps	–	406	2170	–	2,576	10	(16)
	537	600	2,262	–	3,399	32	(25)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	174	1,414	2,095	37	3,720	17	(162)
Currency derivatives							
Foreign exchange swaps	–	175	–	–	175	–	–
Other derivatives							
Equity options written	–	440	558	–	998	–	(41)
	174	2,029	2,653	37	4,893	17	(203)
Total						1,592	(1,637)
						(Note 17(a))	

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	31 December 2009 Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	200	1,773	3,081	137	5,191	55	(138)
Currency derivatives							
Spot	16,276	–	–	–	16,276	1	(3)
Forwards	7,868	76,927	5,621	–	90,416	657	(506)
Foreign exchange swaps	27,975	20,242	689	–	48,906	78	(200)
Options purchased	7,681	1	–	–	7,682	136	–
Options written	7,882	–	–	–	7,882	–	(139)
	67,682	97,170	6,310	–	171,162	872	(848)
Other derivatives							
Equity swaps	112	413	26	–	551	9	(9)
Equity options purchased	193	25	–	–	218	14	–
Equity options written	193	25	–	–	218	–	(4)
Credit default swaps	–	205	2,389	–	2,594	11	(10)
	498	668	2,415	–	3,581	34	(23)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	313	1,098	2,489	–	3,900	38	(206)
Currency derivatives							
Foreign exchange swaps	–	176	–	–	176	–	(1)
Other derivatives							
Equity options written	–	202	1,795	–	1,997	–	(258)
	313	1,476	4,284	–	6,073	38	(465)
Total						999	(1,474)
						(Note 17(a))	

(Expressed in millions of Renminbi unless otherwise stated)

32 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

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 2010	31 December 2009
Interest rate derivatives	**68**	93
Currency derivatives	**3,756**	2,463
Other derivatives	**374**	39
	4,198	2,595

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

33 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

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

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

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

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

	30 June 2010	31 December 2009
Entrusted loans	**79,936**	70,638
Entrusted funds	**79,936**	70,638

33 TRANSACTIONS ON BEHALF OF CUSTOMERS *(continued)*

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

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

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

	30 June 2010	31 December 2009
Funds received from customers under wealth management services	**136,573**	119,973

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE

	30 June 2010							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	36,679	–	–	–	–	–	216,455	253,134
Amounts due from banks and other financial institutions	14,002	135,475	79,737	60,884	204	–	–	290,302
Loans and advances to customers (note (ii))	4,124	66,397	159,263	419,333	325,924	325,691	3,696	1,304,428
Investments (note (iii))	–	4,651	22,454	66,438	204,098	88,678	2,841	389,160
– at fair value through profit or loss	–	772	1,349	4,457	10,188	854	1,608	19,228
– available-for-sale	–	1,899	2,852	32,975	159,427	50,979	1,233	249,365
– held-to-maturity	–	1,672	3,291	21,418	24,622	35,522	–	86,525
– receivables	–	308	14,962	7,588	9,861	1,323	–	34,042
Other assets	5,110	4,129	2,108	2,838	426	951	29,896	45,458
Total assets	59,915	210,652	263,562	549,493	530,652	415,320	252,888	2,282,482
Amounts due to banks and other financial institutions	172,964	89,502	17,653	20,662	1,003	–	–	301,784
Deposits from customers (note (iv))	989,935	212,636	182,919	310,367	56,537	6	–	1,752,400
Financial liabilities at fair value through profit or loss	–	44	175	982	152	37	1,637	3,027
Certificates of deposit issued	–	135	1,534	1,056	1,231	–	–	3,956
Other debts issued	–	–	–	4,999	–	–	–	4,999
Subordinated notes issued	–	–	–	–	–	31,262	–	31,262
Other liabilities	33,154	18,822	1,618	2,979	2,074	1,020	546	60,213
Total liabilities	1,196,053	321,139	203,899	341,045	60,997	32,325	2,183	2,157,641
(Short)/long position	(1,136,138)	(110,487)	59,663	208,448	469,655	382,995	250,705	124,841

(Expressed in millions of Renminbi unless otherwise stated)

