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招商銀行

CHINA MERCHANTS BANK

招商銀行股份有限公司

CHINA MERCHANTS BANK CO., LTD.

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

(Stock code: 03968)

2012 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of China Merchants Bank Co., Ltd. (the “Company”) hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2012. This announcement, containing the full text of the 2012 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results. Printed version of the Company’s 2012 Annual Report will be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and of the Company (www.cmbchina.com) in April 2013.

Publication of Results Announcement

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

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

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

28 March 2013

As at the date of this announcement, the executive directors of the Company are Ma Weihua, Zhang Guanghua and Li Hao; the non-executive directors of the Company are Fu Yuning, Wei Jiafu, Li Yinquan, Fu Gangfeng, Hong Xiaoyuan, Xiong Xianliang, Sun Yueying, Wang Daxiong and Fu Junyuan; and the independent non-executive directors of the Company are Yi Xiqun, Wong Kwai Lam, Yan Lan, Pan Chengwei, Pan Yingli and Guo Xuemeng.

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Important Notice

1. The Board of Directors, the Board of Supervisors, and directors, supervisors and senior management of the Company confirm that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.
2. The 43th meeting of the Eighth Session of the Board of Directors of the Company was held at the CMB CHINA MERCHANTS BANK University, Shenzhen on 28 March 2013. The meeting was presided by Fu Yuning, Chairman of the Board. 17 out of 18 eligible Directors attended the meeting, Wei Jiafu (being the Vice Chairman) entrusted Sun Yueying (being a director) to exercise the voting right. 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.
3. KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants (both being auditors of the Company) have separately reviewed the 2012 financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.
4. Unless otherwise stated, all monetary sums stated in this annual report are expressed in RMB.
5. Fu Yuning, Chairman of the Company, Ma Weihua, President, Li Hao, Executive Vice President and Chief Financial Officer, and Zhou Song, the person in charge of the Planning and Finance Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this annual report.
6. Proposal of profit appropriation: As stated in the audited PRC financial statements of the Company for 2012, 10% of the profit after tax of RMB42.933 billion, equivalent to RMB4,293 million, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, equivalent to RMB20.278 billion, was appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend of RMB6.30 (tax included) for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The retained profit will be carried forward to the next year. In 2012, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2012 Annual General Meeting of the Company.
7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at" and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will prove to be correct, therefore they should not be deemed as the Group's commitments, and investors should not place undue reliance on such statements and should pay more attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business or other performance of the Group, and are subject to certain uncertainties which may cause substantial difference from the actual results.

Definitions

The Company, the Bank, CMB or China Merchants Bank: China Merchants Bank Co., Ltd.

The Group: China Merchants Bank Co., Ltd. and its subsidiaries

China Banking Regulatory Commission or CBRC: China Banking Regulatory Commission

China Securities Regulatory Commission or CSRC: China Securities Regulatory Commission

CIRC: China Insurance Regulatory Commission

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

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

Small and micro enterprise businesses: small enterprise businesses and micro enterprise businesses

Sunflower-level or above customers: retail customers of the Company with daily average total assets of RMB500,000 and/or above per month

Private banking customers: retail customers of the Company with daily average total assets of RMB10 million and/or above per month

High-value wholesale customers: wholesale customers with comprehensive contribution to the Company of more than RMB100,000

Wing Lung Bank or WLB: Wing Lung Bank Limited

Wing Lung Group or WLG: Wing Lung Bank and its subsidiaries

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

CMB International Capital or CMBIC: CMB International Capital Corporation Limited

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

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

CM Securities: China Merchants Securities Co., Ltd.

KPMG Huazhen Certified Public Accountants: KPMG Huazhen Certified Public Accountants (Special General Partnership)

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures, please refer to Section 5.12 for the details in relation to risk management.



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I Company Information

1.1 Company Profile

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

1.1.2 Legal Representative: Fu Yuning
Authorised 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, FTIHK)
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: SEHK
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, China
Certified public accountants for signature: Pu Hongxia, Lin Gaopan
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 PRC Law: Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

I Company Information

1.1.9 Depository for A Share:

China Securities Depository & Clearing Corporation Ltd., Shanghai Branch

1.1.10 Share Register and Transfer Office as to H Share:

Computershare Hong Kong Investor Services Ltd.

Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

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

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

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

Place of maintenance of annual reports: Office of the Board of Directors of the Company

1.1.12 Other Information about the Company:

Initial registration date: 31 March 1987

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

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

Taxation Registration No.: Shen Shui Deng Zi 44030010001686X

Organisation Code: 10001686-X

I Company Information

1.2 Company Information

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the market in China. As at 31 December 2012, the Company had 99 branches, 853 sub-branches, 2 branch-level operation centers (a credit card center and a credit center for small enterprises), 1 representative office, 2,174 self-service centers and 1 wholly-owned subsidiary, CMB Financial Leasing in more than 110 cities in Mainland China; a number of subsidiaries in Hong Kong including Wing Lung Bank and CMB International, and a branch in Hong Kong; a branch and a representative office in New York, the United States; a representative office in London, the United Kingdom and a representative office in Taipei. The Company's well-developed distribution network primarily covers China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. The Company currently has 1,867 domestic and overseas correspondent banks in 109 countries (including China) and regions.

The growth of the Company from a regional bank into a national commercial bank with significant asset scale and strength in China is primarily attributable to its own resources and efforts. The Company was listed on Shanghai Stock Exchange in April 2002 and on SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, dual-currency credit card, the "Sunflower Wealth Management" services and private banking services, have been widely recognised by consumers in China.

1.3 Development Strategy and Operation Highlights

Development vision: Creating a blue-chip for the stock market, building a bank that lasts for centuries

Strategic objective: Striving to become the best commercial bank in China with international competitive edges

Strategic positioning: An innovative bank distinguished by leading profitability, first-class service, strong basic management and excellent brand image

- Focus on the development of retail banking business, small and micro enterprise businesses and intermediary business, and build CMB into the best retail bank and an outstanding financial services provider for small and micro enterprises.
- As for retail banking business, the Bank will focus on small and micro enterprises finance, wealth management, private banking, credit cards and E-banking while aggressively developing direct banking, online finance and annuity finance businesses so as to consolidate and enhance its leading edge in retail banking. With regards to the wholesale banking business, the Bank will strengthen its liabilities business, innovate and develop its SME business, actively explore the emerging businesses such as offshore finance, cross-border trade finance, cash management, investment banking and asset custody business, forge new strengths in Financial Institution and Financial Market businesses, enhance comprehensive returns from large and medium enterprises and increase their contribution to comprehensive operating profit.
- Focus on exploring high value customers in retail banking, innovative small and micro enterprises and high-yield large and medium enterprises while continuously expand basic customer base.
- Rationally expand physical network, innovate and develop E-banking, accelerate the establishment of powerful multi-channel distribution system with operating synergies.

I Company Information

- Expand and strengthen domestic market, intensify investment to developed regions, rationally expand network into high potential regions; steadily explore overseas markets with a primary focus on Hong Kong, Macao, emerging markets and international financial centers.

Investment value:

Unique competitive advantage

- Leading retail banking and emerging wholesale banking business
- Continuously optimised business structure and customer structure
- Innovative electronic channels and IT platform
- Being the industry benchmark of high-quality services
- Rapidly growing cross-border finance platform
- Continuously enhanced brand influence

Constantly robust business development

- Retail banking has formed its comprehensive advantages in products, customers, channels and brand, and is expected to be further strengthened and expanded.
- Wholesale banking has adhered to its specialised operation and professional management approach, among which, emerging wholesale banking businesses such as cash management, investment banking and asset custody have delivered outstanding market performance.
- Small and micro enterprise businesses have laid a good foundation for development with constantly improved supporting service system and a promising future as well.
- The “three-in-one” cross-border finance platform, jointly formed by overseas institutions (Wing Lung Bank and overseas branches), offshore banking unit and domestic branches, is becoming a new pole of growth.
- Our comprehensive operation system has been basically established, and cross-segment product innovation and business coordination have been actively promoted, therefore the benefits of strategic synergy and financial synergy will become more apparent.

Advanced operation and management

- Sound corporate governance structure, scientific governance mechanisms, efficient decision-making system, operating system and internal control system
- Actively promote the reform of organisational and management system and constantly optimise our operation processes
- Steadily build up comprehensive risk management system and scientific capital management system
- Promote technological innovation, build an information system that is safe and reliable, efficient, green and sustainable

I Company Information



1.4 Awards and honors received in 2012

In 2012, the Company won a number of honors in appraisal/selection activities organised by authoritative organisations at home and abroad, including:

- The Company ranked 56th among the WORLD'S TOP 1,000 BANKS (in terms of Tier 1 Capital held by banks in 2011) as released by *The Banker* magazine, up by 4 places as compared with the previous year.
- The Company ranked 498th among the 2012 Top 500 Global Companies released by the United States magazine *Fortune*, and this is the first time for the Company to be listed in Fortune 500.
- On the "Establishment of Brand Beyond Marketing – Best China Brands Chart 2012 (in terms of brand value)" released by *Interbrand*, the Company ranked 10th among the top 50 best Chinese brands, with a brand value of RMB34.589 billion, and our brand value increased by 25% as compared with the previous year.
- In the national banking award selection 2012 organised by *FinanceAsia*, the Company was honored the "Best Bank".
- In the selection of the excellent retail financial service providers, the Company was awarded for the fourth time the "Best Retail Bank in China" by *The Asian Banker*. The Company also received the "Excellent Retail Financial Services Award" as the first Chinese bank ranked among top ten in the Pan-Asia Pacific region since the establishment of the award.
- In the selection of the best private bank in 2012 organised by *Asia Money*, the Company won the "Best Domestic Private Bank in China", and was selected as the "Best Private Bank in China" by high-net-worth customers with total assets between US\$1-5 million.
- At the 2012 global private bank awards ceremony organised by *Financial Times* of the United Kingdom, the Company was awarded the "Best Private Bank in China" for the third year in a row.
- In the selection organised by *Asian Money*, the Company was awarded the honor of "China's Best Domestic Cash Management Bank" for the seventh consecutive year, and received the award of "China Best FX Service Provider".

I Company Information

- In the selection campaign of “the Most Diversified – the Global Entrepreneur’s Most Innovative Banks in 2012” organised by *the Global Entrepreneur* magazine, the Company was honored with three awards, namely, the “Best Bank for Personal Wealth Management”, the “Best Bank for Corporate Pension” and the “Best Brand for Credit Card Products (Ctrip Travel – Credit Card)”.
- The Company was awarded the “Retail Banking of the Year” and the “Banking Wealth Management Brand of the Year” in the 2012 CBN Financial Value (CFV) Ranking released by *China Business News*.
- In the selection of the fourth session of financial institutions jointly organised by the Chinese Academy of Social Sciences and *China Business Journal*, the Company was honored with three awards, namely, the “Most Competitive Financial Innovation Product Brand in 2012”, the “Most Competitive Bank for Cash Management in 2012” and the “Most Competitive Bank for Brand Construction in 2012”.
- In the 10th Selection of “Best Call Centers and Best Managers in China” hosted by the Customer Relations Management Committee under China Federation of IT Promotion (CFIP) and supported by Customer Contact Center Standard Committee (CCCS) and International Customer Management Institute (ICMI), our Direct Banking Center and Credit Card Center were named as “Best Call Centers in China” for eight consecutive years and granted by the host the special award of “China Call Center 10-year Achievement Award”.
- In the selection campaign of the Excellent Customer Service Centers in China Banking Industry (the 2nd year)” organised by China Banking Association, the Company’s direct banking center was honored with the “Comprehensive Model Unit” award for the second consecutive year and was granted the “Value Contribution Award”.
- At the Social Media Marketing Forum and the awarding ceremony of the Golden Bee award jointly organised by the MBA School of Communication University of China and the Business Brand Institute of Communication University of China, the Company’s official micro blog was awarded the “Best Ten Official Micro Blog for Enterprises in 2012”.
- At the awarding ceremony of the selection campaign of the best private bank in the world in 2011 organised by *The Asset*, the Company was honored with the Platinum Award of “Best Corporate Governance”.
- In the selection campaign of the most respectable enterprise in China in 2011-2012 organised by *Economic Observer*, the Company was honored with the “Most Respectable Enterprise Award” for the ninth consecutive year.
- At the press conference for the release of “Social Responsibility Report for China Banking Industry in 2011” and the awarding ceremony for social responsibility works organised by China Banking Association, the Company was again honored with the title of “Best Financial Institution in Social Responsibility of the Year”, and was awarded the “Best Social Responsibility Award in Finance Connected with People’s Livelihood in the Year”, and Mr. Ma Weihua, the Executive Director, President and Chief Executive Officer of the Company, was honored the “Pioneer Individual in Social Responsibility of the Year”.





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II Summary of Accounting Data and Financial Indicators

2.1 Key financial data

Operating Results

| | 2012 (in millions of RMB) | 2011 | Changes +/(-)% |
|--|------------------------------|--------|-------------------|
| Net operating income ^(note) | 113,818 | 96,666 | 17.74 |
| Profit before tax | 59,564 | 47,122 | 26.40 |
| Net profit attributable to the Bank's shareholders | 45,273 | 36,129 | 25.31 |

Per Share

| | 2012 (RMB) | 2011 | Changes +/(-)% |
|---|---------------|------|-------------------|
| Basic earnings attributable to the Bank's shareholders | 2.10 | 1.67 | 25.75 |
| Diluted earnings attributable to the Bank's shareholders | 2.10 | 1.67 | 25.75 |
| Year-end net assets attributable to the Bank's shareholders | 9.29 | 7.65 | 21.44 |

Financial Indicators

| | As at 31 December 2012 (in millions of RMB) | As at 31 December 2011 | Changes +/(-)% |
|--|--|------------------------------|-------------------|
| Total assets | 3,408,219 | 2,794,971 | 21.94 |
| of which: total loans and advances to customers | 1,904,463 | 1,641,075 | 16.05 |
| Total liabilities | 3,207,712 | 2,629,961 | 21.97 |
| of which: total deposits from customers | 2,532,444 | 2,220,060 | 14.07 |
| Total equity attributable to the Bank's shareholders | 200,434 | 164,997 | 21.48 |

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

II Summary of Accounting Data and Financial Indicators

2.2 Financial Ratios

| | 2012 (%) | 2011 | Changes +/(−) |
|--|--------------|-------|------------------|
| Profitability ratios | | | |
| Return on average assets (after tax) attributable to the Bank's shareholders | 1.46 | 1.39 | 0.07 |
| Return on average equity (after tax) attributable to the Bank's shareholders | 24.78 | 24.17 | 0.61 |
| Net interest spread | 2.87 | 2.94 | (0.07) |
| Net interest margin | 3.03 | 3.06 | (0.03) |

As percentage of operating income

| | | | |
|--|--------------|-------|--------|
| – Net interest income | 77.65 | 78.94 | (1.29) |
| – Net non-interest income | 22.35 | 21.06 | 1.29 |
| Cost-to-income ratio (excluding business tax and surcharges) | 35.84 | 36.00 | (0.16) |

| | As at 31 December 2012 (%) | As at 31 December 2011 | Changes +/(−) |
|---|-------------------------------------|------------------------------|------------------|
| Capital adequacy ratios | | | |
| Core capital adequacy ratio | 8.49 | 8.22 | 0.27 |
| Capital adequacy ratio | 12.14 | 11.53 | 0.61 |
| Total equity to total assets | 5.88 | 5.90 | (0.02) |
| Asset quality ratios | | | |
| Non-performing loan ratio | 0.61 | 0.56 | 0.05 |
| Allowance coverage ratio of non-performing loans ⁽¹⁾ | 351.79 | 400.13 | (48.34) |
| Allowance ratio of loans ⁽²⁾ | 2.16 | 2.24 | (0.08) |

Notes: (1) Allowance coverage ratio of non-performing loans = allowances for impairment losses/balance of non-performing loans;

(2) Allowance ratio of loans = allowances for impairment losses/total loans and advances

II Summary of Accounting Data and Financial Indicators

2.3 Five-year Financial Summary

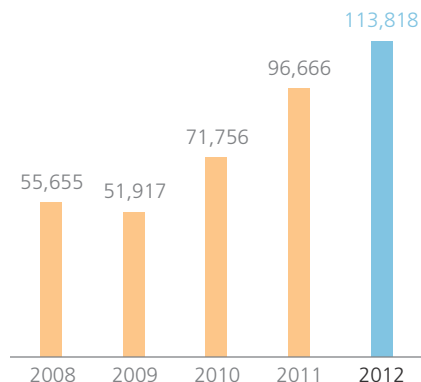
| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|----------------------|-----------|-----------|-----------|-----------|
| Results for the year | (in millions of RMB) | | | | |
| Net operating income | 113,818 | 96,666 | 71,756 | 51,917 | 55,655 |
| Operating expenses | 48,350 | 40,889 | 32,634 | 26,207 | 23,636 |
| Impairment losses on assets | 5,583 | 8,350 | 5,501 | 2,971 | 5,154 |
| Profit before tax | 59,564 | 47,122 | 33,343 | 22,384 | 26,759 |
| Net profit attributable to the Bank's shareholders | 45,273 | 36,129 | 25,769 | 18,235 | 21,077 |
| Per share | (RMB) | | | | |
| Dividend | 0.63 | 0.42 | 0.29 | 0.21 | 0.40 |
| Basic earnings | 2.10 | 1.67 | 1.23 | 0.95 | 1.10 |
| Diluted earnings | 2.10 | 1.67 | 1.23 | 0.95 | 1.10 |
| Year-end net assets attributable to the Bank's shareholders | 9.29 | 7.65 | 6.21 | 4.85 | 5.41 |
| Year end | (in millions of RMB) | | | | |
| Share capital | 21,577 | 21,577 | 21,577 | 19,119 | 14,707 |
| Total shareholders' equity | 200,507 | 165,010 | 134,006 | 92,783 | 79,781 |
| Total liabilities | 3,207,712 | 2,629,961 | 2,268,501 | 1,975,158 | 1,492,016 |
| Deposits from customers | 2,532,444 | 2,220,060 | 1,897,178 | 1,608,146 | 1,250,648 |
| Total assets | 3,408,219 | 2,794,971 | 2,402,507 | 2,067,941 | 1,571,797 |
| Net loans and advances to customers ⁽¹⁾ | 1,863,325 | 1,604,371 | 1,402,160 | 1,161,817 | 852,754 |
| Key financial ratios | (%) | | | | |
| Return on average assets (after tax) attributable to the Bank's shareholders | 1.46 | 1.39 | 1.15 | 1.00 | 1.46 |
| Return on average equity (after tax) attributable to the Bank's shareholders | 24.78 | 24.17 | 22.73 | 21.17 | 28.58 |
| Cost-to-income ratio | 35.84 | 36.00 | 39.69 | 44.45 | 36.55 |
| Non-performing loan ratio | 0.61 | 0.56 | 0.68 | 0.82 | 1.11 |
| Core capital adequacy ratio | 8.49 | 8.22 | 8.04 | 6.63 | 6.56 |
| Capital adequacy ratio | 12.14 | 11.53 | 11.47 | 10.45 | 11.34 |

Note: (1) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

II Summary of Accounting Data and Financial Indicators

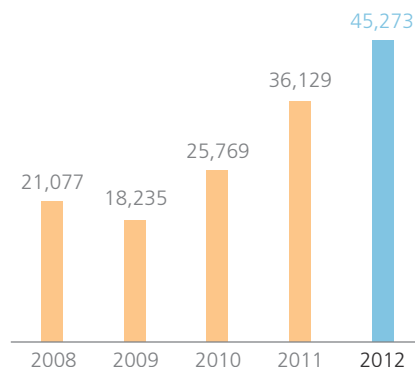
Net operating income

in millions of RMB



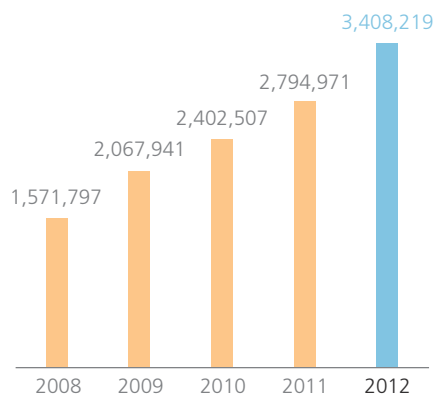
Net profit attributable to the Bank's shareholders

in millions of RMB



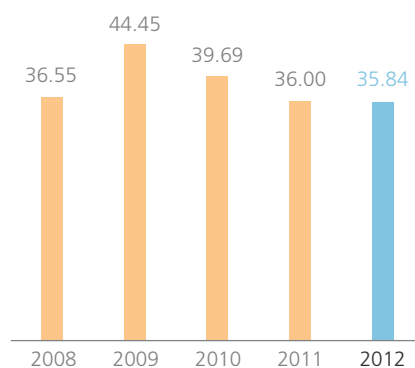
Total assets

in millions of RMB



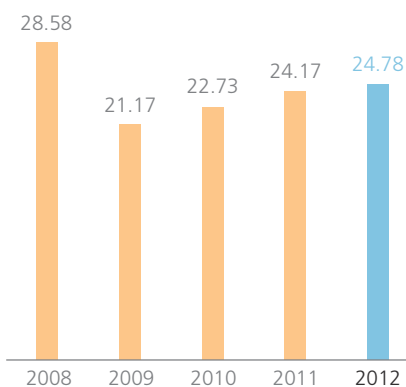
Cost-to-income ratio

percentage



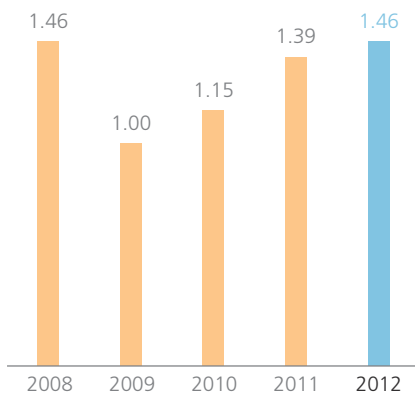
Return on average equity (after tax) attributable to the Bank's shareholders

percentage



Return on average assets (after tax) attributable to the Bank's shareholders

percentage





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III Chairman's Statement



2012 witnessed complicated economic situations both at home and abroad as well as volatilities in the financial market. The Chinese economy, apparently in its “weaker cycle”, was hampered by the combined impact of reduced external demand, diminishing marginal productivity of production factors and structural adjustment of the economy. Given the complicated business environment, CMB adhered firmly to its guiding concept of “achieving balanced development of efficiency, quality and scale” and the core values of “Service, Innovation and Prudence”. Focusing on enhancing the “three types of efficiencies (i.e. in capital, operation and management)”, all staff members of CMB have risen to the occasion and made concerted efforts to cope with new issues, difficulties and challenges in the Second Transformation and to seize opportunities and speed up the transformation. As a result, CMB delivered satisfactory results in terms of operation and management and continuously created value for our shareholders.

Fu Yuning
Chairman

III Chairman's Statement



First, continuous improvement in three types of efficiencies. In 2012, CMB continued to explore the comprehensive management of capital return of the Group to maximise the return on capital and achieve the long-term steady growth of market value. It steadily promoted structural reform and expedited process re-engineering and resources integration. CMB made scientific allocation of various operational elements, and constantly pushed forward the optimal combination of management accounting and financial management. As a result, expenditure and income management was further refined. Thanks to such continuous efforts, CMB managed to further improve its capital utilisation efficiency, operating efficiency and management efficiency. In 2012, while further improving the core capital adequacy ratio, the Group achieved a return on average assets (ROAA) of 1.46% and a return on average equity (ROAE) of 24.78%, a risk-adjusted return on capital (RAROC) of 22.68%, respectively, all showing a year-on-year improvement. The cost-to-income ratio was 35.84%, demonstrating a year-on-year decline.

Second, strategic plan becomes clearer. CMB attaches great importance to finding a strategic vision of future development. During the year, CMB prepared the "Medium-term Strategic Development Plan of CMB", which specifies the guiding principles and strategic positioning for the next few years, and sets more forward-looking and more challenging strategic goals, namely: stick to achieving coordinated growth in "efficiency, quality and scale", uphold the strategic principles of "earlier, faster and better" and adhere to the philosophies of "We are here, just for you and change as situation does" to differentiate CMB from our peers, and be aware that there are things must be done and things must not be done; vigorously develop the businesses of small and micro enterprises, wealth management and intermediary business, and accelerate process re-engineering and new product development, aiming to become an innovative bank distinguished by leading profitability, first-class services, sound management and excellent brand image.

Third, process re-engineering saw initial success. In 2012, CMB steadily proceeded with the "customer-centric process re-engineering" project with an aim to maximise customer satisfaction and improve the "three types of efficiencies" with the support of adequate human resources and a sound IT infrastructure. CMB conducted thorough and in-depth analysis and examination of the issues found in internal process, and engaged a special consulting firm to design and implement solutions, so as to have better resource allocation and integration. During the year, CMB set up a business model of "small and micro enterprise credit factory", carried out the centralised remote authorisation of retail banking business line, smoothly introduced pilot reforms in the organisation of wholesale banking business line. The process of the four core business lines of CMB has been constantly optimised with refined business operation and management, demonstrating great progress made in the process re-engineering.

III Chairman's Statement

Fourth, the capability of risk and capital management improved continuously. In 2012, the world's major economies remained sluggish while China's economy was confronted with structural adjustment, exposing domestic banks to greater business risks. CMB kept its overall asset quality stable and controllable through constant in-depth analysis of macro-economic situation, especially making judgment on the risks embedded in emerging industries, and improving resilience to risks in economic downturn. During the year, CMB optimised and revised its risk appetite by constantly studying the risk appetite and the best risk management practises of advanced domestic and foreign banks, and established new internal policies and procedures associated with risks and capital management, thus improving its overall risk and capital management. As an entity committed to implementing the New Basel Capital Accord, in 2012, CMB accelerated the implementation of the new Basel Capital Accord, and successfully passed the review and inspection by the China Banking Regulatory Commission, striving to be among the first domestic banks to implement the New Basel Capital Accord.

Fifth, CMB actively performed its social responsibilities and promoted business transformation. To support the shift in national economic development, CMB strived to push forward the Second Transformation, while maintaining strict control over loans granted to risky sectors, including those industries which fall into the categories of "high pollution, high energy consumption and overcapacity". In addition, CMB accelerated the promotion of green credit, and supported the development of emerging industries and environmental protection industries, playing an important role in promoting industrial restructuring and regional coordinated development. Meanwhile, CMB furthered its business restructuring by increasing efforts on the development of Small and Micro Enterprise businesses, while focusing on SMEs that have enormous growth potential, bright market prospects and high technological content. In 2012, CMB made great progress in Small and Micro Enterprise businesses, as evidenced by the increasing proportion of these businesses. These initiatives effectively alleviated the pressure of interest rate liberalisation to some extent and were in line with the macroeconomic and financial regulatory policies of the State.

In 2012, CMB received praise from the regulators and the capital market for its achievements in corporate governance, operation and management. It also won a number of great awards, namely "2012 Award for Board of Directors of Listed Companies" granted by Shanghai Stock Exchange, "2012 Top 100 Listed Companies in China by capital brand value" by China Research Center for Management of Market Value of Listed Companies, "Best Investor Relations Award" by Institutional Investors, and "2012 Gold Award for Annual Report Issued by Companies Listed on Main Board" by Investors Daily.

Looking forward to 2013, the increasingly stringent capital control, the gradual deepening of interest rate liberalization, the clearer trend towards financial disintermediation and intensified competition from peers will make the business environment for banks more difficult. Despite such pressure and challenges, CMB will stick to achieving a coordinated growth of "efficiency, quality and scale", accelerate the Second Transformation and process re-engineering, hold firmly to develop small and micro enterprise businesses and vigorously develop the intermediary business, strengthen cost control, scientifically develop the performance appraisal system, update the risk management concept, accelerate innovation and differentiated operation, further improve the capital efficiency, operational efficiency and management efficiency to bring more satisfactory returns to our shareholders, provide employees with room for career development, shoulder more corporate social responsibility and strive to create new success.

IV President's Statement



Despite the challenging external environment in 2012, China Merchants Bank was committed to and determined in fulfilling the requirements of both the regulators and the Board of Directors, managed to overcome various unfavourable factors, made solid progress in the Second Transformation, and accomplished all tasks, maintaining an overall positive momentum of growth.

Ma Weihua
President

IV President's Statement



As at the end of 2012, total assets of the Group amounted to RMB3.41 trillion, up by 21.94% from the beginning of the year; total deposits from customers amounted to RMB2.53 trillion, increasing by 14.07% from the beginning of the year; and total loans and advances to customers amounted to RMB1.90 trillion, increasing by 16.05% from the beginning of the year. The return on average net assets (after tax) attributable to shareholders of the Bank was 24.78%, up by 0.61 percentage point year-on-year. The cost-to-income ratio was 35.84%, representing a slight decrease as compared with the previous year. The capital adequacy ratio was 12.14%, increasing by 0.61 percentage point from the beginning of the year. The non-performing loan ratio was 0.61%, and the allowance coverage ratio of non-performing loans stood at 351.79%, reflecting an overall stable quality of assets. Net profit attributable to shareholders of the Bank amounted to RMB45.273 billion, increasing by 25.31% year-on-year.

In 2012, the Bank proactively exploited the market, and ambitiously promoted deposits marketing, achieving a relatively fast growth in both corporate and retail deposits against the unfavorable environment. We endeavored to push forward the development of small and micro enterprise businesses and vigorously expand the “Qian Ying Zhan Yi” program so as to continuously improve our product range for small and micro enterprises, thereby maintaining an optimal growth momentum in our small and micro enterprise businesses. Moreover, we steadily promoted the development of credit card business and strengthened the innovation of pension business. In addition, we deepened our business with high-net-worth customers, launched two innovative “mobile wallet” payment products and iPad Banking, thereby further increasing the profit contribution from retail banking. We also accelerated the development of emerging wholesale banking businesses such as financial market, assets custody, investment banking and cash management as well as wealth management businesses such as funds, insurance, wealth management products and gold, demonstrating good growth momentum in the intermediary business.

In 2012, the Bank dedicated great efforts in risk prevention and internal control compliance, with focus on strengthening risk control over key industries, sectors and areas, which resulted in a decrease in the proportion of loans extended to local government financing platforms, real estate enterprises and industries being labelled as “high pollution, high energy consumption and overcapacity” in the total balance of loans as at the end of the year as compared with the beginning

IV President's Statement

of the year. Risk concentration management of private enterprise customers was strengthened. We completed the 10-tier classification of our assets in stock for the first time and reinforced categorised provision management and the risk early-warning mechanism, and further strengthened our efforts in the clearance and recovery of non-performing loans. We also improved our management of liquidity risk, market risk, operational risk and reputation risk and successfully passed CBRC's on-site evaluation and acceptance in relation to the implementation of Basel II. Moreover, we continuously intensified our efforts in audit inspection, strengthened internal control evaluation and compliance management and committed to the prevention of money laundering, terrorism financing and proliferation financing. At the same time, we intensified our strict control and prevention of misconducts and organised investigations aiming at certain key positions and areas, hence no serious incidence of misconduct or liabilities was reported during the year.

In 2012, the Bank strengthened its internal management, made overall improvement in the branch performance assessment system and upgraded budget management, asset and liability management, capital management and expenditure and income management. We progressively promoted our system reform and process re-engineering and formally launched our customer-centric process re-engineering project. Moreover, we widened career development paths for our employees, explored the human resources budget and allocation mechanism with an aim to improve efficiency, and exercised strict control over human resources budget execution, continuously improve the dual-dimensional assessment of performance and ability of the employees. Furthermore, we continued to deepen IT development, accelerating the construction of the third-generation core business system and the second-generation payment system of the People's Bank of China, with a view to proactively pass the dual-system certification by effectively managing information and data security.

In 2012, the Bank steadily promoted its internationally integrated operations, achieving rapid growth in both international and offshore businesses. We made further progress in integrating Wing Lung Bank, reinforced mainland and overseas business coordination, thereby continuously improving Wing Lung Bank's key competencies and achieving a relatively rapid growth in net earnings. Our HK Branch constantly improved its operations and product innovation by capitalising on our mainland and overseas business coordination, while our New York Branch achieved substantial increase in profit before provision by aggressively expanding its businesses. Our U.S., London and Taipei Representative Offices diligently performed their duties of market research and liaison. The preparatory work for the establishment of Singapore Branch was duly commenced. In addition, CMB Financial Leasing, CMB International Capital and CMB Fund also developed steadily.

In 2012, the Bank's overall brand image continued to receive high recognition from the society, which was evidenced by over 130 awards granted by authoritative media at home and abroad, including the awards such as "Top 10 Leading Retail Banks in Asia Pacific Region", "Best Retail Bank in China", "Best Private Bank in China" and "Best Cash Management Bank in China".

The above achievements are attributable to the hard work of our staff and the unwavering support from our customers, investors and various social communities. On behalf of China Merchants Bank, I would like to extend my sincere thanks to all who care about and support the development of China Merchants Bank.

Looking forward into 2013, we will adhere to the guiding principle of "deepening customer-centric and market-oriented management reform and speeding up the Second Transformation and forge ahead with innovative ideas so as to secure a new era of sustainable growth for China Merchants Bank and give full play to our dedicated CMB spirit.



Han Mingzhi
Chairman of the Board of Supervisors

V Report of the Board of Directors

5.1 Analysis of General Operating Status

In 2012, despite the complicated and volatile economic and financial environment at home and abroad, the Group overcame various unfavourable factors to further promote the Second Transformation, constantly optimised its customer structure, and further explored the value of its customer base. As a result, the Group achieved a steady improvement in profitability and operational efficiency, which were mainly reflected in the following aspects:



Profitability was further improved. In 2012, the Group accomplished a net profit attributable to shareholders of the Bank of RMB45.273 billion, representing an increase of RMB9.144 billion or 25.31% as compared with the previous year. In 2012, the Group realised a net interest income of RMB88.374 billion and a net non-interest income of RMB25.444 billion, representing an increase of RMB12.067 billion or 15.81%, an increase of RMB5.085 billion or 24.98% as compared with the previous year respectively. ROAA and ROAE attributable to the shareholders of the Bank were 1.46% and 24.78% respectively, representing an increase of 0.07 and 0.61 percentage point respectively as compared with 2011. Our operating efficiency was also further improved, which was driven by (i) an increase in net interest income brought about by the optimisation of asset structure and the steady expansion of asset scale; (ii) a reasonable decrease in the cost-to-income ratio which was attributable to better standardised and refined expenditure and income management; and (iii) a steady growth in net fee and commission income thanks to our intensified effort in capitalising on customers' demand for comprehensive wealth management and the shorter cash turnover time resulting from stronger consumption demand to develop the intermediary businesses.

representing an increase of RMB613.248 billion, or 21.94%, as compared with the beginning of the year. Loans and advances amounted to RMB1,904.463 billion, representing an increase of RMB263.388 billion, or 16.05%, as compared with the beginning of the year. Deposits from customers amounted to RMB2,532.444 billion, representing an increase of RMB312.384 billion, or 14.07%, as compared with the beginning of the year.

The scale of assets and liabilities expanded steadily. As at the end of 2012, the Group's total assets amounted to RMB3,408.219 billion,

The non-performing loan ratio rose slightly, and the allowance coverage ratio maintained at a relatively high level. As at the end of 2012, the Group had non-performing loans of RMB11.694 billion, representing an increase of RMB2.521 billion as compared with the beginning of the year. The non-performing loan ratio was 0.61%, an increase of 0.05 percentage point as compared with the beginning of the year. The allowance coverage ratio of non-performing loans was 351.79%, a decrease of 48.34 percentage points as compared with the beginning of the year.

V Report of the Board of Directors

5.2 Analysis of Income Statement

5.2.1 Financial highlights

| | 2012 (in millions of RMB) | 2011 |
|--|------------------------------|----------|
| Net interest income | 88,374 | 76,307 |
| Net fee and commission income | 19,739 | 15,628 |
| Other net income | 5,641 | 4,668 |
| Operating expenses | (48,350) | (40,889) |
| Provision for insurance claims | (321) | (305) |
| Gains on investment in associates | 31 | 49 |
| Gains on investment in joint ventures | 33 | 14 |
| Impairment losses on assets | (5,583) | (8,350) |
| Profit before tax | 59,564 | 47,122 |
| Income tax | (14,287) | (10,995) |
| Net profit | 45,277 | 36,127 |
| Net profit attributable to the Bank's shareholders | 45,273 | 36,129 |

In 2012, the Group accomplished a profit before tax of RMB59.564 billion and an effective income tax rate of 23.99%, representing an increase of 26.40% and 0.66 percentage point respectively as compared with 2011.

The following table sets out the impact on the profit before tax of the Group for 2012 by changes in major income/loss items.

Changes in profit before tax

| | (in millions of RMB) |
|--|----------------------|
| Profit before tax for 2011 | 47,122 |
| Changes in 2012 | |
| Net interest income | 12,067 |
| Net fee and commission income | 4,111 |
| Other net income | 973 |
| Operating expenses | (7,461) |
| Provision for insurance claims | (16) |
| Impairment losses on assets | 2,767 |
| Gains on investment in associates and joint ventures | 1 |
| Profit before tax for 2012 | 59,564 |

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5.2.2 Net operating income

In 2012, the net operating income of the Group was RMB113.818 billion, representing an increase of 17.74% as compared with 2011. Net interest income accounted for 77.65%, representing a decrease of 1.29 percentage points from the previous year; net non-interest income accounted for 22.35%, representing an increase of 1.29 percentage points as compared with 2011.

The following table sets out the net operating income composition of the Group in the past 5 years.

| | 2012 (%) | 2011(%) | 2010 (%) | 2009(%) | 2008 (%) |
|--|---------------|---------|----------|---------|----------|
| Net interest income | 77.65 | 78.94 | 79.54 | 77.75 | 84.24 |
| Net fee and commission income | 17.34 | 16.17 | 15.79 | 15.40 | 13.91 |
| Other net income | 4.96 | 4.83 | 4.58 | 6.72 | 1.83 |
| Gains on investment in associates and joint ventures | 0.05 | 0.06 | 0.09 | 0.13 | 0.02 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

5.2.3 Net interest income

In 2012, the Group's net interest income amounted to RMB88.374 billion, representing an increase of 15.81% as compared with that in 2011, mainly due to (i) the optimised structure and improved yield of interest-earning assets brought about by our great effort in optimising customer structure; and (ii) a steady expansion in the volume of interest-earning assets.

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

| | 2012 | | | 2011 | | |
|--|---|-----------------|-------------------|-----------------|-----------------|-------------------|
| | Average balance | Interest income | Average yield (%) | Average balance | Interest income | Average yield (%) |
| | (in millions of RMB, excluding percentages) | | | | | |
| Interest-earning assets | | | | | | |
| Loans and advances | 1,770,103 | 115,926 | 6.55 | 1,544,580 | 93,837 | 6.08 |
| Bond investments | 424,382 | 15,944 | 3.76 | 359,388 | 12,568 | 3.50 |
| Balances with central bank | 415,349 | 6,392 | 1.54 | 350,505 | 5,312 | 1.52 |
| Placements with banks and other financial institutions | 311,589 | 11,839 | 3.80 | 235,241 | 9,528 | 4.05 |
| Total interest-earning assets and interest income | 2,921,423 | 150,101 | 5.14 | 2,489,714 | 121,245 | 4.87 |

V Report of the Board of Directors

| | 2012 | | | 2011 | | |
|--|------------------|---|------------------|------------------|------------------|------------------|
| | Average balance | Interest expense | Average cost (%) | Average balance | Interest expense | Average cost (%) |
| | | (in millions of RMB, excluding percentages) | | | | |
| Interest-bearing liabilities | | | | | | |
| Deposits from customers | 2,214,822 | 42,308 | 1.91 | 1,961,112 | 32,111 | 1.64 |
| Placements from banks and other financial institutions | 449,871 | 16,648 | 3.70 | 329,108 | 10,958 | 3.33 |
| Issued debts | 56,843 | 2,771 | 4.87 | 38,495 | 1,869 | 4.86 |
| Total interest-bearing liabilities and interest expense | 2,721,536 | 61,727 | 2.27 | 2,328,715 | 44,938 | 1.93 |
| Net interest income | / | 88,374 | / | / | 76,307 | / |
| Net interest spread | / | / | 2.87 | / | / | 2.94 |
| Net interest margin | / | / | 3.03 | / | / | 3.06 |

In 2012, the Group proactively enhanced its risk pricing capability, and was devoted to stabilising the net interest margin and net interest spread despite the negative effect brought by the decrease in interest rate and interest rate liberalisation. Net interest margin and net interest spread of the Group were 3.03% and 2.87% respectively, decreasing slightly by 3 basis points and 7 basis points respectively as compared with 2011.

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

| | 2012 compared with 2011 | | |
|--|-----------------------------------|---------------|-------------------------|
| | Increase/(decrease) due to Volume | Interest rate | Net increase/(decrease) |
| | (in millions of RMB) | | |
| Assets | | | |
| Loans and advances | 14,829 | 7,260 | 22,089 |
| Bond investments | 2,442 | 934 | 3,376 |
| Balances with central bank | 1,010 | 70 | 1,080 |
| Placements with banks and other financial institutions | 2,899 | (588) | 2,311 |
| Changes in interest income | 21,180 | 7,676 | 28,856 |
| Liabilities | | | |
| Deposits from customers | 4,902 | 5,295 | 10,197 |
| Placements from banks and other financial institutions | 4,472 | 1,218 | 5,690 |
| Issued debts | 898 | 4 | 902 |
| Changes in interest expense | 10,272 | 6,517 | 16,789 |
| Changes in net interest income | 10,908 | 1,159 | 12,067 |

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

| | July to September 2012 | | | October to December 2012 | | |
|--|------------------------|--|-------------|--------------------------|--|-------------|
| | Average balance | Interest income Annualised average yield (%) (in millions of RMB, excluding percentages) | | Average balance | Interest income Annualised average yield (%) (in millions of RMB, excluding percentages) | |
| Interest-earning assets | | | | | | |
| Loans and advances | 1,801,153 | 29,366 | 6.49 | 1,861,610 | 29,729 | 6.35 |
| Bond investments | 440,478 | 4,145 | 3.74 | 441,608 | 4,130 | 3.72 |
| Balances with central bank | 416,345 | 1,621 | 1.55 | 430,824 | 1,663 | 1.54 |
| Placements with banks and other financial institutions | 362,300 | 3,103 | 3.41 | 291,810 | 2,525 | 3.44 |
| Total interest-earning assets and interest income | 3,020,276 | 38,235 | 5.04 | 3,025,852 | 38,047 | 5.00 |
| | July to September 2012 | | | October to December 2012 | | |
| | Average balance | Interest expense Annualised average cost (%) (in millions of RMB, excluding percentages) | | Average balance | Interest expense Annualised average cost (%) (in millions of RMB, excluding percentages) | |
| Interest-bearing liabilities | | | | | | |
| Deposits from customers | 2,266,473 | 11,002 | 1.93 | 2,318,510 | 10,990 | 1.89 |
| Placements from banks and other financial institutions | 488,324 | 4,348 | 3.54 | 434,747 | 3,727 | 3.41 |
| Issued debts | 60,030 | 736 | 4.88 | 60,372 | 746 | 4.92 |
| Total interest-bearing liabilities and interest expense | 2,814,827 | 16,086 | 2.27 | 2,813,629 | 15,463 | 2.19 |
| Net interest income | / | 22,149 | / | / | 22,584 | / |
| Net interest spread | / | / | 2.77 | / | / | 2.81 |
| Net interest margin | / | / | 2.92 | / | / | 2.97 |

In the fourth quarter of 2012, the net interest spread of the Group was 2.81%, up by 4 basis points as compared with the third quarter of 2012. The annualised average yield of the interest-earning assets was 5.00%, down by 4 basis points as compared with the third quarter of 2012 while the annualised average cost of interest-bearing liabilities was 2.19%, down by 8 basis points as compared with the third quarter of 2012.

In the fourth quarter of 2012, the net interest margin of the Group was 2.97%, up by 5 basis points as compared with the third quarter of 2012.

V Report of the Board of Directors

5.2.4 Interest income

In 2012, the Group recorded an interest income of RMB150.101 billion, an increase of 23.80% as compared with 2011, mainly due to the increase in the yield and volume of interest-earning assets. Interest income from loans and advances still constituted the majority of interest income of the Group.

Interest income from loans and advances

In 2012, the interest income from loans and advances of the Group was RMB115.926 billion, representing an increase of RMB22.089 billion or 23.54% as compared with the previous year. In 2012, benefiting from the adjustment in loan structure and constant improvement of loan risk pricing capability, the average yield of loans and advances of the Group increased by 0.47 percentage point to 6.55% as compared with the previous year.

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

| | 2012 | | | 2011 | | |
|---|------------------|-----------------|-------------------|------------------|-----------------|-------------------|
| | Average balance | Interest income | Average yield (%) | Average balance | Interest income | Average yield (%) |
| (in millions of RMB, excluding percentages) | | | | | | |
| Corporate loans | 1,072,195 | 68,719 | 6.41 | 942,607 | 56,020 | 5.94 |
| Retail loans | 608,940 | 41,303 | 6.78 | 530,985 | 32,142 | 6.05 |
| Discounted bills | 88,968 | 5,904 | 6.64 | 70,988 | 5,675 | 7.99 |
| Loans and advances | 1,770,103 | 115,926 | 6.55 | 1,544,580 | 93,837 | 6.08 |

In 2012, from the perspective of duration of loans and advances, the average balance of short-term loans was RMB819.483 billion, interest income amounted to RMB57.83 billion, and the average yield reached 7.06%; the average balance of medium to long-term loans was RMB821.469 billion, interest income amounted to RMB52.563 billion, and the average yield reached 6.40%.

Interest income from bond investments

In 2012, the interest income from bond investments of the Group increased by RMB3,376 million or 26.86% as compared with the previous year, and the average yield of bond investments was 3.76%, up by 0.26 percentage point as compared with the previous year.

Interest income from placements with banks and other financial institutions

In 2012, the interest income from placements with banks and other financial institutions of the Group increased by RMB2,311 million or 24.25% as compared with the previous year, and the average yield for placements with banks and other financial institutions was 3.80%, down by 0.25 percentage point as compared with the previous year, which was primarily attributable to decrease in the interest rate of inter-bank lending, in an environment of increasingly loose liquidity.

5.2.5 Interest expense

In 2012, the interest expense of the Group was RMB61.727 billion, an increase of RMB16.789 billion or 37.36% as compared with the previous year, which was primarily attributable to the structural change and scale expansion of interest-bearing liabilities.

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Interest expense on deposits from customers

In 2012, the Group's interest expense on deposits from customers increased by RMB10.197 billion or 31.76% as compared with the previous year. It was because (i) average balance of deposits from customers increased by 12.94%, and (ii) average cost increased by 0.27 percentage point as compared with the previous year.

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

| | 2012 | | | 2011 | | |
|--------------------------------------|---|------------------|------------------|-----------------|------------------|------------------|
| | Average balance | Interest expense | Average cost (%) | Average balance | Interest expense | Average cost (%) |
| | (in millions of RMB, excluding percentages) | | | | | |
| Deposits from corporate customers | | | | | | |
| Demand | 684,050 | 5,061 | 0.74 | 652,815 | 4,789 | 0.73 |
| Time | 727,811 | 23,900 | 3.28 | 602,728 | 16,654 | 2.76 |
| Subtotal | 1,411,861 | 28,961 | 2.05 | 1,255,543 | 21,443 | 1.71 |
| Deposits from retail customers | | | | | | |
| Demand | 461,912 | 2,659 | 0.58 | 409,431 | 2,478 | 0.61 |
| Time | 341,049 | 10,688 | 3.13 | 296,138 | 8,190 | 2.77 |
| Subtotal | 802,961 | 13,347 | 1.66 | 705,569 | 10,668 | 1.51 |
| Total deposits from customers | 2,214,822 | 42,308 | 1.91 | 1,961,112 | 32,111 | 1.64 |

Interest expense on placements from banks and other financial institutions

In 2012, the interest expense on placements from banks and other financial institutions of the Group increased by 51.93% as compared with the previous year, which was primarily attributable to volume increase.

Interest expense on issued debts

In 2012, the interest expense on issued debts of the Group increased by 48.26% as compared with the previous year, which was primarily attributable to an increase in the volume of issued debts.

5.2.6 Net non-interest income

In 2012, the Group recorded a net non-interest income of RMB25.444 billion, representing an increase of RMB5.085 billion or 24.98% as compared with the previous year. Specifically, net non-interest income from retail banking business amounted to RMB12.506 billion, an increase of 31.15% over the previous year, accounting for 49.15% of the Group's net non-interest income; net non-interest income from wholesale banking business amounted to RMB11.518 billion, an increase of 6.98% over the previous year, accounting for 45.27% of the Group's net non-interest income.

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

| | 2012 (in millions of RMB) | 2011 |
|--------------------------------------|------------------------------|---------|
| Fee and commission income | 21,167 | 16,924 |
| Less: Fee and commission expense | (1,428) | (1,296) |
| Net fee and commission income | 19,739 | 15,628 |
| Other net non-interest income | 5,705 | 4,731 |
| Total net non-interest income | 25,444 | 20,359 |

5.2.7 Net fee and commission income

In 2012, net fee and commission income of the Group increased by RMB4.111 billion or 26.31% as compared with 2011, which was primarily attributable to the increase in commissions from custody and other trustee businesses, 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.

| | 2012 (in millions of RMB) | 2011 |
|---|------------------------------|---------|
| Fee and commission income | 21,167 | 16,924 |
| Bank card fees | 5,825 | 4,359 |
| Settlement and clearing fees | 2,211 | 2,042 |
| Agency services fees | 3,924 | 3,400 |
| Commissions from credit commitment and loan business | 2,229 | 1,563 |
| Commissions from custody and other trustee businesses | 4,594 | 3,032 |
| Others | 2,384 | 2,528 |
| Fee and commission expense | (1,428) | (1,296) |
| Net fee and commission income | 19,739 | 15,628 |

Bank card commission increased by RMB1,466 million or 33.63% as compared with the previous year, benefiting from the steady increase in the income from instalment service of credit cards and POS service.