34 MATURITY PROFILE *(continued)*

	2009							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	42,853	–	–	–	–	–	173,314	216,167
Amounts due from banks and other financial institutions	17,193	101,302	82,427	68,929	274	–	–	270,125
Loans and advances to customers (note (ii))	2,851	52,753	138,472	426,930	288,670	248,191	3,950	1,161,817
Investments (note (iii))	–	12,327	28,251	55,421	187,580	91,242	2,251	377,072
– at fair value through profit or loss	–	854	2,638	1,896	7,903	2,509	1,055	16,855
– available-for-sale	–	7,740	16,627	15,147	140,518	63,688	1,196	244,916
– held-to-maturity	–	3,733	5,185	21,582	25,429	24,272	–	80,201
– receivables	–	–	3,801	16,796	13,730	773	–	35,100
Other assets	3,648	1,364	1,611	3,527	1,126	985	30,499	42,760
Total assets	66,545	167,746	250,761	554,807	477,650	340,418	210,014	2,067,941
Amounts due to banks and other financial institutions	150,293	87,559	14,623	11,483	1,161	–	–	265,119
Deposits from customers (note (iv))	967,216	135,785	162,468	283,080	59,097	500	–	1,608,146
Financial liabilities at fair value through profit or loss	–	26	181	820	176	–	1,474	2,677
Certificates of deposit issued	–	97	447	2,511	1,407	–	–	4,462
Other debts issued	–	–	–	4,998	–	–	–	4,998
Subordinated notes issued	–	–	–	–	–	31,271	–	31,271
Other liabilities	22,318	28,647	1,457	2,691	2,037	930	405	58,485
Total liabilities	1,139,827	252,114	179,176	305,583	63,878	32,701	1,879	1,975,158
(Short)/long position	(1,073,282)	(84,368)	71,585	249,224	413,772	307,717	208,135	92,783

Notes:

(i) For balances with central bank, indefinite amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals was overdue for more than 1 month. The indefinite amounts are stated net of appropriate allowances for impairments.

(iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Group's intention to hold them to maturity.

(iv) The deposits from customers that are repayable on demand included time deposits matured and awaiting for customers' instructions.

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Transaction terms and conditions

During the periods, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services and off-balance sheet transactions. The Directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2010	2009
Short-term loans	**4.86% to 5.31% p.a.**	4.86% to 5.31% p.a.
Medium to long-term loans	**5.40% to 5.94% p.a.**	5.40% to 5.94% p.a.
Saving deposits	**0.36% p.a.**	0.36% p.a.
Time deposits	**1.71% to 3.60% p.a.**	1.71% to 3.60% p.a.

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

(b) Shareholders and their related companies

The Bank's largest shareholder China Merchants Steam Navigation Company Limited ("CMSNCL") and its related companies hold 18.27% (12.40% (31 December 2009: 12.37%) held directly by CMSNCL) of the Bank's shares as at 30 June 2010 (31 December 2009: 18.10%). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	Group and Bank	
	30 June 2010	31 December 2009
On balance sheet:		
Loans and advances	**4,501**	3,551
Investments	**1,084**	2,472
Deposits from customers	**33,560**	37,047
Off balance sheet:		
Irrevocable guarantees	**395**	547
Irrevocable letters of credit	**197**	101
Bills of acceptances	**308**	298

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

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

	Six months ended 30 June	
	2010	2009
Average balance of loans and advances	**1,692**	3,239
Interest income	**99**	180
Interest expense	**231**	290
Net fees and commission income	**78**	190

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

	Group and Bank	
	30 June 2010	31 December 2009
On balance sheet:		
– Loans and advances	**–**	4,450
– Investments	**–**	157
– Deposits from customers	**519**	18,226

	Group and Bank	
	30 June 2010	31 December 2009
Off balance sheet:		
– Irrevocable guarantee	**–**	2,527
– Irrevocable letters of credit	**–**	239
– Bill of acceptances	**–**	36

	Six months ended 30 June	
	2010	2009
Average balance of loans and advances	**–**	1,485
Interest income	**–**	12
Interest expense	**7**	74
Net fees and commission income	**–**	17

(Expressed in millions of Renminbi unless otherwise stated)

35 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

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

	Group and Bank	
	30 June 2010	31 December 2009
On balance sheet:		
– Loans and advances	**18**	19
– Deposits from customers	**806**	786

	Six months ended 30 June	
	2010	2009
Average balance of loans and advances	**–**	21
Interest expense	**3**	2
Net fees and commission income	**41**	48

(e) Subsidiaries

	30 June 2010	31 December 2009
On balance sheet:		
– Loans and advances	**174**	–
– Deposits from customers	**249**	161
– Deposits with other banks	**620**	671
– Placements with other banks	**71**	53
– Investments	**1,307**	1,320

	Six months ended 30 June	
	2010	2009
Interest income	**22**	2
Interest expense	**–**	–