Settlement and clearing fees increased by RMB169 million or 8.28% as compared with the previous year, benefiting from the steady increase in remittance and settlement volume.

Agency service fees increased by RMB524 million or 15.41% as compared with the previous year, benefiting from the steady growth in the fees from distribution of third-party insurance policies.

Commissions from credit commitment and loan business increased by RMB666 million or 42.61% as compared with the previous year, benefiting from the increase in commissions from financial leasing and domestic letters of credit businesses.

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Commissions from custody and other trustee businesses increased by RMB1.562 billion or 51.52% as compared with the previous year, benefiting from the rapid growth in the income from wealth management business such as sales and issuance of wealth management products designed to meet customers' demand for comprehensive wealth management. Fees generated from wealth management products were RMB1.853 billion, an increase of RMB432 million as compared with the previous year and fees from distribution of third-party trust plans amounted to RMB1,868 million, an increase of RMB1,022 million as compared with the previous year.

Other fee and commission income decreased by RMB144 million as compared with the previous year.

5.2.8 Other net income

In 2012, other net income of the Group increased by RMB973 million or 20.84% as compared with 2011, which was mainly due to the increase of bills spread income. The following table sets forth, for the periods indicated, the principal components of other net income of the Group.

| | 2012 (in millions of RMB) | 2011 |
|--|------------------------------|--------------|
| Net trading profit/(loss) | | |
| – Foreign exchange | 1,296 | 1,516 |
| – Bonds, derivatives and other trading activities | 425 | 656 |
| Net gains on financial instruments designated at fair value through profit or loss | 180 | 27 |
| Net gains/(losses) on disposal of available-for-sale financial assets | 78 | (250) |
| Gains on investment in funds | 24 | 22 |
| Rental income on assets under operating lease | 318 | 281 |
| Bills spread income | 2,766 | 1,791 |
| Insurance operating income | 414 | 374 |
| Others | 140 | 251 |
| Total other net income | 5,641 | 4,668 |

5.2.9 Operating expenses

In 2012, operating expenses of the Group were RMB48.35 billion, representing an increase of 18.25% as compared with 2011. The cost-to-income ratio was 35.84%, representing a decrease of 0.16 percentage point as compared with the previous year. The standardisation and sophistication in expense management of the Group were further improved, and the expenses rose steadily. Depreciation of fixed assets and investment properties and rental expenses had a relatively smaller change as compared with the previous year. Staff costs and other general and administrative expenses increased by 17.80% and 18.60% respectively as compared with 2011 due to increased headcounts along with business expansion.

The Company has always attached great importance to investments in research and development. In 2012, our research and development expenses amounted to RMB2.519 billion, representing an increase of 15.18% as compared with that of 2011.

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

| | 2012 (in millions of RMB) | 2011 |
|--|------------------------------|--------|
| Staff costs | 23,932 | 20,316 |
| Business tax and surcharges | 7,555 | 6,091 |
| Depreciation of fixed assets and investment properties | 2,864 | 2,557 |
| Depreciation of fixed assets under operating lease | 60 | 55 |
| Rental expenses | 2,462 | 2,193 |
| Other general and administrative expenses | 11,477 | 9,677 |
| Total operating expenses | 48,350 | 40,889 |

5.2.10 Impairment losses on assets

In 2012, impairment loss on assets of the Group was RMB5.583 billion, a decrease of 33.14% as compared with 2011. The following table sets forth, for the periods indicated, the principal components of impairment losses on assets of the Group.

| | 2012 (in millions of RMB) | 2011 |
|--|------------------------------|-------|
| Assets impairment charged/(released) on | | |
| – Loans and advances | 5,491 | 8,199 |
| – Investments | 29 | 78 |
| – Placements with banks and other financial institutions | (2) | 77 |
| – Other assets | 65 | (4) |
| Total impairment losses on assets | 5,583 | 8,350 |

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In 2012, impairment loss on loans was RMB5.491 billion, representing a decrease of 33.03% as compared with 2011. This was mainly attributable to decreased balance and optimised structure of loans extended to local government financing platforms and real estate industry. For details of provision for impairment losses on loans, please refer to the section headed “Loan quality analysis” in this chapter.

5.3 Analysis of balance sheet

5.3.1 Assets

As at 31 December 2012, the total assets of the Group amounted to RMB3,408.219 billion, representing an increase of 21.94% as compared with the end of 2011. The increase in total assets was primarily due to the increase in placements with banks and other financial institutions, loans and advances to customers and investment.

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

| | 31 December 2012 | | 31 December 2011 | |
|--|------------------|-------------------------|------------------|-------------------------|
| | Amount | Percentage in total (%) | Amount | Percentage in total (%) |
| (In millions of RMB, excluding percentages) | | | | |
| Total loans and advances to customers | 1,904,463 | 55.88 | 1,641,075 | 58.71 |
| Provision for impairment losses on loans | (41,138) | (1.21) | (36,704) | (1.31) |
| Net loans and advances to customers | 1,863,325 | 54.67 | 1,604,371 | 57.40 |
| Investments | 520,446 | 15.27 | 460,948 | 16.49 |
| Cash | 12,742 | 0.37 | 10,725 | 0.38 |
| Balances with the central bank | 458,673 | 13.46 | 397,579 | 14.22 |
| Balances with banks and other financial institutions | 280,870 | 8.24 | 63,046 | 2.26 |
| Capital lent and financial assets purchased under resale agreement | 210,385 | 6.17 | 205,356 | 7.35 |
| Interest receivable | 13,009 | 0.38 | 10,852 | 0.39 |
| Investment in associates and joint ventures | 455 | 0.01 | 456 | 0.02 |
| Fixed assets | 20,392 | 0.60 | 17,500 | 0.63 |
| Investment properties | 1,638 | 0.05 | 1,710 | 0.06 |
| Intangible assets | 2,851 | 0.09 | 2,605 | 0.09 |
| Deferred tax assets | 4,987 | 0.15 | 4,337 | 0.16 |
| Goodwill | 9,598 | 0.28 | 9,598 | 0.34 |
| Other assets | 8,848 | 0.26 | 5,888 | 0.21 |
| Total assets | 3,408,219 | 100.00 | 2,794,971 | 100.00 |

5.3.1.1 Loans and advances

As at 31 December 2012, total loans and advances of the Group amounted to RMB1,904.463 billion, representing an increase of 16.05% as compared with the end of the previous year; total loans and advances accounted for 55.88% of total assets, representing a decrease of 2.83 percentage points as compared with the end of the previous year.

Distribution of loans 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.

| | 31 December 2012 | | 31 December 2011 | |
|--|------------------|-------------------------|------------------|-------------------------|
| | Amount | Percentage in total (%) | Amount | Percentage in total (%) |
| (In millions of RMB, excluding percentages) | | | | |
| Corporate loans | 1,152,837 | 60.53 | 994,041 | 60.57 |
| Discounted bills | 64,842 | 3.41 | 75,826 | 4.62 |
| Retail loans | 686,784 | 36.06 | 571,208 | 34.81 |
| Total loans and advances to customers | 1,904,463 | 100.00 | 1,641,075 | 100.00 |

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Corporate loans

As at 31 December 2012, the Group's total corporate loans amounted to RMB1,152.837 billion, representing an increase of 15.97% as compared with the end of the previous year. Total corporate loans accounted for 60.53% of total loans and advances to customers, a decrease of 0.04 percentage point as compared with the end of the previous year. In 2012, taking into account the macroeconomic conditions and regulatory requirements, the Group appropriately adjust its total loan amounts based on the RAROC and overall return, further optimise loan structure and systematically control various risks, thus optimising the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 31 December 2012, discounted bills amounted to RMB64.842 billion, representing a decrease of 14.49% as compared with the end of the previous year. The Group has been encouraging discounted bills business, as the risk of this business was relatively low and its capital consumption was relatively small. According to its overall loan granting arrangements, the Group flexibly adjusted the scale of its bill business and took a number of measures, such as the optimisation of business structure, the centralisation of business operation, the acceleration of capital circulation and the generation of profit through business volume, to increase the overall return of bill assets.

Retail loans

As at 31 December 2012, retail loans amounted to RMB686.784 billion, representing an increase of 20.23% as compared with the end of the previous year. As at 31 December 2012, retail loans accounted for 36.06% of total loans and advances to customers, up by 1.25 percentage points as compared with the end of the previous year. With the execution of the Second Transformation strategy, the Group stepped up the diversified development of retail loans by gradually expanding the proportion of high-yield personal operating loan business while developing the home mortgage loan business in a stable way. Meanwhile, the Group continued to implement the refined development strategy for its credit card business to increase the use of its credit cards by valued customers. As a result, the percentage of credit card loans increased.

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

| | 31 December 2012 | | 31 December 2011 | |
|---|------------------|-------------------------|------------------|-------------------------|
| | Amount | Percentage in total (%) | Amount | Percentage in total (%) |
| (In millions of RMB, excluding percentages) | | | | |
| Home mortgage loans | 335,746 | 48.89 | 323,640 | 56.66 |
| Personal operating loans | 182,012 | 26.50 | 90,429 | 15.83 |
| Credit card receivables | 106,519 | 15.51 | 73,305 | 12.83 |
| Others ^(Note) | 62,507 | 9.10 | 83,834 | 14.68 |
| Total retail loans | 686,784 | 100.00 | 571,208 | 100.00 |

Note: Others consist primarily of automobile loans, house decoration loans, education loans, general consumption loans and retail loans secured by monetary assets.

5.3.1.2 Investments

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, derivative financial assets, available-for-sale investments, held-to-maturity investments and investment receivables.

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

| | 31 December 2012 | | 31 December 2011 | |
|--------------------------------|---|-------------------------|------------------|-------------------------|
| | Amount | Percentage in total (%) | Amount | Percentage in total (%) |
| | (In millions of RMB, excluding percentages) | | | |
| Financial assets at fair value | | | | |
| through profit or loss | 25,489 | 4.90 | 15,530 | 3.37 |
| Derivative financial assets | 1,975 | 0.38 | 1,887 | 0.41 |
| Available-for-sale investments | 285,344 | 54.83 | 275,860 | 59.85 |
| Held-to-maturity investments | 175,417 | 33.70 | 145,586 | 31.58 |
| Investment receivables | 32,221 | 6.19 | 22,085 | 4.79 |
| Total investments | 520,446 | 100.00 | 460,948 | 100.00 |

Financial assets at fair value through profit or loss

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

| | 31 December 2012 | 31 December 2011 |
|--|----------------------|------------------|
| | (In millions of RMB) | |
| Bonds issued by PRC government | 1,519 | 1,113 |
| Bonds issued by the People's Bank of China (PBOC) | 23 | 33 |
| Bonds issued by policy banks | 3,946 | 1,139 |
| Bonds issued by commercial banks and other financial institutions | 15,489 | 3,374 |
| Others ^(note) | 4,512 | 9,871 |
| Total financial assets at fair value through profit or loss | 25,489 | 15,530 |

Note: Consists of other bonds, equity investments, investments in funds, etc.

Available-for-sale investments

As at 31 December 2012, available-for-sale investments of the Group increased by RMB9.484 billion or 3.44% as compared with the end of 2011. The investment in this category was made mainly due to the need to allocate assets and liabilities and improve operating efficiency and performance, which was the largest investment category of the Group.

The People's Bank of China implemented a prudent monetary policy in 2012. It made slight adjustments to its monetary policy by cutting the deposit reserve ratio and the benchmark interest rates of deposits and loans twice within the year, and pushed forward the interest rate liberalisation. During the first half of the year, the bond market continued its bullish momentum thanks to the economic downturn and the expectation of a loosening monetary policy. In the third quarter of 2012, however, the bond market tumbled as the monetary policy was not loosened to the expected extent. In the fourth quarter of the year, although the monetary policy remained moderately loose, the bond market underwent slight adjustment due to the volatile stock market. The Group has formulated investment strategies based on the detailed studies and close monitoring on the situations of the

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domestic and worldwide macroeconomies, monetary policies, market liquidity and the trend of CPI. As the Group has kept reducing its PBOC bonds over the years, and its new investments were made mainly in the held-to-maturity investment businesses, its investments in the bond market grew at a slow pace.

As for foreign currency bonds, due to slow recovery of the developed economies, severe situation of the European debt crisis and the intensified implementation of quantitative easing monetary policy in major economies, the yield of U.S. bonds remained at a low level throughout the year. The Group continued to adopt a prudent investment approach and actively adjusted and optimised its investment structure, resulting in a slight reduction in the volume of investment in foreign currency bonds, and the existing bond portfolio mainly comprises of high-yield credit bonds issued by the Chinese companies.

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

| | 31 December 2012 (In millions of RMB) | 31 December 2011 |
|---|---|---------------------|
| Bonds issued by PRC government | 29,829 | 24,434 |
| Bonds issued by the PBOC | 5,928 | 15,245 |
| Bonds issued by policy banks | 39,270 | 46,149 |
| Bonds issued by commercial banks and other financial institutions | 108,712 | 106,379 |
| Other bonds | 100,254 | 82,371 |
| Equity investments | 1,333 | 1,267 |
| Fund investments | 18 | 15 |
| Total available-for-sale investments | 285,344 | 275,860 |

Held-to-maturity investments

As at 31 December 2012, the net amount of held-to-maturity investments of the Group increased by RMB29.831 billion or 20.49% as compared with the end of the previous year. Held-to-maturity investments are held on a long-term basis for the strategic purpose of the Group. Given the low base of our held-to-maturity securities investment and in order to increase the long maturity products in our portfolio moderately to meet the requirement of interest rate risk management for bank accounts, the Group began to purchase more middle to long term bonds bearing fixed interest rates when the yields of bond market were at a high level. The purchase focused on bonds issued by PRC government and policy banks which led to a significant growth of such category of investments.

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

| | 31 December 2012 (In millions of RMB) | 31 December 2011 |
|---|---|---------------------|
| Bonds issued by PRC government | 74,780 | 67,998 |
| Bonds issued by the PBOC | 15,373 | 15,359 |
| Bonds issued by policy banks | 10,503 | 10,345 |
| Bonds issued by commercial banks and other financial institutions | 70,444 | 49,874 |
| Other bonds | 4,491 | 2,184 |
| Total amount of held-to-maturity investments | 175,591 | 145,760 |
| Less: provision for impairment losses | (174) | (174) |
| Net amount of held-to-maturity investments | 175,417 | 145,586 |

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Investment receivables

Investment receivables are unlisted PRC certificated bonds and other bonds and debts held by the Group, which do not have open market value in China or overseas. As at 31 December 2012, the Group's net investment receivables amounted to RMB32.221 billion, representing an increase of RMB10.136 billion as compared with the end of 2011.

The following table sets forth the composition of the Group's investment receivables.

| | 31 December 2012 (In millions of RMB) | 31 December 2011 |
|--|---|---------------------|
| Bonds issued by PRC government | 1,769 | 3,714 |
| Bonds issued by commercial banks and other financial institutions | 11,422 | 7,282 |
| Other bonds | 19,093 | 11,152 |
| Total investment receivables | 32,284 | 22,148 |
| Less: provision for impairment losses | (63) | (63) |
| Net investment receivables | 32,221 | 22,085 |

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 investments at end of period (%) | Profits/ (losses) for the reporting period (‘000) |
|---|---------------------------------------|----------|---------------------------------|--|---|--|--|
| 00388.HK | Hong Kong Exchanges and Clearing Ltd. | HK\$ | 2,312 | 967,042 | 127,453 | 30.60 | (759) |
| 03988.HK | Bank of China Ltd. | HK\$ | 47,334 | 15,700,000 | 54,466 | 13.08 | (23) |
| 01288.HK | Agricultural Bank of China Ltd. | HK\$ | 32,323 | 10,000,000 | 38,400 | 9.22 | - |
| 00941.HK | China Mobile Ltd. | HK\$ | 20,034 | 271,000 | 24,457 | 5.87 | (230) |
| 02778.HK | Champion Real Estate Investment Trust | HK\$ | 31,755 | 6,164,000 | 22,684 | 5.45 | - |
| 00005.HK | HSBC Holdings plc | HK\$ | 20,412 | 248,617 | 20,168 | 4.84 | (327) |
| 00939.HK | China Construction Bank Corporation | HK\$ | 8,059 | 3,210,000 | 19,966 | 4.79 | - |
| V | Visa Inc | HK\$ | 2,049 | 54,361 | 7,659 | 1.84 | - |
| 00488.HK | Lai Sun Development Company Limited | HK\$ | 2,253 | 118,000,000 | 4,644 | 1.12 | 2,391 |
| 01125.HK | Lai Fung Holdings Limited | HK\$ | 2,271 | 116,000,000 | 3,098 | 0.74 | 827 |
| Other securities investments at end of period | | | 59,267 | N/A | 93,483 | 22.45 | (52) |
| Total | | HK\$ | 228,069 | N/A | 416,478 | 100.00 | 1,827 |

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

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

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Analysis on investments in foreign currency bonds

As at 31 December 2012, the Group had a balance of investments in foreign currency bonds of US\$5,098 million, among which US\$3,347 million was held by the Company and US\$1,751 million was held by WLB Group.

As at 31 December 2012, the investments in foreign currency bonds held by the Company are categorised as follows: 34.43% issued by the PRC government and Chinese companies; 9.11% by overseas governments and institutions; 39.22% by overseas banks and 17.24% by overseas companies. The Company has made a provision for impairment losses of US\$92 million for its investments in foreign currency bonds, with an evaluated unrealised floating profit of US\$94 million.

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

Carrying value and market value

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

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

| | 31 December 2012 | | 31 December 2011 | |
|-------------------------------------|------------------|---|------------------|-----------------------|
| | Carrying Value | Market/ Fair Value (In millions of RMB) | Carrying Value | Market/ Fair Value |
| Held-to-maturity listed investments | 173,850 | 173,941 | 144,754 | 146,739 |

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

Shareholdings in non-listed financial companies

| Name of companies | Initial investment ('000) | Shareholding percentage (%) | Shareholdings at end of period (shares) | Carrying value at end of period ('000) | Profits/(losses) for the reporting period ⁽¹⁾ ('000) | Changes in owners' equity for the reporting period ('000) | Origination of shares |
|---|---------------------------|-----------------------------|---|--|---|---|---|
| Wing Lung Bank Ltd. | 32,081,937 | 100.00 | 231,028,792 | 30,313,858 | 1,386,700 | 1,426,452 | Equity investment |
| CMB International Capital Corporation Ltd. | 250,520 | 100.00 | 250,000,000 | 250,520 | 63,754 | 66,837 | Ownership upon establishment by promotion |
| CMB Financial Leasing Co., Ltd. | 4,000,000 | 100.00 | N/A | 4,000,000 | 908,198 | 907,973 | Ownership upon establishment by promotion |
| China Merchants Fund Management Co., Ltd. | 190,914 | 33.40 | 70,000,000 | 285,309 | 28,740 | 9,262 | Equity investment |
| Taizhou Bank Co., Ltd. | 306,671 | 10.00 | 180,000,000 | 345,708 | – | – | Equity investment |
| China UnionPay Co., Ltd. | 155,000 | 3.75 | 110,000,000 | 155,000 | – | – | Equity investment |
| EPS Company (Hong Kong) Ltd. | HK\$8,400 | 2.10 | 2 | HK\$8,400 | – | – | Equity investment |
| Yantai City Commercial Bank Corporation Ltd. | 189,620 | 4.99 | 99,800,000 | 209,600 | – | – | Equity investment |
| Bank Consortium Holdings Ltd. | HK\$20,000 | 13.33 | 20,000,000 | HK\$54,752 | HK\$13,709 | HK\$42 | Equity investment |
| Joint Electronic Teller Services Ltd. | HK\$2,000 | 2.88 | 20,000 | HK\$8,808 | HK\$961 | – | Equity investment |
| Hong Kong Life Insurance Ltd. | HK\$70,000 | 16.67 | 70,000,000 | HK\$89,564 | HK\$12,752 | HK\$368 | Equity investment |
| BC Reinsurance Ltd. | HK\$21,000 | 21.00 | 21,000,000 | HK\$49,193 | HK\$13,559 | – | Equity investment |
| Professional Liability Underwriting Services Ltd. | HK\$810 | 27.00 | 810,000 | HK\$5,218 | HK\$2,243 | HK\$106 | Equity investment |
| Equity Underwriters Ltd. | HK\$2,173 | 40.00 | 1,580,000 | – ⁽²⁾ | – | – | Equity investment |
| I-Tech Solutions Limited | HK\$3,000 | 50.00 | 3,000,000 | HK\$2,875 | HK\$(266) | – | Equity investment |
| Hong Kong Precious Metals Exchange Ltd. | HK\$136 | 0.35 | 136,000 | HK\$136 | – | – | Equity investment |
| AR Consultant Service Ltd. | HK\$4,023 | 8.70 | 100,000 | HK\$7,248 | – | HK\$75 | 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 indicate the impact on the consolidated net profits of the Group for the reporting period.

2. In 2009, impairment losses on such investments were fully provided.

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5.3.1.3 Goodwill

In compliance with the PRC accounting principles, at the end of 2012, the Group took an impairment test on the goodwill arisen from the acquisition of WLB and decided that provision for impairment was not necessary. As at 31 December 2012, 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.

5.3.2 Liabilities

As at 31 December 2012, the total liabilities of the Group amounted to RMB3,207.712 billion, representing an increase of 21.97% as compared with the end of 2011, which was primarily due to a steady growth in deposits from customers, deposits from banks and other financial institutions, placements from banks and other financial institutions and proceeds from financial assets disposed for repurchase.

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

| | 31 December 2012 | | 31 December 2011 | |
|--|------------------|-------------------------|------------------|-------------------------|
| | Amount | Percentage in total (%) | Amount | Percentage in total (%) |
| (In millions of RMB, excluding percentages) | | | | |
| Deposits from customers | 2,532,444 | 78.95 | 2,220,060 | 84.41 |
| Deposits from banks and other financial institutions | 258,692 | 8.07 | 205,699 | 7.82 |
| Placements from banks and other financial institutions | 109,815 | 3.42 | 67,484 | 2.57 |
| Financial liabilities at fair value through profit or loss | 6,854 | 0.21 | 4,724 | 0.18 |
| Derivative financial liabilities | 2,745 | 0.09 | 1,469 | 0.06 |
| Financial assets disposed for repurchase | 157,953 | 4.92 | 42,064 | 1.60 |
| Payroll payable | 4,056 | 0.13 | 3,320 | 0.13 |
| Taxes payable | 6,679 | 0.21 | 7,112 | 0.27 |
| Interest payable | 24,065 | 0.75 | 16,080 | 0.61 |
| Bonds payable | 77,111 | 2.40 | 46,167 | 1.76 |
| Deferred income tax liabilities | 827 | 0.03 | 864 | 0.03 |
| Other liabilities | 26,471 | 0.82 | 14,918 | 0.56 |
| Total liabilities | 3,207,712 | 100.00 | 2,629,961 | 100.00 |

Deposits from customers

The Group has long focused on expanding its deposit business. In 2012, despite the intense competition from peers, the Group managed to maintain a steady growth in its deposits from customers through various effective measures. As at 31 December 2012, deposits from customers of the Group amounted to RMB2,532.444 billion, representing an increase of 14.07% as compared with the end of 2011. Deposits from customers accounted for 78.95% of the total liabilities of the Group and were the major funding source of the Group.

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

| | 31 December 2012 | | 31 December 2011 | |
|---|------------------|-------------------------|------------------|-------------------------|
| | Amount | Percentage in total (%) | Amount | Percentage in total (%) |
| (In millions of RMB, excluding percentages) | | | | |
| Deposits from corporate customers | | | | |
| Demand | 797,577 | 31.49 | 754,904 | 34.01 |
| Time | 809,364 | 31.96 | 661,866 | 29.81 |
| Subtotal | 1,606,941 | 63.45 | 1,416,770 | 63.82 |
| Deposits from retail customers | | | | |
| Demand | 524,970 | 20.73 | 456,688 | 20.57 |
| Time | 400,533 | 15.82 | 346,602 | 15.61 |
| Subtotal | 925,503 | 36.55 | 803,290 | 36.18 |
| Total deposits from customers | 2,532,444 | 100.00 | 2,220,060 | 100.00 |

As at 31 December 2012, the percentage of retail deposits to total deposits from customers of the Group was 36.55%, representing an increase of 0.37 percentage point as compared with the end of 2011.