(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

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

The capital adequacy ratios and related components of the Group as at 30 June 2010 and as at 31 December 2009, calculated based on PRC GAAP, were as follows:

	30 June 2010	31 December 2009
Core capital adequacy ratio	**8.05%**	6.63%
Capital adequacy ratio	**11.60%**	10.45%
Components of capital base		
Core capital:		
– Paid up ordinary share capital	**21,577**	19,119
– Reserves	**98,417**	69,154
Total core capital	**119,994**	88,273
Supplementary capital:		
– General provisions for doubtful debts	**18,660**	16,057
– Term subordinated bonds	**30,000**	30,000
– Other supplementary capital	**893**	–
Total supplementary capital	**49,553**	46,057
Total capital base before deductions	**169,547**	134,330
Deductions:		
– Goodwill	**9,598**	9,598
– Investments in unconsolidated subsidiaries and other long-term investments	**2,022**	1,168
– Investment in commercial real estate	**1,273**	2,166
Total capital base after deductions	**156,654**	121,398
Risk weighted assets	**1,350,084**	1,161,776

(Expressed in millions of Renminbi unless otherwise stated)

(B) LIQUIDITY RATIOS

	30 June 2010	31 December 2009
Liquidity ratios		
RMB current assets to RMB current liabilities	**40.5%**	34.3%
Foreign currency current assets to foreign currency current liabilities	**78.9%**	66.1%

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

(C) CROSS-BORDER CLAIMS

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

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

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	30 June 2010			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**25,471**	**2,152**	**76,505**	**104,128**
– of which attributed to Hong Kong	**13,699**	**2,109**	**69,058**	**84,866**
Europe	**16,503**	**17**	**828**	**17,348**
North and South America	**9,257**	**46**	**8,755**	**18,058**
Others	**–**	**–**	**254**	**254**
	51,231	**2,215**	**86,342**	**139,788**

(Expressed in millions of Renminbi unless otherwise stated)

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

	31 December 2009			
	Banks and other f inancial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	29,607	2,742	64,042	96,391
– of which attributed to Hong Kong	12,481	2,689	57,954	73,124
Europe	29,545	17	896	30,458
North and South America	13,674	143	5,526	19,343
	72,826	2,902	70,464	146,192

(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

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

(i) By geographical segments

	30 June 2010	31 December 2009
Eastern China	**2,890**	3,106
Southern and Central China	**2,912**	3,177
Western China	**1,059**	1,154
Northern China	**846**	838
Others	**98**	115
	7,805	8,390

(Expressed in millions of Renminbi unless otherwise stated)

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

(ii) By overdue period

	30 June 2010	31 December 2009
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	**328**	743
– between 6 and 12 months	**835**	1,372
– over 12 months	**6,642**	6,275
Total	**7,805**	8,390
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.02%**	0.06%
– between 6 and 12 months	**0.06%**	0.12%
– over 12 months	**0.51%**	0.53%
Total	**0.59%**	0.71%

(iii) Collateral information

	30 June 2010	31 December 2009
Secured portion of overdue loans and advances	**1,056**	1,360
Unsecured portion of overdue loans and advances	**6,749**	7,030
Value of collaterals held against overdue loans and advances	**1,211**	1,536
Provision of overdue loans and advances for which impairment losses are individually assessed	**5,133**	5,265

(Expressed in millions of Renminbi unless otherwise stated)

(E) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

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

(i) By geographical segments

	30 June 2010	31 December 2009
Northern China	**4**	6

(ii) By overdue period

	30 June 2010	31 December 2009
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of:		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**4**	6
Total	**4**	6
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**–**	–
Total	**–**	–

(E) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(continued)

(iii) Collateral information

	30 June 2010	31 December 2009
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**4**	6
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**4**	4

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

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

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

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

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

(Expressed in millions of Renminbi unless otherwise stated)

(F) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	30 June 2010	**% of total loans and advances**	31 December 2009	% of total loans and advances
Rescheduled loans and advances to customers	**1,660**	**0.12%**	1,569	0.13%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**914**	**0.07%**	899	0.08%
Rescheduled loans and advances overdue less than 90 days	**746**	**0.05%**	670	0.05%

There were no rescheduled loans and advances to financial institutions as at 30 June 2010 and 31 December 2009.

(G) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 2010 and 31 December 2009, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the notes to the interim financial report.