In 2012, our customers tended to save more money as term deposits in anticipation of interest rate cuts, which led to a decrease of the percentage of demand deposits to total deposits from customers. As at 31 December 2012, the percentage of demand deposits to total deposits from customers of the Group was 52.22%, representing a decrease of 2.36 percentage points as compared with the end of 2011. Among the figures, the proportion of corporate demand deposits accounted for 49.63% of the corporate deposits, representing a decrease of 3.65 percentage points as compared with the end of 2011, and the proportion of retail demand deposits accounted for 56.72% of the retail deposits, representing a decrease of 0.13 percentage point as compared with the end of 2011.

5.3.3 Shareholders' equity

| | 31 December 2012 | 31 December 2011 |
|---|------------------|------------------|
| (In millions of RMB) | | |
| Paid-up share capital | 21,577 | 21,577 |
| Capital reserve | 37,508 | 37,508 |
| Investment revaluation reserve | 37 | 157 |
| Hedge reserve | (261) | 278 |
| Surplus reserve | 18,618 | 14,325 |
| Regulatory general reserve | 39,195 | 18,794 |
| Retained profits | 71,432 | 64,446 |
| Proposed profit appropriations | 13,593 | 9,062 |
| Difference arising from converting financial statements denominated in foreign currency | (1,265) | (1,150) |
| Non-controlling shareholder's equity | 73 | 13 |
| Total shareholders' equity | 200,507 | 165,010 |

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5.3.4 Market share of major products or services

According to the Statements of Credit Incomes and Expenditures of Financial Institutions published by the PBOC in December 2012, the market share and ranking of the Bank among the 31 national 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 | 10.95 | 1 |
| Total savings deposits | 18.42 | 1 |
| Total loans | 9.62 | 2 |
| Total personal consumption loans | 18.39 | 1 |

Note: From 2010, PBOC had applied new classifications for all financial institutions in the PRC based on their total assets in preparing the Statements of Credit Incomes and Expenditures of Financial Institutions, being large banks, national small and medium-sized banks and local small and medium-sized banks, etc. The national small and medium-sized 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, Evergrowing Bank, China Zheshang Bank, Bohai Bank, Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank, Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank and Bank of Chongqing.

5.4 Loan quality analysis

During the reporting period, the credit assets of the Group have seen steady growth in volume, constant optimisation of credit structure, slight rise in the non-performing loan ratio and high allowance coverage ratio. As at 31 December 2012, total loans and advances of the Group were RMB1,904.463 billion, representing an increase of 263.388 billion or 16.05%, as compared with the end of the previous year; the non-performing loan ratio was 0.61%, up by 0.05 percentage point as compared with the end of the previous year; whereas the allowance coverage ratio of non-performing loans was 351.79%, representing a decrease of 48.34 percentage points as compared with the end of the previous year.

5.4.1 Distribution of loans by 5-tier loan classification

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

| | As at 31 December 2012 | | As at 31 December 2011 | |
|---------------------------------------|---|-----------------------------|------------------------|-----------------------------|
| | Amount | Percentage of the total (%) | Amount | Percentage of the total (%) |
| | (In millions of RMB, excluding percentages) | | | |
| Normal | 1,873,280 | 98.37 | 1,614,941 | 98.41 |
| Special Mention | 19,489 | 1.02 | 16,961 | 1.03 |
| Substandard | 5,281 | 0.28 | 3,186 | 0.20 |
| Doubtful | 3,064 | 0.16 | 2,146 | 0.13 |
| Loss | 3,349 | 0.17 | 3,841 | 0.23 |
| Total loans and advances to customers | 1,904,463 | 100.00 | 1,641,075 | 100.00 |
| Total non-performing loans | 11,694 | 0.61 | 9,173 | 0.56 |

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Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. In 2012, with the impact of the changes in external operating environment, asset quality of the Group was under the threat of deterioration. However, the Group managed to prevent and control risks by taking proactive measures including accelerating the clearance and recovery of non-performing loans. As at the end of the reporting period, the non-performing loan ratio increased slightly by 0.05% as compared with the end of the previous year, which mainly arose from the increase in percentages of substandard loans and doubtful loans. However, thanks to the accelerated progress of writing off loss loans, the percentage of loss loans decreased slightly. As at the end of the reporting period, the proportion of the Group's special mention loans remained basically unchanged and recorded a drop of only 0.01 percentage point as compared with the end of the previous year.

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

| | As at 31 December 2012 | | | | As at 31 December 2011 | | | |
|--|------------------------|---------------------------------|-----------------------------|--|------------------------|---------------------------------|-----------------------------|--|
| | 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 | 1,152,837 | 60.54 | 8,404 | 0.73 | 994,041 | 60.57 | 7,395 | 0.74 |
| Working capital loans | 707,806 | 37.18 | 6,149 | 0.87 | 596,490 | 36.35 | 5,458 | 0.92 |
| Fixed asset loans | 277,737 | 14.58 | 680 | 0.24 | 282,995 | 17.24 | 999 | 0.35 |
| Trade finance | 100,804 | 5.29 | 650 | 0.64 | 69,333 | 4.22 | 497 | 0.72 |
| Others ⁽²⁾ | 66,490 | 3.49 | 925 | 1.39 | 45,223 | 2.76 | 441 | 0.98 |
| Discounted bills⁽³⁾ | 64,842 | 3.40 | - | - | 75,826 | 4.62 | - | - |
| Retail loans | 686,784 | 36.06 | 3,290 | 0.48 | 571,208 | 34.81 | 1,778 | 0.31 |
| Personal housing loans | 335,746 | 17.63 | 733 | 0.22 | 323,640 | 19.72 | 389 | 0.12 |
| Personal operating Loans | 182,012 | 9.56 | 822 | 0.45 | 90,429 | 5.51 | 149 | 0.16 |
| Credit card loans | 106,519 | 5.59 | 1,136 | 1.07 | 73,305 | 4.47 | 1,021 | 1.39 |
| Others ⁽⁴⁾ | 62,507 | 3.28 | 599 | 0.96 | 83,834 | 5.11 | 219 | 0.26 |
| Total loans and advances to customers | 1,904,463 | 100.00 | 11,694 | 0.61 | 1,641,075 | 100.00 | 9,173 | 0.56 |

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

(2) Consists primarily of other corporate loans such as financial leasing, merger and acquisition loans and corporate mortgage loans.

(3) The Company will transfer its overdue discounted bills to corporate loans for accounting purposes.

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

In 2012, in line with the shift in economic development mode in China, the Group actively made adjustments to its credit structure, leading to a decrease in fixed asset loans as a percentage to the Group's corporate loans. As for retail loans, the percentage of retail operating loans increased while that of personal housing loans decreased, thanks to the Group's effort in implementing its "small and micro-enterprise loan strategy. As at the end of the reporting period, the asset quality of the Group generally remained stable. The ratio of non-performing corporate loans was 0.73%, down by 0.01 percentage point as compared with the end of the previous year. As at the end of the reporting period, the ratio of non-performing retail loans was

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0.48%, up by 0.17 percentage point as compared with the end of the previous year, of which the ratios of non-performing personal operating loans and personal housing loans rose mainly because the repayment ability of certain individual entrepreneurs deteriorated due to domestic economic downturn as well as the impact of regulation and control over the real estate market.

5.4.3 Distribution of loans and non-performing loans by industry

| | As at 31 December 2012 | | | | As at 31 December 2011 | | | |
|---|------------------------|---------------------------|----------------------|--|------------------------|---------------------------|----------------------|--|
| | 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 | 1,152,837 | 60.54 | 8,404 | 0.73 | 994,041 | 60.57 | 7,395 | 0.74 |
| Manufacturing | 365,660 | 19.20 | 3,645 | 1.00 | 307,972 | 18.77 | 2,682 | 0.87 |
| Wholesale and retail | 226,440 | 11.89 | 2,462 | 1.09 | 169,491 | 10.33 | 1,713 | 1.01 |
| Transportation, storage and postal services | 143,064 | 7.51 | 484 | 0.34 | 140,950 | 8.59 | 958 | 0.68 |
| Property development | 101,951 | 5.35 | 638 | 0.63 | 112,818 | 6.87 | 824 | 0.73 |
| Production and supply of electric power, gas and water | 80,770 | 4.24 | 408 | 0.51 | 66,009 | 4.02 | 334 | 0.51 |
| Construction | 60,986 | 3.20 | 170 | 0.28 | 44,036 | 2.68 | 134 | 0.30 |
| Mining | 54,640 | 2.87 | – | – | 36,979 | 2.25 | – | – |
| Leasing and commercial services | 35,003 | 1.84 | 183 | 0.52 | 37,568 | 2.29 | 136 | 0.36 |
| Water, environment and public utilities | 29,772 | 1.56 | 1 | – | 33,752 | 2.06 | 1 | – |
| Information transmission, computer service and software | 12,548 | 0.66 | 93 | 0.74 | 10,726 | 0.65 | 70 | 0.65 |
| Others ⁽²⁾ | 42,003 | 2.22 | 320 | 0.76 | 33,740 | 2.06 | 543 | 1.61 |
| Discounted bills | 64,842 | 3.40 | – | – | 75,826 | 4.62 | – | – |
| Retail loans | 686,784 | 36.06 | 3,290 | 0.48 | 571,208 | 34.81 | 1,778 | 0.31 |
| Total loans and advances to customers | 1,904,463 | 100.00 | 11,694 | 0.61 | 1,641,075 | 100.00 | 9,173 | 0.56 |

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

(2) Consists primarily of agriculture, forestry, animal husbandry, fishery, accommodation and catering, health care, social security, social welfare, etc.

In 2012, the overall credit policy of the Group is “restricting loans to large and medium enterprises, increasing loans to small and micro enterprises, adjusting existing loan structure and making room for new loans to emerging, green and counter-cyclical industries and optimising loan portfolios”. The Group used its credit resources to support the development of real economy, granted credit facilities to high-value customers, actively pushed forward the adoption of a sustainable development business model for small and micro enterprises, promoted green credit, and put limitations on its loans to local government financing platforms and the real estate industry, prevented the risks associated with the steel trade, photovoltaic and shipbuilding industries which are identified as the “high pollution, high energy consumption and overcapacity” industries.

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During the reporting period, the new non-performing corporate loans of the Group were mainly related to two industries: manufacturing and distribution (including wholesale and retail), which in aggregate accounted for 67.91% of the new non-performing corporate loans.

5.4.4 Distribution of loans and non-performing loans by region

| | As at 31 December 2012 | | | | As at 31 December 2011 | | | |
|--|------------------------|---------------------------------|-----------------------------|--|------------------------|---------------------------------|-----------------------------|--|
| | Loan balance | Percentage of the total % | Non- performing loans | Non- performing loan ratio % ⁽¹⁾ | Loan balance | Percentage of the total % | Non- performing loans | Non- performing loan ratio % ⁽¹⁾ |
| (in millions of RMB, excluding percentages) | | | | | | | | |
| Head Office | 176,736 | 9.28 | 2,569 | 1.45 | 131,692 | 8.02 | 2,040 | 1.55 |
| Yangtze River Delta | 401,335 | 21.07 | 4,210 | 1.05 | 376,084 | 22.92 | 2,448 | 0.65 |
| Bohai Rim | 282,158 | 14.82 | 1,016 | 0.36 | 247,249 | 15.07 | 760 | 0.31 |
| Pearl River Delta and West Side of Taiwan Strait | 302,650 | 15.89 | 1,555 | 0.51 | 264,202 | 16.10 | 1,080 | 0.41 |
| North-east China | 104,387 | 5.48 | 373 | 0.36 | 95,552 | 5.82 | 323 | 0.34 |
| Central China | 209,435 | 11.00 | 1,024 | 0.49 | 180,229 | 10.98 | 1,145 | 0.64 |
| Western China | 249,786 | 13.12 | 619 | 0.25 | 210,829 | 12.85 | 1,068 | 0.51 |
| Overseas | 34,055 | 1.79 | 22 | 0.06 | 24,055 | 1.46 | 27 | 0.11 |
| Subsidiaries | 143,921 | 7.55 | 306 | 0.21 | 111,183 | 6.78 | 282 | 0.25 |
| Total loans and advances to customers | 1,904,463 | 100.00 | 11,694 | 0.61 | 1,641,075 | 100.00 | 9,173 | 0.56 |

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

In 2012, the Group flexibly adjusted its regional credit granting policies to allocate its credit resources scientifically. On one hand, the Group allocated more credit facilities to the central-western part of China with an aim to support the national strategy for the development of those regions. On the other hand, the Bank took the initiative to prevent the occurrence of regional risk through strict control over the grant of loans to the risk concentration regions. At the end of the reporting period, the percentage of the balance of loans extended to the central-western part of China increased while that for the Yangtze River Delta decreased by 1.85 percentage points. In 2012, as affected by the economic downturn, 69.89% of the increased non-performing loans of the Group occurred in the Yangtze River Delta, while the asset quality in other regions remained stable.

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

| | As at 31 December 2012 | | | | As at 31 December 2011 | | | |
|--|------------------------|---------------------------|----------------------|--|------------------------|---------------------------|----------------------|--|
| | 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) | | | | | | | | |
| Credit loans | 393,596 | 20.67 | 1,301 | 0.33 | 335,863 | 20.47 | 1,461 | 0.43 |
| Guaranteed loans | 457,914 | 24.04 | 4,299 | 0.94 | 397,218 | 24.20 | 3,485 | 0.88 |
| Collateralised loans | 807,496 | 42.40 | 5,506 | 0.68 | 697,758 | 42.52 | 3,623 | 0.52 |
| Pledged loans | 180,615 | 9.49 | 588 | 0.33 | 134,410 | 8.19 | 604 | 0.45 |
| Discounted bills | 64,842 | 3.40 | – | – | 75,826 | 4.62 | – | – |
| Total loans and advances to customers | 1,904,463 | 100.00 | 11,694 | 0.61 | 1,641,075 | 100.00 | 9,173 | 0.56 |

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

During the period of economic downturn, the Group emphasised risk prevention through various mitigation measures, including demanding more collateral. As at the end of the reporting period, the percentage of pledged loans increased by 1.30 percentage points as compared with the end of the previous year. The asset quality of credit loans remained satisfactory, with the value and ratio of non-performing loans decreasing as compared with the end of the previous year.

5.4.6 Loans to the top ten single borrowers

| Top ten borrowers | Industry | Loan balance as at 31 December 2012 (in millions of RMB) | % of net capital | % of total loans |
|-------------------|--|---|------------------|------------------|
| A | Transportation, storage and postal services | 6,096 | 2.42 | 0.32 |
| B | Transportation, storage and postal services | 5,000 | 1.98 | 0.26 |
| C | Wholesales and retail sales | 3,026 | 1.20 | 0.16 |
| D | Transportation, storage and postal services | 2,959 | 1.17 | 0.16 |
| E | Transportation, storage and postal services | 2,700 | 1.07 | 0.14 |
| F | Mining | 2,661 | 1.05 | 0.14 |
| G | Production and supply of electric power, gas and water | 2,656 | 1.05 | 0.14 |
| H | Transportation, storage and postal services | 2,640 | 1.05 | 0.14 |
| I | Leasing and commercial services | 2,492 | 0.99 | 0.13 |
| J | Transportation, storage and postal services | 2,440 | 0.97 | 0.13 |
| Total | | 32,670 | 12.95 | 1.72 |

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB6.096 billion, representing 2.42% of the Group's net capital. The loan balance of the top ten single borrowers totalled RMB32.67 billion, representing 12.95% of the Group's net capital and 1.72% of the Group's total loan balance respectively.

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5.4.7 Distribution of loans by overdue term

| | As at 31 December 2012 | | As at 31 December 2011 | |
|---------------------------------------|---|-------------------------------|------------------------|-------------------------------|
| | Amount | Percentage of total loans (%) | Amount | Percentage of total loans (%) |
| | (in millions of RMB, excluding percentages) | | | |
| Overdue within 3 months | 10,987 | 0.57 | 6,456 | 0.39 |
| Overdue more than 3 months | | | | |
| within 1 year | 4,550 | 0.24 | 1,005 | 0.06 |
| Overdue more than 1 year | | | | |
| within 3 years | 2,016 | 0.11 | 2,241 | 0.14 |
| Overdue more than 3 years | 3,847 | 0.20 | 3,919 | 0.24 |
| Total overdue loans | 21,400 | 1.12 | 13,621 | 0.83 |
| Total loans and advances to customers | 1,904,463 | 100.00 | 1,641,075 | 100.00 |

As at the end of the reporting period, overdue loans of the Group amounted to RMB21.40 billion, up by RMB7.779 billion from the end of the previous year and accounting for 1.12% of its total loans, representing an increase of 0.29 percentage point as compared with the end of the previous year. Among all the overdue loans, collateralised and pledged loans accounted for 60.68%, guaranteed loans accounted for 21.28%, while credit loans accounted for 18.04%, the majority of which were those overdue loans of credit cards.

5.4.8 Restructured loans

| | As at 31 December 2012 | | As at 31 December 2011 | |
|------------------------------|---|-------------------------------|------------------------|-------------------------------|
| | Amount | Percentage of total loans (%) | Amount | Percentage of total loans (%) |
| | (in millions of RMB, excluding percentages) | | | |
| Restructured loans | 1,060 | 0.06 | 1,298 | 0.08 |
| Of which: restructured loans | | | | |
| overdue for more | | | | |
| than 90 days | 553 | 0.03 | 662 | 0.04 |

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

The Group imposed strict and prudent control over restructuring of loans. As at the end of the reporting period, the percentage of the Group's restructured loans was 0.06%, a decrease of 0.02 percentage point as compared with that at the end of the previous year.

5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, total repossessed assets of the Group amounted to RMB974 million. After deduction of allowances for impairment losses of RMB913 million, net repossessed assets amounted to RMB61 million.

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5.4.10 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 would be recognised through profit or loss for the current period, as measured by the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable. Loans which were not considered individually significant and had not yet been identified as 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 a portfolio basis.

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

| | 2012 (in millions of RMB) | 2011 |
|---|------------------------------|--------|
| Balance at the beginning of the period | 36,704 | 29,291 |
| Charge for the period | 6,276 | 9,048 |
| Release for the period | (785) | (849) |
| Unwinding of discount on impaired loans ^(note) | (215) | (136) |
| Recovery of loans and advances previously written off | 65 | 65 |
| Write-offs | (891) | (583) |
| Transfers in/out | 13 | – |
| Foreign exchange rate movements | (29) | (132) |
| Balance at the end of the period | 41,138 | 36,704 |

Note: 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 in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans amounted to RMB41.138 billion, representing an increase of RMB4.434 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 351.79%, representing a decrease of 48.34 percentage points as compared with the end of the previous year; the loan allowance ratio was 2.16%, representing a decrease of 0.08 percentage point as compared with the end of the previous year.

5.5 Analysis of Capital Adequacy Ratio

As at 31 December 2012, the capital adequacy ratio and core capital adequacy ratio of the Group were 12.14% and 8.49% respectively, representing an increase of 0.61 percentage point and 0.27 percentage point respectively as compared with those at the beginning of the year, while the capital adequacy ratio and core capital adequacy ratio of the Bank were 11.73% and 8.86% respectively, representing an increase of 0.45 percentage point and 0.12 percentage point respectively as compared with those at the beginning of the year. In 2012, benefiting from the strong capacity for endogenous growth, the capital adequacy ratio and core capital adequacy ratio of the Bank and the Group further increased as compared with the beginning of the year. As at the end of 2012, risk-weighted assets of the Group increased by 17.99% as compared with the end of 2011, a lower growth than that of our total assets.

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

| | As at 31 December 2012 (in millions of RMB) | As at 31 December 2011 |
|---|--|------------------------------|
| Core capital | | |
| Paid-up ordinary share capital | 21,577 | 21,577 |
| Reserves | 166,469 | 134,771 |
| Total core capital | 188,046 | 156,348 |
| Supplementary capital | | |
| General provisions for loans and advances | 32,846 | 29,251 |
| Term subordinated debts | 44,152 | 30,000 |
| Other supplementary capital | 114 | 255 |
| Total supplementary capital | 77,112 | 59,506 |
| Total capital base before deductions | 265,158 | 215,854 |
| Deductions: | | |
| Goodwill | 9,598 | 9,598 |
| Investments in unconsolidated subsidiaries and other long-term investment | 1,691 | 1,589 |
| Investments in commercial real estate | 1,638 | 1,710 |
| Total capital base after deductions | 252,231 | 202,957 |
| Risk-weighted assets | 2,077,755 | 1,760,884 |
| Core capital adequacy ratio | 8.49% | 8.22% |
| Capital adequacy ratio | 12.14% | 11.53% |

5.6 Segment Operating Results

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

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

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Business segments

The main businesses of the Group are wholesale banking business, retail banking business and financial market business. The following table summarizes the operating results of the business segments of the Group for the periods indicated.

| Items | January-December 2012 | | January-December 2011 | |
|---|------------------------------|----------------|------------------------------|----------------|
| | Profit before tax by segment | Percentage (%) | Profit before tax by segment | Percentage (%) |
| (in millions of RMB, excluding percentages) | | | | |
| Wholesale banking business | 44,190 | 74.19 | 36,507 | 77.47 |
| Retail banking business | 18,707 | 31.40 | 14,088 | 29.90 |
| Financial market business | (2,759) | (4.63) | (2,842) | (6.03) |
| Other businesses | (574) | (0.96) | (631) | (1.34) |
| Total | 59,564 | 100.00 | 47,122 | 100.00 |

During the reporting period, the percentage of profit from retail banking business of the Group further increased. Profit before tax amounted to RMB18.707 billion, up by 32.79% over the previous year, representing 31.40% of the total profit before tax, an increase of 1.50 percentage points as compared with the same period of the previous year. At the same time, cost-to-income ratio of retail banking business (excluding operation tax and surcharges) decreased to 48.76%, a decrease of 5.05 percentage points as compared with the same period of the previous year.

Geographical segments

The major outlets of the Group are located in economically developed regions and large cities in China. The following table sets forth the segment results of the Group by geographical location in the periods indicated.

| | Total Assets 31 December 2012 | | Total Liabilities 31 December 2012 | | Total Profit 2012 | |
|--|----------------------------------|----------------|---------------------------------------|----------------|----------------------|----------------|
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| (in millions of RMB, excluding percentages) | | | | | | |
| Head Office | 1,275,164 | 37 | 1,138,797 | 36 | (881) | (1) |
| Yangtze River Delta | 447,120 | 13 | 436,498 | 14 | 14,172 | 24 |
| Bohai Rim | 310,429 | 9 | 301,591 | 9 | 11,798 | 20 |
| Pearl River Delta and West Side of Taiwan Strait | 460,229 | 14 | 450,917 | 14 | 12,423 | 21 |
| North-eastern China | 119,457 | 4 | 117,013 | 4 | 3,257 | 5 |
| Central China | 242,866 | 7 | 237,551 | 7 | 7,105 | 12 |
| Western China | 273,931 | 8 | 267,868 | 8 | 8,117 | 13 |
| Overseas | 76,043 | 2 | 75,700 | 2 | 568 | 1 |
| Subsidiaries | 202,980 | 6 | 181,777 | 6 | 3,005 | 5 |
| Total | 3,408,219 | 100 | 3,207,712 | 100 | 59,564 | 100 |

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| | Total Assets 31 December 2011 | | Total Liabilities 31 December 2011 | | Total Profit 2011 | |
|---|----------------------------------|--|---------------------------------------|-------------------|----------------------|-------------------|
| | Amount | Percentage (%) (in millions of RMB, excluding percentages) | Amount | Percentage (%) | Amount | Percentage (%) |
| Head Office | 1,059,543 | 38 | 951,393 | 36 | (6,743) | (14) |
| Yangtze River Delta | 393,691 | 14 | 383,458 | 15 | 13,643 | 29 |
| Bohai Rim | 274,620 | 10 | 266,715 | 10 | 10,545 | 22 |
| Pearl River Delta and West Side of Taiwan Strait | 322,628 | 11 | 314,040 | 12 | 11,372 | 24 |
| North-eastern China | 108,851 | 4 | 106,714 | 4 | 2,849 | 6 |
| Central China | 190,155 | 7 | 185,660 | 7 | 5,997 | 13 |
| Western China | 223,127 | 8 | 217,964 | 8 | 6,887 | 15 |
| Overseas | 53,225 | 2 | 52,954 | 2 | 456 | 1 |
| Subsidiaries | 169,131 | 6 | 151,063 | 6 | 2,116 | 4 |
| Total | 2,794,971 | 100 | 2,629,961 | 100 | 47,122 | 100 |

5.7 Other Information

5.7.1 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 leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and contingent liabilities. Credit commitments are the most important component. As at the end of 2012, the balance of credit commitments was RMB725.317 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.

5.7.2 Outstanding overdue debts

As at the end of 2012, the Group did not have any outstanding overdue debts.

5.8 Business Development Strategies

5.8.1 Second Transformation

In 2010, the Company started implementing the "Second Transformation" strategy in a bid to accelerate the transformation into an organic and intensive development model, and identified five major objectives, i.e. higher capital utilisation efficiency, stronger loan risk pricing capability, higher operating efficiency, larger proportion of high-net-worth customers and better risk control. Despite the volatile and complicated external environment in 2012, the Company continued to press forward with the "Second Transformation" and achieved remarkable results.

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Capital utilisation efficiency continued to rise. As at 31 December 2012, the capital adequacy ratio of the Company was 11.73%, representing an increase of 0.45 percentage point as compared with the beginning of the year. The core capital adequacy ratio was 8.86%, representing an increase of 0.12 percentage point as compared with the beginning of this year. The return on average equity (ROAE) was 22.89%, representing an increase of 0.82 percentage point as compared with the previous year. The risk adjusted return on capital (RAROC, profit after tax) was 22.65%, representing an increase of 0.15 percentage point as compared with the previous year.

Risk pricing of loans remained stable. In 2012, the floating range of weighted average interest rates of newly granted corporate loans in RMB (weighted at actual amounts, same as below) decreased by 0.89 percentage point to 11.80% as compared with the previous year. The floating range of weighted average interest rates of newly granted retail loans in RMB increased by 0.95 percentage point to 22.95% as compared with the previous year.

Operational efficiency continued to improve. As at 31 December 2012, the cost-to-income ratio of the Company was 36.15%, representing an increase of 0.05 percentage point as compared with the previous year; profit before tax per person was RMB1.21 million (calculated with the same statistical calibres), representing an increase of 18.63% as compared with the previous year; profit before tax per outlet was RMB60.89 million, representing an increase of 16.83% as compared with the previous year.

The proportion of high-net-worth customers increased continuously. As at 31 December 2012, the Company's sunflower-level or above customers increased by 16.33% as compared with the beginning of the year; the number of private banking customers increased by 18.34% as compared with the beginning of the year.

Overall asset quality remained stable. As at 31 December 2012, the allowance coverage ratio of our non-performing loans was 352.47%, representing a decrease of 52.24 percentage points as compared with the end of the previous year, and the non-performing loan ratio of the Company was 0.65%, representing an increase of 0.07 percentage point as compared with the end of the previous year, while the percentage of special mention loans to the total was 1.04%, which was on par with that at the end of the previous year. The percentage of credit cost was 0.31%, a decrease of 0.24 percentage point as compared with the end of the previous year. Affected by the macro-economic downturn, enterprises are facing mounting risks in their operation, which accelerated the occurrence of non-performing and special mention loans. In response, the Company took timely and effective risk management and control measures so as to ensure that the overall risk is under control.

5.8.2 Small and micro enterprises strategy

The small and micro enterprises strategy is an important choice made by the Company in response to the external environment, restrictive conditions and changes in market demand. In respect of challenges from the external environment, the strategy is the urgent requirement from financial disintermediation and interest rate liberalisation. In response to narrowing interest spread, banks must strive to raise the pricing of their assets, and developing small and micro enterprise businesses will be an important breakthrough. In respect of the restrictive conditions, the strategy is also the urgent requirement from higher capital efficiency and market value. Small and micro enterprise businesses have the significant characteristics of "low capital consumption and high returns" as compared with large and medium enterprises business. In respect of market requirement, it is also the urgent requirement for the Company to seize the opportunity arising from economic transformation. With so great a number of small and micro enterprises in China and so huge a funding gap among them, the financial service for small and micro enterprises was just at its initial stage of development, and it would have great potential.

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Therefore, the Company proposed the development strategy of focusing on small and micro enterprise businesses, adjusting the structure of credit assets, establishing professional operation system, and building up the financial service brand for small and micro enterprises. Meanwhile, the Company carried out a series of measures to execute the strategy, including accelerating the reform of its wholesale banking business line, identifying enterprises each with a credit exposure of RMB5 million or below as small and micro enterprises and integrating them into retail banking business line, so as to adapt to the small and micro enterprises development strategy.

According to the bank's statistics, as of 31 December 2012, balance of the Company's loans to small and micro enterprises totalled RMB417.629 billion, representing an increase of RMB190.167 billion or 83.60% over the beginning of the year, and accounted for 24.99% of domestic general loans (excluding discounted bills), representing an increase of 9.16 percentage points over the beginning of the year, of which: balance of the small enterprises loans amounted to RMB240.49 billion, up by 70.54% as compared with the beginning of the year, and the proportion of small enterprises loans to domestic corporate loans reached 24.06%, representing an increase of 8.04 percentage points as compared with the beginning of the year; balance of micro enterprises loans amounted to RMB177.139 billion, up by 104.91% as compared with the beginning of the year, and the proportion of micro enterprises loans to total retail loans reached 26.36%, representing an increase of 10.84 percentage points as compared with the beginning of the year.

To develop its small and micro enterprise business, the Company will leverage on its strength in product innovation to promote the development of products in batches, and make full use of its comprehensive advantage in retail banking business, so as to innovate new business model, establish core brand and fully extend its competitive strength in the market. In respect of the risk and cost control of small and micro enterprise businesses, the Company will adopt a series of measures including optimisation of operation procedures, establishment of assessment systems in a scientific way, continual innovation in branded products and risk management models, improvement in post-loan management system, and enhancement of business synergy.

5.9 Core Competitive Strengths

1. Leading retail banking and emerging wholesale banking businesses

The Company took a leading position in retail banking business at an early stage. It continued accelerating reform and innovation, and formed systematic competitive strengths in various aspects such as products, customers, channels, brands, services and human resources, as a result, all its key performance indicators (including profit contribution, proportion of high-net-worth customers, counter replacement ratio in respect of e-banking and average balance per card) ranked at the top among competitors. As at 31 December 2012, the proportion of profit before tax from retail banking business to profit before tax of the Company reached 32.78%. The balance of total assets under management of the Company from Sunflower customers or above amounted to RMB1,672.0 billion, an increase of 16.40% from the end of the previous year, accounting for 70.24% of the total balance of retail customers' assets under management of the Company. Average balance per All-in-one card amounted to RMB10,500.

The Company's emerging wholesale banking businesses, such as cash management, assets custody and investment banking, continued to achieve a steady growth, and gained competitive advantages in the market. As at 31 December 2012, the annual intermediary business income from cash management amounted to RMB856 million, representing an increase of 55.58% as compared with the previous year. Income from assets custody business amounted to RMB654 million, representing an increase of 28.24% as compared with the previous year. The underwriting amount of debt financing instruments of our investment banking business amounted to RMB132.665 billion, representing an increase of 12.91% as compared with the previous year, and there were 164 bonds underwritten by the Company, representing an increase of 29.13% as compared with the previous year.

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2. Steadily improved business structure and customer base

The Company continually improved and adjusted its operating strategies, which gave the Company significant advantage in terms of business structure. In 2012, the proportion of net non-interest income of the company in net operating income was 21.25%, up by 1.30 percentage points as compared with the previous year. Meanwhile, with further adjustment in business structure, the customer base of the Company was continuously optimised, and the proportion of high-net-worth customers was steadily increased. As at 31 December 2012, the total number of retail customers of the Company was 53.83 million, of whom, the total number of Sunflower customers or above was 911,100, with a growth of 0.13 percentage point as compared with the end of the previous year. Their total deposit balance was RMB385.6 billion. The Company boasts 480,700 corporate depositors and 35,200 corporate borrowers, among which, 64,988 were high value wholesale customers, representing an increase of 18.52% as compared with the end of the previous year.

3. Innovative e-channels and IT platform

The Company attached high importance to the innovation and perfection of its e-channels, continuously innovated the functions of online banking and direct banking as effective supplements to our physical channels, and proactively explored the development of mobile finance service. Leveraging on the “cement + mouse + thumb” business development model for the mobile internet era, the Company initiated the mobile finance online portal in China, proposed the concept of “one-stop open platform for mobile banking”, and launched mobile wallet service in both full terminal mode and SIM card mode. As a result, the number of downloads made by mobile banking users and iPad banking users ranked forefront in the industry, which helped the Company maintain its leading position in customers experience and expanded products and services coverage with high level of customer recognition. As at 31 December 2012, the overall counter replacement ratio in respect of retail e-banking channels reached 90.66%; the settlement replacement ratio of online corporate banking transactions reached 88.47%. Meanwhile, the Company had been putting technology at the core of its development strategy since its inception, and provided strong support for financial innovation through continuous technological innovation. The Company was devoted to building an information system that is safe and reliable, efficient, green and sustainable, and became the first domestic bank to combine information safety management with IT service management, and the first domestic bank to pass ISO27001 and ISO20000 certifications in one examination.

4. Industry benchmark of high quality services

The Company boasted unique service models since its inception and established the service philosophy of “we are here just for you” through years of practice in banking business. The Company leads the industry in terms of outlet design, channel establishment, service procedures and professionalism of relationship managers. “Excellent service”, as one of the core elements in our competitiveness, has become the tag of the Company and the signature brand image to attract customers and expand market. During the reporting period, 58 outlets of the Company received the awards of “2012 Top 1000 Banking Service Role Models”, representing an increase of 6 outlets than the previous year. The growth rate in itself ranks at the top among its peers.

5. Rapidly developing cross-border finance platform

The Company enriched “Cross-Border Finance” brand with three products, namely “Shang Mao Tong (商貿通)”, “Zi Ben Tong (資本通)” and “Cai Fu Tong (財富通)”, which leveraged on its cross-border coordination structure consisting of onshore, offshore and overseas branches (i.e. the “three-in-one” structure) plus overseas correspondent bank network (i.e. the “3+1” mode). Within the structure, the Company managed to integrate internal resources to develop featured products, innovate new service models and improve operating system. Thanks to coordinated systems that bridge onshore and offshore transactions, domestic and international operations, Renminbi and other currencies, the Company forged a competitive edge in cross-border financial services. As at 31 December 2012, the Company’s income from cross-border corporate coordination business reached RMB2.616 billion, representing an increase of 26.87% as compared with the previous year.

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6. Continuously enhanced brand influence

The Company built up “CMB” as an excellent financial brand by making sustained product technology innovation, offering high quality services, generating steady operational results and advanced management concepts. Since its inception, the Company kept enhancing its brand influence and the brand value was rapidly increased. The Company ranked 498th among the 2012 Fortune Magazine Top 500 Global Companies. The Company ranked 56th among the WORLD’S TOP 1,000 BANKS (in terms of Tier-1 capital held by banks in 2011) as released by *The Banker*, an authoritative financial magazine in the United Kingdom. The Company ranked 14th among the BrandZ Most Valuable Chinese Brands for 2012 as released by Millward Brown with brand value of US\$6.8 billion, and ranked 5th among the domestic banking institutions, only after the Big Four state-owned banks. At the Sixth Market Value Management high-level Forum for Chinese Listed Companies, the Company received three awards, namely the “2012 Top 100 Chinese Listed Companies with Most Capital Brand Value” with capital brand value of RMB96.16 billion (ranked 1st), the “2012 Top 100 Chinese Listed Companies in Terms of Market Value Management” and the “2012 Top 100 Chinese Listed Companies with Most Capital Brand Premium”.

5.10 Operating Environment, the Impact of Changes in Macroeconomic Policies and Key Business Concerns

In 2012, domestic GDP growth and inflation rate went downwards due to combined effects of lingering European debt crisis, substantial slow-down of the global economy and structural adjustment policies such as those on the domestic real estate market. As a result, it is a priority to maintain steady growth. While carrying out sound monetary policies, the PBOC made anticipatory adjustments and frequent fine-tunings, and twice reduced the deposit reserve ratio and the benchmark interest rates for deposit and loan while actively carrying forward interest rate liberalisation. Though the increment of credit extended by financial institutions was generally in line with our expectation, liquidity pressure further built up as financial disintermediation progressed and the money supply backed by funds outstanding for foreign exchange declined.

Facing with significant changes in the macro-economic environment, the Company continued to implement the Second Transformation strategy and actively optimised its asset-liability structure and customer base to mitigate the adverse impacts from the external environment. As a result, our operating scale grew steadily with assets quality under control and the operating profits increased stably with all the business lines developed in a balanced way.

1. Proactive responses to the interest rate reduction and interest rate liberalisation

In 2012, the Company further pressed on with its strategic transformation and made adjustments to its asset-liability structure and business mix. Firstly, the Company adjusted loan portfolio by focusing on small and micro enterprises, and adjusted retail loan portfolio based on the market conditions by increasing the proportion of non-housing loans. As at 31 December 2012, non-housing loans (including credit cards) granted in RMB accounted for 51.16% of retail loan portfolio, representing an increase of 7.84 percentage points as compared with the previous year. Secondly, the Company continued to strengthen management of loan pricing in order to improve risk pricing capability and return on loans. Thirdly, the Company extended the duration of loans, and also expand floating interest rates liabilities, while continued to expand off-balance-sheet hedging operations and further stabilize the growth in net interest income. Fourthly, in response to interest rate liberalisation, the Company explored differential deposit pricing strategy based on the overall contribution of customers. In 2012, the Company achieved a net interest margin of 3.10%, representing a decrease of 5BP, thus maintained a relatively steady net interest margin under the adverse circumstance of lower interest rate and interest rate liberalisation.

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In future, China's interest rate liberalisation will be deepened and domestic banks will encounter fiercer pricing competition. As a result, interest spreads between deposits and loans will be narrowed to a certain degree. In response to such changes, the Company will continue to enhance its effort in off-balance-sheet hedging to raise the proportion of fixed-rate loans in newly granted RMB loans, and consolidate its advantages in liability cost by attracting low-cost deposits with innovative products and services. In addition, the Company will further deepen business transformation that focuses on small and micro enterprise businesses, raise risk pricing capability, increase the proportion of intermediary business, deepen management reform, process re-engineering, cost management, enhance capital efficiency and return on equity, so as to steer the operation to a more intensive and efficient path.

2. Process optimization and resources integration

China's banking industry will become mature as its domestic economy entered into a stage of stable growth. Specialized and intensified management is set to be inevitable for the transformation of CMB, which signifies that CMB will have to transform its operational management model into the specialized operating model while maintaining its basic regional operating model, and that CMB will improve its operating efficiency by establishing a resource-sharing model among the front, middle and back offices, so as to strengthen its specialized and intensified management while adhering to regional operation. In view of this respect, the Company proposed and implemented the project in respect of process optimization and resources integration and determined the key areas and improvements for the bank-wide process optimization.

The project in respect of process optimization and resources integration fixed on "specialized retail and wholesale banking business lines, intensified back operation and synergic risk management" as the orientation of overall process optimization, on which the targets of "Second Transformation" were integrated to promote the process optimization and transformation among seven sectors. The Company enhanced its marketing accuracy through intensifying the coordination between marketing and selling processes among different channels; offered differentiated and specialized customer services by conducting specialized operation of its products and customers so as to rally the selling efficiency and the value contribution of its customers; improved research and development efficiency and the capacity of response to market through consolidating resources for product research and development; and achieved a truly intensified and specialized operation by centralizing counter process and back-counter operation.

3. Assets quality of key areas

In 2012, the Company stressed on strict compliance of its risk policy, strived to build a counter-cyclical asset structure, enhanced the management of risk limits and exposure and prevented the occurrence of credit risk in key areas. In respect of loans to local government financing platforms, the Company strictly followed the regulatory policies, further promoted the rectification work on loans to local government financing platforms, implemented list management and quota management, strengthened the exit mechanism, realising a decrease in total loans extended to local government financing platforms and stability in loan quality. As at the end of December 2012, balance of loans extended to local government financing platforms amounted to RMB90.456 billion, representing a decrease of RMB23.727 billion or 20.78% as compared with the end of the previous year and accounting for 5.14% of the total loans granted by the Company, down by 2.32 percentage points as compared with the end of the previous year, and its assets quality remained stable with a non-performing loan ratio of 0.17%. In respect of loans to the real estate market, the Company earnestly carried out the State's policies on real estate control and regulation, based on the general principle of "reducing total loan amount, adjusting existing loans and controlling the grant of new loans", carefully selected real estate projects, implemented quota management, and strengthened closed-off management on real estate development loans. As at the end of the reporting period, the balance of our corporate loans to the real estate market was RMB73.958 billion, representing a decrease of RMB11.773 billion as compared with the end of the previous year and accounting for 4.20% of the Company's total loans, down by 1.40 percentage points as compared with the end of the previous year, and its non-performing loan ratio was

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0.74%, the same level as that at the end of the previous year. During the reporting period, risks associated with the industries of PV and steel trade increased due to sharp decline in external demand and decrease in product prices. Substantial losses were recorded in these industries which resulted in an increase in the non-performing loan ratio. To cope with this situation, the Company carried out risk investigation on each of its customers and worked out specific risk control measures for each of them and gradually reduced credit facility to those risk-concentrated industries. For regions with high credit risk concentration such as Zhejiang, on one hand, the Company timely adjusted its regional credit policy, raised the minimum requirements for loans granted and slowed down the pace of loan granting, on the other hand, the Company enhanced risk pre-warning and inspection and reduced the loans with high risks so as to keep regional risks under control. As regards to retail banking business, with the diversified development of non-mortgage retail banking businesses, certain businesses have become matured and may be gradually exposed to risk. The Company, by establishing an integrated post-loan risk management system for loan warning and collection, prevented and controlled retail portfolio risk. As at the end of the reporting period, the non-performing loan ratio of retail loans was 0.48%, maintaining at a low level. As at the end of the reporting period, the risks on loans to the above key areas were generally controllable, and will not have a significant impact on the quality of the Company's assets.

4. Loan-to-deposit ratio and liquidity management

In 2012, regardless of the two cuts of deposit reserve ratio, commercial banks still faced pressure on loan-to-deposit ratio and liquidity management due to intensified competition and diversion of deposits by wealth management products. Counter measures adopted by the Company included: (1) prioritised the regulatory requirements on loan-to-deposit ratio and achieved coordinated growth in deposits and loans through better planning and allocation, assets and liability management, budget management and capital management; (2) under the business principle of deposit sources deciding utilisation, optimised the incentive systems for the branches to guide their deposits marketing so as to ensure a stable growth in deposits business; (3) leveraged on tools such as management accounting to analyse the growth potential of deposits from different types of customers, and used the results to guide branches to adjust the customer structure; and (4) strictly implemented regulatory requirements on credit granting to keep the scale and speed of loans release at an appropriate level and in accordance with planning. The above mentioned measures ensured constant compliance of the loan-to-deposit ratio with regulatory requirements. As at 31 December 2012, the Company's customer deposits increased by RMB299.537 billion, representing an increase of 14.08%; the loan-to-deposit ratio was 71.37%, down by 0.43 percentage point over the previous year; the Renminbi liquidity ratio was 52.29%, increasing by 8.01 percentage points over the previous year.

In future, the People's Bank of China tends to regulate liquidity mainly through open market operations. Consequently, unless there is a threat of large-scale cross-border capital flows, the deposit reserve rate is expected to remain basically stable. The Company will further study and analyse monetary policies so as to have a better understanding of policies and market trends and strengthen liquidity management.

5. Capital management

In 2012, the Company focused on improving capital measurement, optimising the allocation of economic capital, and strengthening capital control. As a result, our capital strength was further enhanced and our capital efficiency improved steadily. As at 31 December 2012, the proportion of the Company's risk weighted assets was 60.27%, representing 2.35 percentage points down as compared with that at the beginning of this year; the capital adequacy ratio was 11.73%, and the core capital adequacy ratio was 8.86%, representing an increase of 0.45 percentage point and 0.12 percentage point respectively, as compared with that at the beginning of this year. In 2012, return on risk weighted assets (RORWA) of the Company was 2.38%, 0.10 percentage point higher than that of the previous year.

In future, the Company will take the opportunity of "Measures for the Management of Capital of Commercial Banks (Trial Version)" (商業銀行資本管理辦法(試行)) to further improve risk identification and measurement,

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optimise allocation of internal capital and strengthen capital performance management, and thus improving the guidance of economic capital return on its business and optimising assets and profit structures. Meanwhile, the Company will continue to carry forward asset securitisation and the issuance of innovative capital instruments to expand capital sources and optimise its capital structure.

6. Net non-interest income

In 2012, the Company managed to overcome the impacts of tightened regulatory policies and found opportunities amidst challenges by actively expanding its wealth management and bills businesses, which resulted in a rapid growth in net non-interest income. In 2012, the Company realised a net non-interest income of RMB23.042 billion, representing an increase of RMB4,612 million or 25.02% as compared with the previous year. The proportion of net non-interest income in our net operating income was 21.25%, up by 1.30 percentage points as compared with the previous year. Of which, fees and commission income from wealth management services amounted to RMB6,290 million, representing a year-on-year increase of 33.55% (a breakdown of these fees and commission income is as follows: income from entrusted wealth management amounted to RMB1,853 million, representing a year-on-year increase of 30.40%; income from distribution of third-party trust plans amounted to RMB1,868 million, representing a year-on-year increase of 120.80%; income from distribution of third party insurance policies amounted to RMB1,423 million, representing a year-on-year increase of 37.89%; income from distribution of mutual fund amounted to RMB1,146 million, representing a year-on-year decrease of 2.88%; and bills spread income amounted to RMB2,766 million, representing a year-on-year increase of 54.44%. In addition, income from bank card fees amounted to RMB5,745 million, representing a year-on-year increase of 34.10%; and income from settlement and clearing fees amounted to RMB2,199 million, representing a year-on-year increase of 8.22%.

In 2013, by consolidating its existing competitive edges such as wealth management business, the Company will give full play to its strengths in cross-border, cross-platform and cross-market transactions and vigorously develop emerging businesses including annuity finance, precious metals, cross-border Renminbi clearing and settlement, asset custody, investment banking, cash management, etc., so as to nurture the growth of new businesses and maintained a sustained and rapid growth in net non-interest income.

7. Wealth management

As the reform of interest rate liberalisation progressed in China and the regulatory authorities continued to toughen its regulatory requirements on the clear accounting, liquidity risk and credit risk of wealth management business of banks, the Company concentrated its efforts on the development of net-value products and structured wealth management products, and continued to explore market demands and improve investment returns, thus laying a solid foundation for the transformation of its wealth management business in 2012. In 2012, the Company successively launched various wealth management products including "Zhao-zhao Jin (朝招金)", "Rui Yuan (睿遠)", "Private Arbitrage (私人套利)", "A-share Index Links (A股指數掛鉤)", etc. As at the end of 2012, the balance of net-value products was RMB24.5 billion, representing an increase of 457% over the previous year; the balance of structured wealth management products was RMB7.8 billion, representing an increase of 725% over the previous year.

As for accounting, the principal of customer and income of the Company's wealth management products were separately accounted for independent treatment. In addition, from 2012 onward, the Company has commenced to put all its off-balance-sheet wealth management products under custody.

As regards to liquidity management, on the liability front, the Company proactively followed up the launch of relevant products, flexibly determined the launch times and appropriately adjusted the liability volume of its wealth management business, so as to ensure that the overall liquidity risks were kept under control. On the assets front, the Company took various approaches including optimising the portfolios and durations of its assets to mitigate liquidity risks. As at the end of 2012, the high-liquidity assets including bonds, deposits in other financial institutions and short-term lending accounted for 70% of the Company's wealth management assets; the assets due within one year accounted for 52%.

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As to credit risk management, the Company primarily invested in the assets with high ratings, high credit standings and low risks. Our bond assets are composed mainly of high credit rating bonds, bonds of AA+ or above accounting for 93.8%. The bond issuers are principally from basic sectors like manufacturing, electric power, mining and transportation. The proportion of high-risk industries such as the real estate is extremely low. Among all the bond issuers, central and local state-owned enterprises accounted for 95.8%. In 2012, there were no defaults in the investments held by the Company's wealth management business, and all its wealth management products received secured payment on expiry.

8. Cost-to-income ratio

In recent years, the banking industry has experienced a slowing growth of revenue due to narrowing interest margins. In order to support the strategic outlet opening plan and the upgrading of core systems so as to maintain its competitive edge, the Company continued to make investments in personnel, premises and equipments. In addition, the rising commodity prices and other factors also led to substantial growth in costs and expenses, putting extra pressure on the cost management and cost efficiency of the Company.

Facing a changing business environment and the pressure on cost management, the Company plans to enhance its cost efficiency by taking the following approaches: promoting the project-based cost management, improving the input-output assessment system; strengthening the constraint on expense budget to stringently control financial expenditure; improving the evaluation and compensation mechanism to increase the efficiency of labour cost; carrying out centralised procurements to reduce procurement spending through economies of scale; and quantifying the outlet opening model to optimise the allocation of resources.

5.11 Business Operations

5.11.1 Retail banking

Business overview

In 2012, the Company enhanced product and service innovation, promoted refined management and process optimisation, enhanced channel coordination and resources integration, accelerated the development of the customer groups management system and formulated the management strategies for different groups of customers. In addition, the Company continuously fostered the core competitive edge of its major businesses such as wealth management, private banking, credit cards and pension finance, vigorously developed the small and micro enterprise loan business, and launched a full range of products and a comprehensive service platform for small and micro enterprise loan business. As a result, the Company achieved a rapid growth in its retail banking business, further improved its market competitiveness and made substantial progress in the Second Transformation of retail banking business.