(H) CURRENCY CONCENTRATIONS OTHER THAN RMB

	30 June 2010			
	US Dollars	**HK Dollars**	**Others**	**Total**
	(in millions of RMB)			
Non-structural position				
Spot assets	**125,981**	**70,448**	**29,123**	**225,552**
Spot liabilities	**(91,938)**	**(78,078)**	**(33,193)**	**(203,209)**
Forward purchases	**106,481**	**17,502**	**14,205**	**138,188**
Forward sales	**(131,323)**	**(4,566)**	**(6,025)**	**(141,914)**
Net option position	**(149)**	**60**	**89**	**–**
Net long position	**9,052**	**5,366**	**4,199**	**18,617**
Net structural position	**303**	**37,682**	**–**	**37,985**

	31 December 2009			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	115,323	93,395	25,292	234,010
Spot liabilities	(91,386)	(92,913)	(29,725)	(214,024)
Forward purchases	72,867	12,524	10,060	95,451
Forward sales	(84,977)	(5,549)	(5,553)	(96,079)
Net option position	(108)	20	88	–
Net long position	11,719	7,477	162	19,358
Net structural position	308	37,899	–	38,207

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

– Investments in fixed assets and premises, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investment in subsidiaries.

(I) RISK MANAGEMENT

(i) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk Management and Internal Control Committee is set up and is appointed by the Board to be responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions. To mitigate risk, the Group may obtain collateral and guarantees where appropriate.

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

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

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

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

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

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

Concentration of credit risk: when certain numbers of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region.

(I) RISK MANAGEMENT *(continued)*

(i) Credit risk *(continued)*

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

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

In the first half of 2010, the Group continues to adopt a prudence approach in investing in investments to minimize the Group's exposure to credit risk. Over 90% of the investments held by the Group were issued by the PRC Government, the PBOC, the PRC policy banks and large PRC-based corporations and commercial banks with high credit ratings. The remaining amount, just under 10%, was issued by large corporations and financial institutions domiciled outside PRC with investment grade credit ratings from the major agencies. Given that the impact of the financial crisis on China's economy was relatively minimal (when compared with the US and Europe), the credit quality of the Group remained stable.

(ii) Market risk

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

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

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

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

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

The Group has separated trading and bank accounts in the system by identifying the trading purposes and strategies of various treasury trading businesses on and off the balance sheet. It has also formulated corresponding market risk management policies for these accounts.

(I) RISK MANAGEMENT *(continued)*

(ii) Market risk *(continued)*

Against a backdrop of the Group's surplus funds and pressures of institutional capital arrangements, yield rates in the domestic bond market steadily dropped in the first half of 2010, with higher bond prices. However, the uncertainty of internal and external environments increased due to the European sovereign debt crisis, real estate regulation policies, rectified local financing platforms, and governance over industries with high pollution, high-energy consumption and excess capacity. The domestic economy's growth rate is expected to begin to decline in the second half of the year. The bond market is also expected to narrowly fluctuate in the same period, mostly as a result of the short-term inflation rate still fluctuating, the capital level gradually resuming to normal standards, and the general yield rate remaining low in the bond market. Meanwhile, with regard to the global financial market, the impact of European sovereign debt crisis over the global economy has just started to show amid great divisions in major economies' policies. In the next few years, reducing financial expenses and restoring confidence in the financial field will become important tasks of each European country's government. This is especially vital because as the US economy has shown a downward trend following a short-term recovery, the global economy may be at risk of a double-dip recession.

(iii) Currency risk

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

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

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

In the first half of 2010, the median price of the US dollar against the RMB remained largely stable. The RMB's spot rate mostly fluctuated within a narrow band of around 6.83, and declined to 6.80 when the Central Bank announced in June that it would further promote exchange rate reform. The Group used various measures (including price leverage) to adjust asset-liability structures denominated in foreign currency and manage foreign exchange exposure and exchange losses. To reduce its foreign exchange exposure, the Group also adopted an exchange settlement approach for foreign currency profit generated in the previous year, as permitted by relevant policies.

The Group closely monitors daily foreign currency transactions and positions.

(I) RISK MANAGEMENT *(continued)*

(iv) Interest rate risk

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

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

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

(v) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the Planning and Finance department, which prudently manages liquidity to meet regulatory requirements.

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

The majority of the Group's assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. An analysis of the past three years' data shows that the Group's deposits from customers have been growing continuously, with a rising variety of deposit products with various maturities and have become a stable source of funds for the Group.

15% (2009: 13.5%) and 5% (2009: 5%) of eligible RMB deposits and foreign currency deposits respectively are deposits in PBOC as required.

(vi) Operational risk

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

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

(J) CAPITAL MANAGEMENT

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

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

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

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

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

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