In 2012, the number of high-value customers of retail banking of the Company continued to record a rapid growth, witnessing a further improved structure. Specifically, the Company newly attracted 127,900 Sunflower-level or above customers in the year, representing a year-on-year increase of 14,800 or 16.33% as compared with the beginning of the year. The wealth management business of the Company maintained a rapid and steady growth. The Company was in the forefront among domestic banks in terms of both new sales and stock of funds; the agency insurance sales and commission income ranked the first among all domestic small and medium-sized banks and the fifth nationwide next only to the Big Four (according to the statistics for national insurance industry). In addition, sales of wealth management products and precious metals continued to maintain a rapid growth. As a result, deposits and loans grew steadily. Our retail deposits increased by RMB112.476 billion and its balance reached RMB863.77 billion, accounting for 35.60% of total deposits from customers. Among which, foreign currency deposits increased by US\$1,211 million and its balance reached US\$5,271 million. The balance of total retail loans recorded RMB671.90 billion, accounting for 38.16% of total loans to customers, representing an increase of RMB114.965 billion as compared with the beginning of the year. According to the data released by the People's Bank of China, the Company ranked the first among domestic small and medium-sized banks in terms of both the balance

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and increase of retail deposits, among which, the Company ranked the first among domestic banks in terms of the increase of foreign currency deposits; ranked the fifth among all domestic banks in terms of the balance and increase of retail loans, next only to the Big Four state-owned commercial banks, among which, the Company ranked the first among domestic banks in terms of the growth amount and growth rate in personal operating loans in the year.

In 2012, profit of the retail banking business achieved a rapid growth. Profit before tax reached RMB18.547 billion, representing a year-on-year increase of 35.08%. The percentage of retail profit in total profit increased continuously to 32.78%, 2.27 percentage points higher than the previous year. Profit from our retail banking business amounted to RMB11.041 billion, representing an increase of 62.72% over the previous year, and accounting for 37.95% of the Company's profit, representing an increase of 5.49 percentage points over the previous year. Net operating income generated by the Company's retail banking business grew rapidly to RMB46.718 billion, up by 29.48% year-on-year, representing 43.08% of the Company's net operating income, 4.03 percentage points higher than the previous year. Amongst them, net interest income from retail banking business reached RMB34.415 billion, increasing by 28.22% year-on-year and accounting for 73.67% of the Company's net income from retail banking business; net non-interest income from retail banking business amounted to RMB12.303 billion, up by 33.13% year-on-year and accounting for 26.33% of the net income from retail banking business and 53.39% of the Company's net non-interest income. In 2012, the Company recorded a commission income of RMB5,650 million from bank cards (including credit cards), increasing by 34.20% year-on-year; fee and commission income from retail wealth management business was RMB5,322 million, increasing by 38.96% year-on-year and accounting for 46.04% of net fee and commission income from retail banking business.

In 2013, facing mounting challenges brought about by changes in the external environment such as decelerating economic growth, accelerating interest rate liberalisation, increasingly apparent financing disintermediation and intensified inter-bank competition, the Company will adhere to the customer-centered business philosophy, devote more effort to expand and manage customer groups to consolidate retail customer base. In addition, the Company will continue to develop major businesses such as small and micro enterprise loans, wealth management, private banking, credit cards and annuity financing, improve the overall contribution of major retail banking businesses, diversify income sources, achieve a continuous and rapid growth in the profit of retail banking business, enhance the overall competitiveness and value contribution of retail banking business, strengthen and enhance the leading position of retail banking business.

Wealth management

In order to better meet domestic investors' increasingly diversified demand for wealth management, the Company endeavored to improve the wealth management experience of customers and sharpen its brand image as a wealth management bank through creating professional wealth management research and support system, developing a professional customer asset management system, improving its customer management and asset allocation capabilities and establishing a comprehensive wealth management product line.

In 2012, the Company recorded RMB3,056.697 billion in accumulated sales of personal wealth management products, representing a year-on-year increase of 48.13%, and distributed RMB341.5 billion open-ended mutual funds, representing a substantial year-on-year increase of 138.15%. Standard premiums from distribution of third-party insurance policies reached RMB44.3 billion, representing a year-on-year increase of 11.58%. Fees from distribution of third-party trust plans reached RMB148.6 billion, representing a year-on-year decrease of 4.99%. Fee and commission income from retail wealth management business was RMB5,322 million, representing a year-on-year increase of 38.96%. Among which, fees from distribution of third-party trust plans was RMB1,797 million, increasing by 115.21% year-on-year; fees from distribution of third-party insurance policies was RMB1,421 million, increasing by 37.96% year-on-year; fees from sales and issuance of wealth management products were RMB963 million, increasing by 22.21% year-on-year.

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Volatile capital market brought about a change in customers' demand for mutual fund products. Sales of fixed-yield mutual funds with lower income contribution posted a substantial year-on-year increase while that of equity funds with higher income contribution decreased accordingly. Income from funds for the year amounted to RMB1,141 million, representing a year-on-year decrease of 3.06%.

Private banking

Our private banking business follows the philosophy of "It's our job to build your everlasting family fortune". Our local senior relationship managers work with globally recruited investment advisors to form "1+N" expert teams providing our high-net-worth customers with a comprehensive, personalised and private wealth management services following carefully designed rules of "Four-Step Spiral-Up Workflow". Meanwhile, the Company provided systematic and professional market research and analysis reports to relationship managers and private banking customers, and helped them optimise asset allocation in a changing financial environment. The Company also presented an open product platform with a complete range of products in an effort to improve the product system and value-added service system of private banking. The Company improved its sales mode and processes, enhanced product lifecycle management and innovated product design, aiming to better meet customers' diversified demands.

As at 31 December 2012, the Company had 19,518 private banking customers, representing a growth of 18.34% as compared with the beginning of the year; total assets under management from private banking customers amounted to RMB434.2 billion, representing a growth of 17.38% over the beginning of the year. The Company also established 6 new private banking centers in Foshan, Dalian, Suzhou, Jinan, Xiamen and Zhengzhou respectively. Up to now, the Company boasted 29 private banking centers in 24 major cities across the country with ever increasing service coverage.

The year 2012 marked the fifth anniversary of the Company's private banking. To capitalize on this monumental opportunity, the Company launched the "Family Office (家庭工作室)" service targeting at ultra-high-net-worth customers to offer a full range of diversified family asset management services, which include trust, equity, real estate, domestic and overseas investments, finance, taxation, inheritance and asset segregation.

Bank card business

All-in-one Card

In 2012, the Company continued to expand and manage its retail customer base and enrich the variety of All-in-one Cards based on customers' needs. The Company intensified service management and innovation, improved customer service experience, aggressively developed agency issuance business and promoted payment and settlement business, so as to achieve a rapid growth in the circulation of All-in-one Cards. Meanwhile, the Company further consolidated the resources of merchant offers, vigorously expanded merchant offers and provided its customers with a fast and convenient card-using environment. These measures further increased the influence of the All-in-one Card brand, improved customers' appetite for using All-in-one Cards and enhanced customer loyalty, thus achieving a continuous and stable growth in All-in-one Card transactions.

As at 31 December 2012, a cumulative total of 65.66 million All-in-one Cards were issued, including 4.81 million newly issued cards during the year. Total deposit balance of All-in-one cards was RMB692.373 billion, accounting for 80.16% of the total retail deposits. Average balance per card amounted to RMB10,500, increasing by RMB519 as compared with the beginning of the year. During the year, transaction volume of All-in-one Cards via POS amounted to RMB418.4 billion, increasing by 18.09% as compared with the previous year.

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Credit cards

The year 2012 marked the tenth anniversary of the issuance of CMB credit cards. The Company remained committed to the credit card business vision of being “the best provider of payment experience, the best expert in consumer finance and the leader in diversified marketing platform in China”. The Company continuously pushed forward management reform and built a differentiated competitive edge for CMB credit cards through comprehensive innovation, thus making remarkable achievements in operation transformation.

During the reporting period, the Company proactively capitalised on the opportunities brought about by internet-based mobile apps to launch various new mobile services such as “CMB Mobile Wallet (手機錢包)”, new “CMB Life (掌上生活)” mobile user terminals, mobile application terminals and new media communications. The Company continued to promote internal and external resources integration, increase cross-selling and deeper retail resources integration. The Company consolidated high-value customer base, focused on expanding high-value customer groups, optimised product mix and vigorously launched new credit cards such as American Express Centurion Cards (美國運通黑金卡), China UnionPay Platinum Cards (銀聯白金卡) and Sina Microblogging Celebrity Cards (新浪微博達人卡). The Company further integrated its internal and external marketing resources, and capitalised on the tenth anniversary of the issuance of CMB credit cards to launch various promotion activities while improving its marketing efficiency, and continuously launched various tourism-based promotion activities with the themes of “Extraordinary Sanya” (非常三亞), “Extraordinary Hong Kong and Macao” (非常港澳) and “Extraordinary USA” (非常美國). The Company continued to enforce credit limits management, enhance internal control establishments, promote the balanced development of risk and income, optimise its customer service channels, ensure service quality and improve service efficiency. The Company proactively applied the refined operation and management model and effectively improved the operating efficiency of its credit card business, thereby maintaining a good growth momentum for the overall credit card business.

As at the end of the reporting period, the Company had issued 44.84 million credit cards in total. The total number of active cards was 21.80 million, representing an increase of 2.91 million cards during the year. The cumulative transaction volume for 2012 was RMB657.2 billion and the average transaction volume per month of each active card was RMB2,690. The percentage of the revolving balances of credit cards was 31.73%, down by 2.65 percentage points as compared with the end of the previous year. Interest income from credit cards amounted to RMB6,256 million, an increase of 38.62% as compared with the corresponding period of the previous year. Non-interest income from credit cards was RMB5,460 million, an increase of 41.49% as compared with the corresponding period of the previous year. As at 31 December 2012, non-performing loan ratio of credit cards was 1.06%, down by 0.32 percentage point as compared with that at the end of the previous year.

Retail loans

In 2012, the Company stepped up business structure adjustments, vigorously developed the small and micro loan business, with improved risk pricing capability and higher capital return, thus significantly enhancing the profitability of its retail loans. At the same time, the creditworthiness and solvency of some individual customers deteriorated due to the macroeconomic downturn and real estate control policies, resulting in increase of non-performing loans. However, given that the vast majority of such new non-performing loans have been fully secured by collaterals, the possibility of sustaining eventual losses on such loans is slim. As at 31 December 2012, the Company’s total retail loans amounted to RMB671.90 billion, representing an increase of RMB114.965 billion as compared with that at the end of the previous year, among which, personal operating loans amounted to RMB177.139 billion, representing an increase of 104.91% as compared with that at the end of the previous year, which accounted for 26.36% of our retail loans, up by 10.84 percentage points as compared with that at the end of the previous year. Non-performing loan ratio of retail loans was 0.48%, up by 0.17 percentage point as compared with that at the end of the previous year.

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To respond to the call of national policies to support the development of small and micro enterprises, the Company, learning from the experience of the world-leading banks, reclassified overall financial service and management targeting at SME customers each with a balance of loans of RMB5 million or below into the retail banking business line. The Company promoted the development of small and micro enterprise loan business through four major areas of innovation. Firstly, the Company promoted product innovation for small and micro enterprise businesses and launched six standardised products including “Secured Loans (抵押貸)”, “Ancillary Loans (配套貸)”, “AUM Credit Loans (AUM信用貸)”, “POS Loans (POS貸)”, “Small Amount Credit Loans (小額信用貸)” and “Supply, Sales and Turnover Loans (供銷流量貸)”, as well as the “Business All-in-one Cards (生意一卡通)”, a special financial service instrument incorporating the functions of finance, settlement and consumption for small and micro enterprises, so as to fully cater to customers’ various financing demand. Secondly, the Company implemented an innovative centralised loan approval and granting model across the country such that our head office centralise middle and back office operations such as the input of all loan information and the approval and granting of loans. The purpose of which is to grant loans within two working days in the case of availability of complete documents, thus significantly shortening the loan approval cycle. Thirdly, the Company made available innovative electronic loan-granting channels to deal with customers’ loan applications via telephone and internet, or proactively contacted target customers shortlisted on the basis of relevant information where client managers would directly contact potential loan customers within 24 hours, thus greatly enhancing customer service experience. Lastly, the Company made technical innovations in risk management to realize bank-wide unified risk management of loans granted to small and micro enterprises through the application of quantitative risk management tools, an assessment score card model and a decision-making system.

Retail customer deposits

In 2012, the Company was faced with an operating environment of progressing interest rate liberalisation, diversified demand for wealth management, the diverting effect of the recovering capital market on customer deposits and fierce competition from its peers. By adhering to the philosophy of “customer centricity”, and focusing on customers’ demand for wealth management, payment and settlement, loans and financing, the Company recorded a rapid growth of customer deposits through product innovation, marketing innovation and multi-channel coordination. As at the end of December 2012, the total retail customer deposits of the Company amounted to RMB863.77 billion, increasing by 14.97% from the end of the previous year, of which, demand deposits accounted for 58.26% of the total retail customer deposits. The total retail customer deposits accounted for 35.60% of the Company’s total deposits. During the year, saving deposits experienced a rapid and steady growth with the characteristics of low cost and optimised structure.

5.11.2 Wholesale banking

Business overview

The Company provides corporate customers, financial institutions and government agencies with a wide range of high quality wholesale banking products and services. In 2012, the Company’s wholesale banking business strictly complied with the requirements of the Second Transformation, thereby expediting rapid and healthy development of its various businesses. According to the classification standards set out in the “Notice on Issuing the Provisions on the Classification Standards for Small and Medium-sized Enterprises” (《關於印發中小企業劃型標準規定的通知》) (Lian Qi Ye [2011] No. 300) (the national standards) promulgated by the Ministry of Industry and Information Technology, the Company’s loans to domestic small and medium-sized enterprises increased by 18.25% as compared with that at the end of the previous year, accounting for 59.29% of the total domestic corporate loans. In addition, the Company fully promoted the “Qian Ying Zhan Yi” plan (千鷹展翼) and attracted a total of 7,581 customers, representing an increase of 134.05% as compared with the beginning of the year. In 2012, the number of companies listed on the SME board and Shenzhen ChiNext who have maintained escrow accounts with the Company for IPO proceeds accounted for 35% of those newly listed on the SME board and Shenzhen ChiNext, ranking the first among all its domestic peers (source: ChinaVenture投中集團). The Company’s key performance indicators of offshore businesses (such

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as offshore deposits, offshore settlement amounts, offshore net non-interest income and offshore profits) continued to hold the largest market share on the domestic offshore banking market (based on information exchange among banking peers). The Company ranked the fifth, only next to the Big Four state-owned banks among its domestic peers in terms of balance of domestic deposits denominated in foreign currencies at the end of the reporting period, and the first among all small and medium-sized national banks in terms of both cross-border Renminbi settlements and foreign exchange settlements (based on the statistics released by PBOC and SAFE). Our cash management, trade finance innovative products, new "Cross-border Finance" service, asset custody and investment banking and other businesses continued to grow rapidly and have gained recognition from the market.

In 2012, as for its wholesale banking business, the Company continued to optimise the pricing mechanism and system construction, comprehensively improved its risk pricing capability, strove to establish new profitability mode, promoted the continued growth of its interest income, raised the proportion of net non-interest income and realised steady growth in net operating income and operating profit. During the reporting period, the Company accomplished a net interest income of RMB54.921 billion from its wholesale banking business, representing an increase of RMB5,080 million or 10.19% as compared with the previous year; net non-interest income amounted to RMB10.45 billion, representing an increase of RMB233 million or 2.28% as compared with the previous year; net operating income amounted to RMB65.371 billion, an increase of 8.85% as compared with the previous year, accounting for 60.28% of the net operating income of the Company; profit before tax amounted to RMB42.256 billion, accounting for 74.68% of profit before tax of the Company.

In 2013, the domestic and overseas situations are undergoing dramatic changes, which will bring new development opportunities for the wholesale banking business in general as a result of the improved business environment. Meanwhile, immediate challenges will arise from the changes in economic growth mode and shift of growth drivers, especially the interest rate liberalisation and the diversification of financing channels, which will have a material effect on the banking industry. Given the new situations and challenges, the Company will vigorously develop the small and medium-sized enterprise businesses, gradually promote structural reform and procedure optimisation, reinforce competitiveness in emerging financing businesses and steadily promote internationalisation and comprehensive operation, so as to achieve the sustained and healthy development of the wholesale banking business.

Corporate loans

Corporate loans of the Company include working capital loans, fixed asset loans, trade finance and other loans such as merger and acquisition loans and corporate mortgage loans. As at 31 December 2012, the total corporate loans of the Company were RMB1,033.545 billion, representing an increase of 14.33% as compared with the end of the previous year and accounting for 58.71% of the total customer loans. In which, the balance of the medium to long term loans to domestic enterprises amounted to RMB352.04 billion, a decrease of 6.75 percentage points as compared with the end of the previous year, accounting for 35.22% of the total loans to domestic enterprises. The non-performing loan ratio was 0.79%, the same level as that at the end of the previous year.

In 2012, the Company further optimised the industrial distribution of corporate loans, gave priority to support the industries undergoing structural optimisation and upgrading and traditionally competitive industries, the strategic emerging industries, the modern service sector and green industries. As at 31 December 2012, the balance of green credit loans (including loans granted to clean energy and environment protection sectors) was RMB61.057 billion, representing an increase of RMB10.075 billion as compared with that at the end of the previous year, accounting for 5.91% of the total corporate loans of the Company, representing an increase of 0.27 percentage point as compared with that of the previous year. Meanwhile, the Company restricted loans to industries under macro economic control, such as real estate, local government financing platforms and "high pollution, high energy consumption and overcapacity" industries. In particular, the balance of loans to "high pollution, high energy consumption and overcapacity" industries was RMB133.983 billion at the end

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of the reporting period, accounting for 12.96% of the total corporate loans of the Company, representing a decrease of 0.67 percentage point as compared with that for the same period of the previous year.

In 2012, the Company proactively promoted the rapid and healthy development of its SME business. According to the national standards, total balance of our corporate loans extended to domestic small and medium-sized enterprises amounted to RMB592.539 billion as at 31 December 2012, representing an increase of 18.25% as compared with that at the end of the previous year, and accounting for 59.29% of our total domestic corporate loans, representing an increase of 2.34 percentage points as compared with that at the end of the previous year. The non-performing loan ratio of the loans to small and medium-sized enterprises was 1.12%, up by 0.10 percentage point from that at the end of the previous year.

In order to promote the development of its SME business, the Company has strengthened the following measures:

Firstly, the Company intensified its effort to set up special outlets and apply the successful experience of the Small Enterprise Credit Center in branches to further enhance the capability and quality of the comprehensive SME financial services. On one hand, the businesses of the Small Enterprise Credit Center kept growing in a healthy and rapid manner. As at 31 December 2012, loan balance of the Small Enterprise Credit Center was RMB40.359 billion, representing an increase of 20.34% as compared with that at the end of the previous year. The number of loan customers was 5,860, representing an increase of 2.07% as compared with that at the beginning of the year. The average loan balance granted by our relationship managers was RMB145 million. The average number of customers served by our relationship managers reached 21. In only 4 years, the cumulative loan amounts granted by the credit center exceeded RMB113 billion, providing financial support to an aggregate of more than 10,000 small enterprises. On the other hand, the Company actively promoted its branches to develop the SME businesses by building a professional SME customer management system comprising of organisation structure, mechanisms, procedures, products and teams that suits the development of SME businesses, effectively enhanced the market planning and marketing capability of the SME businesses and further improved the efficiency of credit approval and the quality of financial services.

Secondly, the Company adhered to diversification of SME financing products through product innovation. In 2012, the Company continued to optimise the SME financing product lines in line with the conditions of particular branches and under the unified arrangement of the Head Office. Based on the diverse characteristics of resources and demands of small and medium-sized enterprises, the Company constantly enriched the features and special sub-products of its SME financing brand, which has won positive recognitions from small and medium-sized enterprises. Meanwhile, the Company vigorously promoted the technology-based financial product innovation campaign by launching the featured products such as subsidized loans, loans designated for transformation of scientific and technological achievements and loans pledged with intangible assets and industrial cluster loans, establishing the "CMB Innovation & Business Start-ups Public Welfare Foundation" and supporting the first national "Chinese Innovation & Business Start-ups Competition".

Thirdly, the Company enhanced its SME loan risk management. The Company continued to improve various risk management by taking various measures, including further optimising the credit-approving investigation report, improving the efficiency of double endorsement for credit approving, optimising the credit-approving procedures to launch remote credit-approving model, establishing efficient and flexible post-loan management system, and implementing the due-diligence exemption system and requirements. Especially, since the second half of 2012, the Company proactively promoted the operation and risk management mode of "Separation of Five Roles (五崗分離)" adopted by the Small Enterprise Credit Center. By the end of the year, the "Separation of Five Roles" mode has been applied in a majority of our branches, which further enhanced the efficiency of the SME businesses in various procedures including business investigation, credit approval, loan granting and post-loan monitoring.

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Syndicated loans

In 2012, for the purpose of enhancing inter-bank cooperation and information sharing, and diversifying risks associated with large-amount loans, the Company constantly promoted syndicated loan business. As at 31 December 2012, the balance of syndicated loans amounted to RMB67.035 billion, and the Company recorded a management fee income of RMB62.4745 million from such syndicated loans.

Discounted bills

In 2012, after taking overall consideration of its total credit, liquidities, gains and risks, the Company effectively allocated and promoted the discounted bills business. As at 31 December 2012, the balance of discounted bills was RMB55.097 billion, a decrease of 20.11% as compared with the end of the previous year, accounting for 3.13% of the total customer loans.

Corporate customer deposits

In 2012, the Company's corporate customer deposits maintained a good growth momentum. As at 31 December 2012, the balance of corporate customer deposits amounted to RMB1,562.704 billion, representing an increase of 13.60% as compared with the previous year, accounting for 64.40% of the total customer loans; while its daily balance amounted to RMB1,369.261 billion, representing an increase of 12.54% as compared with the previous year.

The Company focused on enhancing the returns on corporate customer deposits. The Company vigorously developed innovative services such as online corporate banking and cash management, constantly improved marketing activities and expanded the sources of deposits, thus bringing itself a large amount of low cost corporate customer deposits. Meanwhile, the Company absorbed some agreement deposits with longer maturity in a proper way so as to optimise the structure of corporate customer deposits. As at 31 December 2012, demand deposits accounted for 50.43% of total RMB deposits of our corporate customers, which were 3.82 percentage points lower than that at the end of the previous year, and 0.86 percentage point higher than that of term deposits.

"Qian Ying Zhan Yi" Program

Since the official launch of the "Qian Ying Zhan Yi (千鷹展翼)" program in October 2010, the Company continued to make innovations in marketing methods, product support, service channels and technical means in this new brand which is distinguished by a "equity financing plus bond financing" mode designed to support innovative small enterprises. In 2012, the Company was granted the "Eighth Shenzhen Financial Innovation Award" that recognised its efforts in this regard.

As at 31 December 2012, the total number of innovative emerging enterprises served under the "Qian Ying Zhan Yi" program was 7,581, representing a surge of 4,342 or 134.05% from the previous year. The total amount of credit facility exceeded RMB170 billion, an increase of over 100% from the previous year. Loan balance was RMB65.4 billion, representing an increase of 111.23% as compared with the end of the previous year. Since 2011, a total of 147 enterprises supported by the "Qian Ying Zhan Yi" program were successfully listed on domestic or overseas stock markets, with total proceeds from IPOs of nearly RMB30 billion under the Company's custody, among which, 109 enterprises were successfully listed on the SME Board and ChiNext. In 2012, a total of 45 enterprises listed on the SME Board and ChiNext opened custody accounts with the Company for management of IPO proceeds, representing 35% of the total number of enterprises listed on the SME Board and ChiNext during the period, and ranking the first among domestic banks.

In the future, the Company plans: firstly, to further explore and nurture innovative small enterprises; secondly, to establish 100 "Qian Ying Zhan Yi Innovative Sub-branches" across the country in the next 2 to 3 years as the nurturing bases for technologically innovative and growth enterprises; thirdly, to promote product

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development and a cooperation platform for private equity financing to further enhance the Company's competitive edge in this area.

Settlement and cash management business

Cash management business is of fundamental and strategic importance to cope with the challenge of liberalised interest rate. Notably, our market dominant cross-bank cash management products and unique online supply chain finance service enjoy a leading position in the industry. Yield of cash management products increased significantly. The Company provided various customers with all-inclusive, multi-model and integrated cash management service, contributing to the acquisition and retention of customers, acquisition of low cost corporate settlement related deposits, and the cross-sell of other corporate and retail products. As at 31 December 2012, the total number of customers using cash management services reached 219,144, representing an increase of 41,574 as compared with the previous year. The fundamental cash management business sustained healthy development with cross-bank cash management product being applied by more than 300 corporate customers and more than 10,000 companies under management. With a firm grip on core customers on the industrial chain, the financial transaction volume from the electronic supply channel increased rapidly with transaction volume of over RMB700 billion during the year. The number of customers on financial e-commerce platform has exceeded 10,000. Our product penetration rate increased steadily with a rapid growth in the number of highly penetrated customers. The number of customers using 4 to 6 products increased by over 30% year-on-year. The balance of deposits from cash management customers without loans exceeded RMB650 billion, accounting for over 70% of deposits from the Company's customers without loans. Percentage of deposits from small enterprises without loans using cash management services increased steadily.

With regard to online corporate banking business, the Company has established the domestically leading e-banking channels, developed the comprehensive cross-sales capability of low cost and high replacement ratio, and integrated the products and services of wholesale banking businesses that include account management, payment and settlement, online borrowing, trade finance and investment appreciation. As at 31 December 2012, the number of customers increased steadily to a total of 230,081, representing an increase of 24.43% as compared with the end of the previous year. Among the online corporate banking customers, active customers have become the mainstream user of our online banking, which have effectively lowered the costs of the whole bank. As at 31 December 2012, the Company had nearly 60,000 small corporate customers handling all their settlement transactions online, completing a total of 7.4 million transactions with an aggregate amount of nearly RMB1,375 billion during the year. The actual usage by our small enterprise customers of U-BANK, an online corporate bank, was further strengthened, with the number of small enterprises using the U-BANK service exceeding 170,000. The number of loans granted through "Wang Dai Yi (網貸易)", an online financial service tailored for small enterprises, exceeded 14,600 transactions, fully satisfying small enterprises' demand for financial services. The number of users of the corporate mobile banking service, which was the first of its type in China, has exceeded 50,000. Our online corporate bank, as an important channel for products sales, has become profitable with strong sales capability. It effectively bolstered the development of wholesale banking businesses across the Company.

As for corporate card business, through coordinated marketing of retail and corporate lines, the Company had issued a total of 123,080 corporate cards as at 31 December 2012. Total revenue from corporate cards amounted to RMB160,616,900 for 2012, an increase of 22.43% over the same period of the previous year, among which, non-interest incomes including rebate commission from domestic and overseas transactions, intermediary business income from the business travel platform, data service fee and annual fee totalled RMB101,572,000, while the income from recurring interest, interest from cash advance loans and overdue fines totalled RMB59,044,900.

As for the settlement business of funds under custody, the Company intensified its preparation work for the custody service for provisions of paying institutions in response to the changes in relevant policies of the People's Bank of China, and focused on serving large-scale paying institutions engaged in prepaid

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card business with an aim to aggressively capture market share, which brought remarkable results for the Company. As at 31 December 2012, a total of 149 paying institutions opened accounts with the Company, an increase of 26 from the previous year. Deposit balance amounted to RMB6,304 million, an increase of RMB2,285 million from the beginning of the year. Income from this business amounted to RMB108 million, representing a year-on-year increase of 85.23%.

Assets management

With regard to corporate wealth management, the Company captured market trends timely by launching a series of new wealth management products. These products cover treasury bonds, central bank notes, financial notes traded in inter-bank bonds market and other financial assets. The corporate wealth management business has become an important tool to expand non-interest income, draw in new customers and enhance brand recognition. In 2012, the sales of our corporate wealth management products totalled RMB1,236.654 billion, representing a year-on-year increase of 42.30%, and realising an income of RMB572 million from the sales of corporate wealth management products, representing a year-on-year increase of 35.55%.

With respect to the asset custody business, the Company enhanced its effort in marketing high yield custody products and added another 13 public offered open-ended funds under its custody, with newly increased custody amount of RMB43.3 billion from initial public offering of open-ended funds in 2012. The Company overcame the unfavorable conditions in the domestic stock markets and income from custody fees and assets under custody both reached record high. The Company's custody business recorded an income of RMB654 million, representing an increase of 28.24% over the previous year. The balance of assets under custody was RMB1,080 billion, representing an increase of 111.76% as compared with that at the beginning of the year. The Company successfully entered into contract with One Foundation as the first independent third-party custodian of public welfare charity foundation in China. This marked a meaningful attempt at the supervision and information disclosure of charity foundation in China.

International business and offshore business

As for international business, the Company endeavored to build a strong "Cross-border Finance" brand, which are comprised in the three categories of "Shang Mao Tong (商貿通)", "Zi Ben Tong (資本通)" and "Cai Fu Tong (財富通)". To this end, the Company effectively consolidated and innovated 27 products, developed trade finance products for the "Small and Micro Enterprise Xin Bao Yi Policies (小微企業信保易保單)" of China Export & Credit Insurance Corporation in order to support the development of small and micro enterprises. In 2012, balance of our cross-boarder foreign currency deposits reached US\$22.200 billion, an increase by 56.46% from the previous year. Fee income doubled for the three newly emerging products: cross-border RMB settlement, international factoring and forfeiting, whose business volume growth all surpassing 25%. In 2012, the Company completed international settlements of US\$331.696 billion, a year-on-year growth of 9.42% when calculated using the same criterion, cross-border Renminbi settlements of RMB168.927 billion, foreign exchange settlements of US\$116.309 billion, accumulated trade financing of US\$25.5 billion and international factoring of US\$3.18 billion. And the non-interest income from international business amounted to RMB2.691 billion, a year-on-year growth of 9.38% when calculated using the same criterion.

With regard to offshore business, as at 31 December 2012, the number of offshore customers reached 22,200, an increase by 14.43% from the beginning of the year; deposits from offshore customers amounted to US\$6.288 billion, representing an increase of 22.50% as compared with that at the beginning of the year; while offshore trade financing balance reached US\$2.518 billion, representing an increase of 48.03% as compared with that at the beginning of the year; credit assets continued to be of good quality, with new overdue loans and new non-performing loans remained zero. Cumulative net incomes from non-interest businesses reached US\$76,987,900, representing an increase of 28.59% from the previous year.

V Report of the Board of Directors***Financial institutions business***

With regard to businesses with financial institutions, as at 31 December 2012, the balance of inter-bank deposit from other financial institutions reached RMB253.134 billion, representing an increase of RMB49.520 billion or 24.32% as compared with that at the beginning of the year. The balance of over-the-counter asset business with other financial institutions such as inter-bank placements and asset purchased for resale amounted to RMB266.614 billion as at the end of the reporting period, representing an increase of RMB210.340 billion or 373.78% as compared with that at the beginning of the year. Affected by the downturn in the securities investment market, the balance of fund under third party custody decreased from the previous year to RMB44.8 billion. As for third party custody business, the Company had a total of 3,889,500 customers. The Company recorded a sales volume of RMB71.224 billion in respect of wealth management products sold through inter-bank channels. The volume of cross-border RMB agency clearing service accumulated to RMB146.456 billion for the year, while the total number of clearing accounts remained at 55. As for margin trading and short selling business, the Company maintained business cooperation with 43 securities firms.

Investment banking

With respect to investment banking business, the Company increased its marketing effort to develop the debt financing instrument underwriting business. As at 31 December 2012, the underwriting volume of debt financing instruments amounted to RMB132.665 billion. The Company put its focus on expanding its financial advisory services for M&A projects, IPOs and PE, and recorded total revenue from investment banking business of RMB1.336 billion. In addition, the Company enhanced product innovation for its investment banking business, and developed and launched another investment banking product of “Bing Gou Xing (并购星)” based on the “Duan Rong Xing (短融星)” and “Zhai Rong Xing (债融星)” products offered in 2011.

5.11.3 Financial market business***Operating strategy***

With respect to RMB investment business, the Company made timely adjustments to its investment strategies in 2012 based on dynamic follow-up and analysis on various aspects such as the macro economy at home and abroad, CPI trend, monetary policies and market liquidity conditions, and sound results were achieved. During the first half of the year, in view of credit spreads hovering at historical high levels, the Company adopted the strategy of giving priority to allocation of credit bonds. During the second half of the year, affected by tight funding, yields of the bond market recorded a substantial increase, leading to significantly squeezed credit spreads. In response, the Company proactively adjusted its investment strategy to increase investment in interest rate bonds. In the fourth quarter, based on its judgement on the anticipation of inflation rebounds and a stabilising economy, the Company scaled back its investment held for sale by RMB10 billion and extended the duration of relevant investment portfolios by using long-term bonds to replace short-term bonds. Thanks to the accurate judgement on market trends for the whole year, the Company's investment portfolio substantially outperformed the market index. As at the end of the reporting period, the average duration of bond portfolio denominated in RMB was 3.1 years.

With respect to the foreign currency investment business, the yield of U.S. treasury bonds lingered at historical low levels in 2012, and credit spreads in the bond market demonstrated a bumpy downward trend. Throughout the year, the Company increased its investments primarily in credit bonds with higher security level issued by Chinese and Hong Kong enterprises, and exercised strict control over portfolio duration. At the same time, the Company actively participated in the spread transactions of newly issued bonds to realize spread gains. In addition, the Company proactively developed derivative business and continued to conduct “Wen Ying” transactions and option transactions. By capitalising on market opportunities, the Company not only averted international financial market risks, but also effectively improved the income of our portfolio. As at the end of the reporting period, the average duration of bond portfolio denominated in foreign currencies was 3.3 years.

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In 2012, the yield rate of the Company's local and foreign currency bond portfolio is 3.77%, up by 26 basis points as compared with 2011; the Company's annual yield on financial assets under reverse repo agreement and placements to other financial institutions was 3.91%, down by 71 basis points as compared with 2011.

Business development

In 2012, the Company actively explored the possibility of achieving sustainable and stable profitability in the long run with risks under control in the financial market business by means of strengthening innovation, upgrading pricing ability, optimising the platform strategies and improving dealing methods. The Company introduced innovative precious metals trading services, namely domestic and overseas silver arbitrage trading, gold arbitrage trading for secured earnings and London gold placement trading. Thereby the Company secured new sources of profit streams while catering to customers' risk aversion and funding needs. As for traditional wealth management business, the Company continued to maintain a leading position in the wealth management market of banks by placing equal emphasis on innovation and standardisation and by delivering high yield and staying close to market. In 2012, 2,463 wealth management products were launched with a total sales value of RMB4,370 billion, representing an increase of 44.80% over the previous year. Balance at the end of the period was RMB370.147 billion, representing an increase of 49.21% over the beginning of the year. As at the end of 2012, the Company's proprietary investments reached RMB505.156 billion, representing an increase of 14.32% as compared with the end of the previous year.

5.11.4 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels are mainly divided into physical distribution channels and e-banking channels.

Physical Distribution Channels

The efficiently operated outlets of the Company are primarily located in China's economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. As at 31 December 2012, the Company had 99 branches, 853 sub-branches, 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 2,174 self-service centers and 8,835 cash self-service machines (including 2,602 automatic teller machines and 6,233 cash recycle machines) in more than 110 cities of Mainland China and a wholly-owned subsidiary, CMB Financial Leasing. The Company also has a number of wholly-owned subsidiaries including Wing Lung Bank Ltd. and CMB International, and a branch in Hong Kong; a branch and a representative office in New York, the United States; and a representative office in London and Taipei respectively.

e-banking Channels

The Company attaches great importance to developing and improving e-banking channels such as online banking, direct banking and mobile banking, which are highly recognised by the society and have effectively relieved the pressure on outlets of the Company. In 2012, the overall counter replacement ratio in respect of retail e-banking channels reached 90.66% and overall counter replacement ratio in respect of corporate e-banking channels reached 52.40%; whereas it was 88.47% in respect of transaction settlement using online corporate banking services, representing an increase of 4.09 percentage points, 2.77 percentage points and 3.33 percentage points respectively.

Online banking

The Company's retail online banking business continued to grow rapidly in 2012. The Company secured online banking customers by employing new media including microblog, and launched the campaign of "microblog appointment" which attracted microbloggers to register with our online banking professional edition, thereby substantially expanding customer base. As at 31 December 2012, the number of active users of the retail online banking professional edition of the Company reached 11,740,100, and the relevant

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replacement ratio in respect of retail online banking was 86.01%. The total cumulative number of retail online banking transactions was 736,125,200, up by 46.80% as compared with that in the previous year; and the accumulated transaction amount was RMB15,195.787 billion, up by 7.06% as compared with that in the previous year. Specifically, the accumulative number of online payment transactions was 549,897,000, up by 41.62% as compared with that in the previous year; and the accumulative amount of online banking transactions was RMB216.693 billion, up by 35.03% as compared with that in the previous year.

In the past few years, U-BANK, the online corporate bank of the Company, achieved comprehensive development at a rapid pace, with the customer base being constantly solidified and the efficiency of channels being constantly enhanced, and thus has become an efficiently operated channel connecting the majority of customers across various wholesale banking areas, evolving toward a tool for customer management, value exploitation, cross-selling and industry extension. As at 31 December 2012, the accumulated number of transactions done through U-BANK was 44.09 million, up by 18.46% as compared with that in the previous year. The accumulated transaction amount was RMB24,650 billion, an increase by 31.75% as compared with that in the previous year.

Direct banking

The direct banking service provided by the Company integrates the convenience of direct banking channels and the face-to-face friendly and attentive service at counters, which is performed by direct banking relationship managers to provide customers with immediate, comprehensive, speedy and professional service, including a variety of banking transactions, investment and financial advisory services, one-stop loan services and product sales. Currently, the primary function of direct banking is to provide direct transactions, assistant service, online wealth management and online loan services.

In 2012, the number of transactions conducted through direct banking reached 7,997,500 and the transaction volume amounted to RMB747.866 billion, up by 52.25% as compared with that in the previous year. The sales of various types of funds (including monetary funds), trusts and wealth management products amounted to RMB300.042 billion, increasing by 90.08% from the same period of the previous year. The number of customers in respect of online wealth management increased by 306,000 to an accumulated number of 658,000, representing a doubled increase from the same period of the previous year. Online loan transactions were 51,200, while the total loans granted amounted to RMB4.834 billion, with a balance of RMB4.087 billion.

Mobile banking

The personal mobile banking service of the Company continued to maintain rapid growth in 2012, and took the lead in China to launch "CMB Wallet" which provides the latest mobile payment services, combining bank cards with mobile phones. In addition, following the introduction of mobile banking service in iPhone and Android versions, the Company rolled out iPad banking service in August 2012, which has been downloaded over 600,000 times up to date. Our developments were drastic in terms of mobile banking user groups, transaction volume and mobile payment. As at 31 December 2012, the total number of mobile banking contracts signed reached 9,664,900 (among which, the number of active customers reached 2,709,700), up by 115.03% year-on-year; the cumulative transactions amounted to 13,002,600 (excluding mobile payment), up by 505.05% as compared with the same period of the previous year; and the accumulated transaction volume reached RMB405.934 billion, up by 241.86% as compared with the same period of the previous year. The aggregate number of mobile payment amounted to 57,795,100, up by 435.19% as compared with the same period of the previous year; and the cumulative transaction volume was RMB10.878 billion, up by 347.29% as compared with the same period of the previous year.

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5.11.5 Overseas businesses

Hong Kong Branch

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

During the reporting period, our Hong Kong Branch launched its online corporate banking service and the service for witnessed account opening of Hong Kong All-in-one Cards in CMB's Mainland outlets, thereby further improving the convenience in customer service. In addition, our Hong Kong Branch has completed its system re-engineering, and will proceed to replace our customers' Hong Kong All-in-one Cards for chip cards in 2013 so as to further enhance the safety of account management. In 2012, our Hong Kong Branch realised profit before tax of HK\$529 million, representing an increase of 5.17% as compared with the previous year.

New York Branch

Officially opened for business in October 2008, our New York Branch is the first operative banking institute established by the Company in the United States. Our New York Branch is licensed to carry out the wholesale banking business of commercial banks, including deposits and loans, trade finance, treasury transactions, USD clearings and international settlements.

In 2012, our New York Branch actively developed its businesses, further expanded the coverage of "Mei Nong Tong (美農通)", a structured trade finance product, to include bulk commodities not originated from the United States, and launched a new product named "Fan Mei Tong (泛美通)" in cooperation with US financial institutions. At the same time, our New York Branch aggressively strengthened its internal control compliance and risk prevention. No non-performing loans or credit losses have been recorded since its inception. In 2012, our New York Branch realised profit before tax of US\$19,000,000, representing an increase of 295.83% as compared with the previous year.

5.11.6 Wing Lung Group

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 personalised and sincere services to the public. The principal operations of Wing Lung Group comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities brokerage, asset management, wealth management services, insurance business, financial lease, property trustee and nominees service. As of 31 December 2012, the registered capital of WLB was HK\$1.5 billion.

Overall operation overview of Wing Lung Group

For the year ended 31 December 2012, profits attributable to shareholders of Wing Lung Group was HK\$2.131 billion, representing an increase of 14.13% as compared with that in 2011 (as restated), which was mainly driven by net interest income. In 2012, Wing Lung Group recorded a net interest income of HK\$2.504 billion,

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representing an increase of 19.87% as compared with that of 2011, which was mainly attributable to increase in average loan amount and average interest rate; the net interest margin for the year was 1.57%, up by 10 basis points as compared with that of 2011. Net non-interest income was HK\$1.211 billion, representing a decrease of 10.66% as compared with that of 2011, primarily due to the decrease in non-interest income such as income from securities business as a result of the prudent investment sentiment across global markets amidst the sluggish U.S. economy and the European debt crisis. Net fees and commission income amounted to HK\$466 million, representing a decrease of 4.05% from that of 2011. Insurance business achieved a net operating income of HK\$115 million, representing an increase of 37.93% as compared with that of 2011, primarily due to the steady improvement in operation performance of Wing Lung Insurance Company Limited ("Wing Lung Insurance"). Net gains from foreign exchange trading amounted to HK\$286 million, representing a decrease of 19.64% over 2011, primarily due to reduced gains from RMB non-deliverable forward contracts and cross-border purchase and sale of foreign exchange. Write-back of credit losses was HK\$4.36 million, as compared with impairment charge for credit losses of HK\$117 million in 2011. Operating expenses amounted to HK\$1.340 billion, representing an increase of 16.68% as compared with that of 2011, primarily due to increase in payroll, rental of premises, China business tax and withholding tax. The cost-to-income ratio for 2012 was 36.06%, representing a slight increase of 2.72 percentage points as compared with that of 2011.

As at 31 December 2012, the total assets of Wing Lung Group amounted to HK\$178.941 billion, representing an increase of 9.21% as compared with that at the end of 2011. Total equity attributable to shareholders amounted to HK\$17.141 billion, representing an increase of 14.70% as compared with that at the end of 2011 (as restated). Loan-to-deposit ratio was 62.95%, up by 1.10 percentage points as compared with that at the end of 2011. As at 31 December 2012, the capital adequacy ratio and core capital adequacy ratio of Wing Lung Group were 14.92% and 9.97% respectively, and the average liquidity ratio for the reporting period was 45.01%, all above statutory requirements.

For detailed financial information on Wing Lung Group, please refer to the 2012 annual report of WLB, which is published at the website of WLB (www.winglungbank.com).

Deposits

As at 31 December 2012, total deposits of Wing Lung Group grew by 14.73% to HK\$132.094 billion as compared with that at the end of 2011.

Among the various kinds of deposits, Hong Kong Dollar deposits increased by HK\$9.043 billion or 14.26%; US Dollar deposits after translation increased by HK\$4.143 billion or 23.91%; RMB deposits after translation rose substantially by HK\$5.759 billion or 32.98%; and deposits in other foreign currencies after translation decreased by HK\$1.990 billion or 11.75%, as compared with those at the end of 2011.

Advances to customers

As at 31 December 2012, total advances to customers, including trade bills, of Wing Lung Group rose by 16.43% to HK\$99.326 billion as compared with that at the end of 2011 and the non-performing loan ratio, including that of trade bills, was only 0.29%, implying a sound loan quality on the whole.

With respect to corporate banking business, the total corporate loans amounted to HK\$38.074 billion as at 31 December 2012, an increase of 6.04% over that at the end of 2011. During the reporting period, WLB devoted efforts to obtaining loans for overseas enterprises which are secured by guarantees from their respective parent companies, syndicated loans, and corporate loans to enterprises in China and Hong Kong as well as bilateral loans and the result was remarkable. In order to expand its revenue source, WLB actively explored non-interest income business, strengthened the business coordination between Wing Lung Bank's corporate finance and commercial banking activities, including selling offshore RMB bonds and wealth management products, acting as the receiving bank in initial public offering of newly listed shares and the dividend paying bank for listed companies.

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As to commercial banking business, the balance of loans amounted to HK\$7.223 billion as at 31 December 2012, representing an increase of 75.62% as compared with that at the end of 2011, which was mainly attributable to the growth of loans granted to new customers. In 2012, it became more difficult to expand business with the export-oriented small and medium-sized enterprises ("SMEs") at home due to the adverse effect of overseas economies on exports. However, WLB managed to make a breakthrough in both the lending modes and customer size through expansion of cross-border business in cooperation with China Merchants Bank.

As for the mortgage and personal loan business, as at 31 December 2012, the balance of loans amounted to HK\$26.039 billion, almost unchanged from 2011. Of the total loans, the balance of residential mortgage loans amounted to HK\$8.381 billion, representing a decrease of 2.76% as compared with that at the end of 2011. Conventional mortgage lending demand was adversely affected by the prudential supervisory measures for mortgage lending repeatedly introduced by the Government as well as the hikes in stamp duties levied on property transactions to crack down on speculation of properties in 2012. Hence, WLB promptly adjusted its business development strategy regarding retail loans and introduced favourable packages for the "Purchase of the First Property" aiming at the non-residential property mortgage market. Meanwhile, it developed credit loan products, such as "Small Enterprise Unsecured Overdraft Facility" for SMEs, comprehensive banking services for small and micro enterprises, and also personal loan services to professionals and individuals. Loan facilities secured by funds and bonds were also launched in late 2012.

With respect to the business of mainland branches, as at 31 December 2012, the total loans to customers amounted to HK\$10.217 billion, representing an increase of 27.09% as compared with that at the end of 2011. Wing Lung Bank will increase marketing activities on savings and Capital Investment Entrant Scheme ("CIES") products in a timely manner. It also intends to vigorously market its individual-oriented products to branches of China Merchants Bank to enhance business coordination and cross-selling. Moreover, it will put more efforts on market expansion and continue to expedite the development of various credit businesses.

Investments

As at 31 December 2012, Wing Lung Group's debt securities investment amounted to HK\$19.401 billion, representing a decrease of 18.91% as compared with that at the end of 2011. As at the end of the year, Wing Lung Group's foreign currencies (including Hong Kong dollar) debt securities investment amounted to HK\$13.619 billion. More than 83.14% of the foreign currencies (including Hong Kong dollar) debt securities were rated A3 or above and were exposed to comparatively low risks.

Treasury business

In 2012, revenue from foreign exchange trading business amounted to HK\$79.62 million, representing a decline of 45.07% as compared with that of 2011 because the prevailing prudent sentiment in the market resulting from tightening regulatory policies at home and abroad and the challenging economic situation in China led to reduced transaction volume of and gains from RMB non-deliverable forward contracts and cross-border purchase and sale of foreign exchange. However, thanks to the overabundance of liquidity fuelled by the global quantitative easing policies to rescue the economy and the growing market share of WLB amidst exit of competitors from the market, revenue from foreign money exchanges amounted to HK\$66.29 million, representing an increase of 23.92% as compared with that of 2011.

Strongly supported by the Company, WLB seized the opportunities in RMB related business through actively participating in RMB connected transactions and expanding non-trade-based RMB client base, so as to increase transaction volume and related revenue. Meanwhile, WLB will aggressively expand corporate customer transactions, continue to strengthen foreign exchange trading by individual customers, provide customers with latest information promptly, and properly predict the trend of foreign exchange markets and seize opportunities therein so as to promote the development of foreign exchange business and create more revenue for Wing Lung Group.

V Report of the Board of Directors***Financial institution business***

As regards the banking businesses with financial institutions, Wing Lung Group seized market opportunities to adjust business structure and further expand the base of small and medium-sized financial institution customers, which brought about satisfactory results. Wing Lung Group endeavoured to build a “Financial Service Platform for Cross-border Small and Medium-sized Banks”, constantly innovated cross-border products, proactively promoted inter-bank asset, settlement and trading products and vigorously increased cross-border RMB-related trade finance products and services. Meanwhile, it constantly consolidated the base of financial institution customers and added a number of domestic and foreign bank customers during the year, with which it cooperated in foreign exchange transaction, clearing services and cross-border trade finance. In future, it will continue to explore the feasibility of comprehensive cooperation with those banks.

Wealth management

Wing Lung Group’s wealth management business realised revenue of HK\$48.98 million in 2012, representing an increase of 29.28% as compared with that of 2011.

In 2012, WLB officially introduced “Wing Lung Private Wealth Management” and established Wing Lung Private Wealth Management Centre to provide a full range of professional financial services for high-end customers in the Mainland and Hong Kong. WLB is committed to developing comprehensive wealth management products and services. In 2012, it introduced “Asset Allocation Reference Portfolio” exclusively for CIES purposes, initial private placement of bonds, online subscription of funds in initial public offering, physical gold trading service, loans pledged by bonds and funds, in order to provide customers with more options and increase revenue for the Group.

Credit card

WLB issued more than 250,000 credit cards as at 31 December 2012. The credit card receivables amounted to HK\$409 million, representing a decrease of 2.72% as compared with that of 2011. Merchant business turnover was HK\$4.111 billion, representing an increase of 13.77% as compared with that of 2011, reflecting the rigorous efforts in promoting the merchant business and the continuous growth of the Hong Kong consumption market. Since WLB issued the world’s first diamond credit card “Luxe Visa Infinite” and the first “World MasterCard for Business” in the Greater China, the number of high-end individuals and corporate customers has been in a steady growth. WLB has launched “CUP (China UnionPay) Dual Currency Credit Card”, which allows cardholders to settle transactions taking place in Mainland China in RMB and transactions outside Mainland China in Hong Kong dollars, and its Hong Kong dollar account supports different forms of flexible cash withdrawals. In addition, WLB and CMB jointly launched the “Dual Bank Logo Credit Card” imprinted with both the names and logos of CMB and WLB, which facilitates cardholders of WLB to enjoy the merchant offers and promotional activities for the credit card businesses of CMB.

Securities broking

In 2012, Wing Lung Securities Limited realised a brokerage commission and related income of HK\$131 million, representing a decrease of 26.79% as compared with that of 2011 primarily due to reduced volume in securities broking as investors in Hong Kong market maintained a prudent attitude during the reporting period, given the uncertainties in the external economic environment and deep concerns over the European debt crisis.

Insurance

Wing Lung Insurance realised a gross premium income of HK\$756 million in 2012, representing an increase of 10.73% as compared with that of 2011. Total insurance claims increased by 8.26% to HK\$398 million. Underwriting business recorded a profit of HK\$56.15 million, indicating a significant increase as compared with that of 2011. Wing Lung Insurance reported a steady improvement in its operating results in 2012.

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Branch network

At present, WLB has a total of 44 banking offices in Hong Kong. WLB is speeding up the construction and renovation of branches to expand network.

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

Human resources

As at 31 December 2012, the total number of employees of WLB is 1,725, of which 1,530 are in Hong Kong, 143 are in the PRC, 34 are in Macau and 18 are overseas. As regards staff allocation by function, 843 are in retail banking, 301 in wholesale banking, 188 in general management and 393 in logistics. As regards academic qualifications, 836 of whom have education below a university degree, 652 have a bachelor's degree, 231 have a master's degree, and 6 have a doctorate degree. In addition, WLB is required to bear the costs of 7 retired employees.

Progress of Integration with WLB

After the acquisition of WLB, the Company attached great importance to integration of business, and prepared a detailed integration plan. In 2012, the Company continued to follow the principles of enhancing coordination of domestic and overseas businesses and strengthening our key competencies and to promote the integration of WLB in an active and steady manner, further enforced integration measures to facilitate the sustainable and healthy development of all businesses of WLB and enhance its profitability.

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and WLB jointly grasp the demand of cross-border financing. Taking client having the connecting domestic and overseas business as a breakthrough, the Company and WLB worked together in various areas, such as accepting guarantees from domestic enterprises as security for loans granted to overseas entities, accepting guarantees from overseas entities as security for loans granted to domestic enterprises, international settlement, trade finance, financial market trading business, acting as receiving banker for IPOs, dividend distribution for listed companies, import bill advance by overseas institutions (海外代付), cross-border Renminbi trade settlement, issuance of Renminbi bonds, export collection, documentary bills, Account Opening Witnessed by CMB Manager (見證開戶), Sunflower Wealth Management, Professional Investor Program, Capital Investment Entrant Scheme and sharing merchant offers for credit card businesses. During the reporting period, WLB actively established its cross-border financing business and gained competitive advantage in establishing five platforms, namely overseas wealth management platform, cross-border corporate finance service platform, small and micro enterprise financial services platform, small and medium-sized bank offshore financial services platform and comprehensive operation platform. The WLB Private Wealth Management Center commenced official operation in March 2012, which is dedicated to provide superior, private and professional wealth management services to its high-end customers in both Mainland China and Hong Kong. Wing Lung Asset Management Limited was officially established and was licensed by Hong Kong SFC to conduct asset management business. Wing Lung Opportunities Fund, the first long-short hedge fund issued by Wing Lung Bank, has been in smooth operation. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with corporate deposits of HK\$10.485 billion and corporate loans of HK\$46.657 billion. The Company has successfully recommended individual customers to WLB with retail deposits of HK\$1.772 billion and loans of HK\$342 million, and the balance of total customer assets under management amounted to HK\$4.07 billion.

Secondly, internal management was strengthened continually and key competencies were gradually enhanced. Based on the need of business development and under the guidance of new management concept, and with the strong support and assistance of the Company, the operation and management of WLB has been improved continuously. The reform on the organisation management system of "Customer-centric" retail service is advancing steadily and the process re-engineering of the Operations Centre has made remarkable

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progress. The electronic banking service capability has kept improving, as evidenced by the facts that the “telephone service center” has realised centralised operation, WLB’s iPhone App has been officially launched, an online subscription channel for initial public offering funds has been made available, and the second stage of online corporate banking and the online consumer banking service development has progressed smoothly. WLB and CMB have continued to reinforce co-operation in respect of risk management, and WLB is actively promoting the implementation of the Basel II. The performance management standard and planned finance management standard of WLB also improved. During the reporting period, WLB has made new progress in network construction with the commencement of business of its Fortress Hill branch. The IT system building is being rolled out with the goal to “establish an integrated service platform featuring cross-border services”. The second stage of core system replacement has made steady progress. Encouraging results were obtained in the upgrading of business system and IT-based management system. The relocation of its new data center has been completed. At the same time, the business communications and management interactions between staff of the two banks have been increasing, fostering a cultural integration between them.

5.11.7 CMB Financial Leasing

CMB Financial Leasing (CMBFL) is one of the first five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and is mainly engaged in the provision of financial leasing of large-and-medium size equipment in manufacturing, electricity, transportation, construction and mining sectors, as well as financial leasing for domestic large enterprises and SMEs and overseas customers. It satisfies different needs of lessees in respect of procurement of equipment, promotion of sales, activation of assets, balance of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

In 2012, CMBFL vigorously developed businesses and enhanced management, which achieved excellent results in its management and operations while keeping a steady and rapid growth, with its total leased assets hitting a new record high and its market share further expanding, and return on total assets and return on net assets ranking first among the five bank-affiliated financial leasing companies established in the same period. As at 31 December 2012, CMBFL had a registered capital of RMB4 billion, up by RMB2 billion from the end of the previous year; and 103 employees; total assets of RMB55.891 billion, up by 48.91% from the end of the previous year; net assets of RMB5.722 billion, up by 103.34% from the end of the previous year. In 2012, CMBFL has realised a net profit of RMB908 million in aggregate, representing a growth of 116.71% as compared with the previous year.

5.11.8 CMB International Capital

Established in 1993, CMB International Capital (CMBIC) is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage and assets management. As at 31 December 2012, CMBIC had a registered capital of HK\$250 million and 78 employees; total assets of HK\$703 million; and net assets of HK\$483 million. In 2012, it realised operating income of HK\$236 million, up by 123.65% as compared with the previous year; net profit of HK\$80.3256 million, up by 8,187.32% as compared with the previous year.

5.11.9 China Merchants Fund

China Merchants Fund (CMFM) was the first sino-foreign joint venture fund manager approved by China Securities Regulatory Commission (CSRC). CMFM was established on 27 December 2002 with a registered capital of RMB210 million. As at the end of the reporting period, the Company had 33.4% equity interests in CMFM. For details about further acquisition of the equity interest in CMFM, please refer to section 6.23.3. The businesses of CMFM include fund establishment, fund management and other operations approved by CSRC.

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As at 31 December 2012, CMFM reported total assets of RMB902 million, net assets of RMB664 million and a workforce of 201 employees. CMFM operated 28 open-ended mutual funds, 4 social security portfolios, 15 annuity portfolios, 25 private wealth management portfolios and 1 QFII portfolio. The total assets under management were RMB82.789 billion. In 2012, CMFM realised an operating income of RMB581 million, down by 3.49% as compared with the previous year; and net profit of RMB138 million, down by 19.30% as compared with the previous year.

5.12 Risk Management

Over recent years, the Company, through implementing the “Second Transformation”, stepped up the construction of a risk management system focusing on creating value after risk adjustment under the principles of “Comprehensive, Professional, Independent and Balanced management”. In 2012, against the background of complicated and volatile economic environment at home and abroad and the increasing risks in bank operations, the Company proactively and effectively adopted various risk control measures, and therefore the overall risk profile was maintained at controllable levels.

5.12.1 Credit risk management

Credit risk refers to risks arising from failure to fulfil the obligations by the borrowers or the counterparties under the negotiated terms and conditions. Credit risks borne by the Company was mainly from credit business, investment business and financing business and other businesses on and off balance sheet. The Company endeavors to formulate an advanced credit risk management system with independent functions, balanced and checked risks and three dedicated defence lines and implements bank-wide policies and processes regarding credit risk identification, measurement, monitoring and management to maintain a balance among risk, capital and profit of the Company.

Risk Control Committee of the Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management preference, strategies, policies and authorisations that has been approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. Based on different credit risk conditions, the Company reviews different risks associated system at different authorisation levels. The decision-making entities include: Risk Control Committee of the Head Office, the Professional Loan Approval Committee of the Head Office, the Risk Control Committee of Branch and the Professional Loan Approval Committee of Branch. From business origination, due diligence, review and approval of credit, loan disbursement and post-loan management, the Company ensured an effective implementation of the risk management procedures by introducing advanced risk quantifiable modelling tools. In accordance with regulatory requirements and based on factors like borrowers' ability and willingness to repay, guarantor's position, conditions of pledges and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under a sophisticated internal classification system. The classification of a credit may be initiated by a relationship manager or risk control officer and then reviewed by credit risk management departments of the Head Office and branches according to their respective authorisations.

In 2012, the Company continued to enhance its credit risk management in a forward-looking and fine manner under the principles of “deepening management initiatives and overall consolidation, optimising management process and innovating management measures”. The Company promoted the healthy development of its small and micro enterprise credit granting business by having in place credit risk management structure, operating process, special credit granting policies and risk management system which suits the characteristics of small and micro enterprises and competent employees; set out specific credit granting policies, extended “green” loans, continuously served real economy and optimised asset portfolio; set quota limits on the loans extended to local government financing platforms, property developers and the “high pollution, high energy consumption and overcapacity” sectors so as to prevent the occurrence of systematic risks; optimised its internal rating tools and promoted the use of risk quantification results in risk monitoring, loan pricing, economic capital evaluation and loan classification; introduced the fundamental appraisal system for credit risk management to fully improve its credit risk management level; strengthened the risk deviation

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classification management to control risk exposure proactively; and accelerated the recovery and disposal of risk assets, promoted a mechanism of coordinative recovery of loans by the Head Office and branches and stepped up the disposal of risk assets. During the reporting period, the Company recorded an increase in its non-performing loans due to the impact of economic downturn at home and abroad. However, benefiting from the Company's comprehensive countermeasures including risk mitigation, clearance and recovery of non-performing loans and accelerating the progress of writing off loss loans, the asset quality of the Company remained stable. For details of the Company's loan structure, please refer to section "5.4 Loan quality analysis" in this report.

Currently, as the impact of the global financial crisis will linger on, the banking industry will be facing more management risks from its customers under the impact of the economic transformation and restructuring. There will be increasing risks in risk-sensitive industries such as PV, steel trade and shipbuilding, which will gradually spread to the upstream and downstream industries. Credit risks in Jiangsu and Zhejiang provinces now have shown a tendency of spreading to other places of China since the fourth quarter of the previous year, the risks associated with local government financing platforms and the real estate market have not been eliminated, and the changes in social financing structure will expand and complicate the credit risk management. Against such background, the Company will adhere to the customer-centric and market-oriented strategies, promote the reform of risk management from risk control to risk management, accelerate the improvement of a comprehensive credit risk management system that matches with the development strategy of small and micro enterprise businesses and supports business transformation, product innovation and efficiency enhancement, further apply the risk quantification and portfolio management tools to accurately control and manage risks in advance, and prevent the occurrence of systematic risk, regional risk and large loan concentration risk, with an aim to ensure a stable and controllable asset quality.

5.12.2 Country risk management

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

The Company includes country risk management into its overall risk management system, dynamically monitors the change in its country risk in accordance with relevant regulatory requirements, sets limit on its country risk based on the rating results from international rating agencies, and evaluates its country risk and makes provisions on a quarterly basis. As at the end of 2012, the assets of the Company exposed to the country risks remained limited, which indicated low country risk ratings. Moreover, we have made adequate provision for country risks according to the regulatory requirements; as a result, country risks will not have any material effect on our operations.

5.12.3 Market risk management

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

The historical simulation model for the Value at Risk ("VaR") analysis is used by the Company to measure and monitor the market risk of its trading portfolio. Gap analysis and scenario analysis are used by the Company to measure and monitor the market risk of its non-trading business. The Company projects future cash flows in order to quantify the differences between assets and liabilities in a given future time duration. It also regularly conducts stress tests as supplement to the above measurement indicators.

V Report of the Board of Directors

In 2012, the Company constantly optimised its existing policy system and made continuous improvements in the methods and processes for market risk measurement and monitoring. In the fourth quarter of 2012, the Company set up a Market Risk Management Department at the Head Office, and made significant progress in improving market risk governance framework.

PBOC implemented a prudent monetary policy in 2012. It made slight adjustments to its monetary policy by cutting the deposit reserve ratio and the benchmark interest rates of deposits and loans twice within the year, and pushed forward the interest rate liberalisation. The bond market remained bullish thanks to economic slowdown and loosening economic policies. During the first half of the year, the bond market continued its strong momentum as PBOC cut the deposit reserve ratio and the interest rates successively. In the third quarter of 2012, however, the bond market tumbled as the monetary policy was not loosened to the expected extent. In the fourth quarter of the year, although the monetary policy remained moderately loose, the bond market underwent slight adjustment due to volatile stock market. The Company has formulated the corresponding investment strategies based on the in-depth studies and close monitoring on domestic and overseas macro-economic situations, monetary policies, market liquidity and the CPI trend. Currently, the Company's investment portfolios mainly include those bonds issued by Chinese government, the People's Bank of China and China's policy banks, as well as large Chinese enterprises, commercial banks and insurance companies with high credit ratings. The indicators of market risk have achieved good performance.

Given that there is still a long way to go for European economy to recover from recession, the Company continued to concern about overseas market risk and its spillover impact. Since the beginning of 2012, the company reduced the scale of its foreign currency bond investment portfolio and focused its investments on the bonds issued in overseas market by Chinese-funded enterprises and Chinese banks, which has guaranteed good investment quality and controllable risk of the Company's foreign currency bonds despite the depressed economic and financial situations abroad.

5.12.4 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.

During the reporting period, the Company, by taking various measures including further improving the framework and methodology of operational risk management, strengthening the identification, assessment and monitoring of operational risks in key areas and including operational risks into the Company's economic capital management, has further enhanced the capability of operational risk management and its effectiveness, with major risk indicators meeting the Company's risk preference requirements.

Facing challenges from internal and external operation and management, the Company will continue to take risk preference as a guideline and further enhance risk management techniques to strengthen the operational risk monitoring and control, in an effort to prevent and reduce operational risk loss.

5.12.5 Liquidity risk management

Liquidity risk is the risk that the Company cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Company cannot satisfy these requirements at a normal cost. The Company's overall liquidity is managed by the Planning and Finance Department at the Head Office, which is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The liquidity of the Company is centrally managed by the Head Office using the internal funds transfer pricing mechanism. The Company closely monitors its daily liquidity position and coverage ratio indicators, as well as monthly liquidity ratios and liquidity gap ratios. Stress tests are also used to judge whether the Company is able to meet liquidity requirements under extreme circumstances. Moreover, the Company has put in place liquidity risk early warning systems and liquidity contingency plans to guard against any liquidity crises.

V Report of the Board of Directors

In 2012, the Company reviewed and optimised its risk assessment system. Currently, the Company is making assessment on liquidity risk from the aspects of reserve financing and contingency structure so as to clearly define risk levels at different angles. The Company further enhanced the development of the liquidity risk management system. Currently, Liquidity System Phase II has been launched online. This system will automatically measure stress test, static and dynamic liquidity gap statements, as well as most of the core monitoring indicators, hence greatly improving the level of liquidity risk measurement and measurement frequency. Meanwhile, the Company continued to promote the consolidated liquidity risk management and experimented the quota limits system on its non-banking subsidiaries on the basis of the quota limit management in its banking subsidiaries. In Addition, the Company also carried out a bank-wide liquidity contingency drilling, and required each of the units at different levels, based on the experience drawn from the drilling, to set up a crisis management team, formulate a contingency plan and organize relevant trainings. These initiatives have greatly enhanced the abilities of the Head Office, branches, sub-branches and overseas branches of the Company to cope with liquidity crisis.

In 2012, under the influence of the fine-tuned monetary policy, market liquidity gradually improved. However, liquidity was still under great pressure due to the intensified disintermediation and the decrease in foreign exchange backed money supply. To cope with this, the Company adopted a series of measures to strengthen the active management of liquidity risk so as to ensure the security of both domestic and foreign currency liquidity. Specific measures include making an in-depth analysis on policy tendency and market trend, and flexibly adjusting the scale of assets; proactively using active liability as treasury term deposits on a rollover basis, absorbing long-term agreement deposits and issuing bonds to diversify the source of liabilities; and strengthening real-time monitoring on liquidity in an effort to accurately grasp market trends and exerting more efforts on financing operations.

In 2012, PBOC cut the RMB deposit reserve ratio twice. As at the end of December 2012, 18% (2011: 19%) of the total RMB deposits and 5% (2011: 5%) of the foreign currency deposits of the Company were required to be placed with PBOC.

5.12.6 Interest rate risk management

Interest rate risk refers to the risk of unfavorable fluctuation of interest rates, maturity structure and other factors which results in losses of gross profit and economic value of bank accounts. The interest rate risk faced by the Company includes the benchmark risk, re-pricing risk, yield curve risk and option risk. In particular, benchmark risk and re-pricing risk are the primary risks faced by the Company. In adherence to our prudent approach in risk management, the Company's overall objective of interest rate risk management is to achieve steady growth of net interest income and economic value within the acceptable exposure of interest rate risk.

In 2012, the Company further improved the management of interest rate risk consolidation and assigned the quota limits on interest rate risk to its subsidiaries. The Company continued to manage its interest rate risk in a proactive and forward looking manner; and improved various management measures for on-and-off balance sheet items. According to the characteristics of interest rate sensitivity, the Company took the following initiatives: firstly, vigorously promoting off-balance-sheet hedging on interest rate risk, and continuously exploring trading channels, innovating hedging methods, conducting Shibor-based interest rate swap; secondly, increasing the proportion of fixed-rate loans and elongating the re-pricing cycle of floating rate loans in order to lengthen the overall duration of loans; thirdly, striving to lengthen the duration of bond investments; lastly, attracting floating-rate active liabilities. Those initiatives on interest rate risk management brought about remarkable achievements.

In 2012, PBOC cut the RMB benchmark interest rates of deposits and loans twice, and adjusted the floating range of the interest rates of deposits and loans. The interest rate liberalisation showed an accelerated trend in which the benchmark interest rate of one-year term deposits accumulatively decreased by 50 basic points. Since the Company is relatively sensitive to fluctuations in the interest rates of assets, the lowering of the benchmark interest rates of deposits and loans may bring negative impact on the net interest income of the Group which, however, was mitigated as a result of the Company's initiatives on interest rate risk management.

V Report of the Board of Directors

In future, the Company will strengthen interest rate risk management, and get well-prepared to cope with interest rate liberalisation. On one hand, the Company will vigorously promote the Second Transformation, solidify its customer base, enhance product innovation, improve its differential deposit pricing capacity, effectively curb the cost of liabilities, and vigorously develop the “small and micro enterprise” businesses and strengthen the loan risk pricing ability, with an aim to increase comprehensive risk return; on the other hand, the Company will continue to strengthen the on-and-off balance sheet management of interest rate risk, improve the risk measurement methods and models based on the movement of interest rates in a market-oriented environment, and continuously track and monitor the effect of risk management and further optimise its risk management strategy.

5.12.7 Exchange rate risk management

Exchange rate risk refers to the impairment risk of bank's gross profit caused by losses in positions of foreign exchange and foreign exchange derivatives due to the unfavorable fluctuation in exchange rate. The Company's functional currency is RMB with majority of assets and liabilities denominated in RMB and the rest mainly in USD and HKD. The primary exchange rate risk comes from the mismatch of non-RMB denominated assets and liabilities. Through rigorous management of exchange rate risk, the Company keeps the exposure within the acceptable range.

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

In 2012, the Company revised the “Measures of China Merchants Bank for Exchange Rate Risk Management” in accordance with the latest requirements of external regulations and internal management policies on exchange rate risk; further innovated the measurement methods for foreign exchange exposure and introduced the correlation method as a reference for internal monitoring of foreign exchange exposure while applying the short-side method in compliance with relevant regulatory requirements; and set the adjustment items in respect of the exchange rate risk on the FTP curve and directed its branches to adjust the structure of foreign exchange assets and liabilities through the FTP tool.

5.12.8 Reputation risk management

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

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

In 2012, by adopting a series of measures such as improving management and service levels, establishing an effective mechanism for responding to public opinions and enhancing the prevention and early warning mechanisms of reputation risk, the Company actively responded to crisis events and avoided reputation loss.

In future, confronted with the uncertainties in domestic and foreign economic situations and the new public opinion environment created by rapidly growing mobile internet media, the Company intends to take the following measures to enhance reputation risk management. Firstly, enhancing system development to join up management channels and improve response efficiency; secondly, strengthening the reputation risk accountability mechanism and improving the significant risk assessment and response mechanism; thirdly,

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intensifying the use of risk mitigation tools to improve management capability; fourthly, performing corporate social responsibility and exerting more efforts to disseminate the knowledge of customer finance; and lastly, making more efforts to cultivate a reputation risk culture within the whole bank.

5.12.9 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of violation of the laws, rules and guidelines.

The board of directors of the Company is ultimately responsible for the compliance of the operating activities, and authorizes the Risk and Capital Management Committee under the Board to supervise on the compliance risk management. The Compliance Management Committee of the Head Office is the supreme organisation to manage compliance risk of the whole company under the senior management. The Company has established a complete and effective compliance risk management system and optimised the organisation management structure which comprises the compliance management committees, persons in charge of compliance matters, compliance officers, legal and compliance departments of head office and branches, management departments of branches and compliance supervisors of sub-branches. The Company improved the three defense lines for compliance risk management and the double-line reporting mechanism, and continued to improve the compliance risk management mechanism and the risk management techniques and procedures, so as to ensure effective management of compliance risk.

During the reporting period, targeting at management reform and the “customer-centric” process re-engineering and adapting itself to the risk-relating adjustments in regulatory policy, the Company completed all the tasks of compliance risk management.

The Company continuously gives play to the positive role of the Green Channel for Compliance Review and pays close attention to the substantive and systematic compliance risk in innovative businesses, reviews the compliance risk points associated with new businesses and products, and optimises compliance risk identification and assessment process, in an effort to promote business development and ensure compliant and law-abiding operation.

5.12.10 Anti-money laundering management

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

In 2012, the Company earnestly implemented the regulatory requirements of the People’s Bank of China on legal persons and comprehensively promoted the top-level design and system development for the Company’s anti-money laundering work in a scientific way, which achieved significant progress in anti-money laundering process optimisation and the development of a new system; based on the risks and aiming to cope with the risk of international economic sanctions, the Company adopted various targeted risk prevention measures to effectively prevent the compliance risks associated with money laundering, terrorism financing and proliferation financing.

In future, the Company will face a more complicated situation. There will remain a high occurrence of crimes associated with money laundering such as illegal fund-raising, underground banking services and bank card deception, and the compliance risk and reputation risk arising from which still deserve high attention. As the overseas anti-money laundering regulatory situation becomes increasingly serious, commercial banks will sustain greater regulatory pressure from such activities as cross-border money laundering, terrorist financing and proliferation financing. In view of this, the Company will comprehensively improve the anti-money

V Report of the Board of Directors

laundering system, conduct centralised monitoring and analysis on suspicious transactions and the risk of economic sanctions, so as to improve the professional level of its anti-money laundering work. The Company will further improve the process of due diligence inspection on customers, review money-laundering risk points in various types of customers, businesses and products, in order to take specific measures to prevent the compliance risk of anti-money laundering management.

5.12.11 Implementation of Basel II

Since 2007, in order to implement its internationalization strategy and improve its operation and management, the Company has strived to become one of the first batch of banks approved by the CBRC to adopt the advanced methods for capital measurement under Basel II. According to the regulatory requirements of Rules for Regulating the Capital of Commercial Banks (Trial), the Company proactively promoted the establishment and implementation of the advanced methods for capital measurement and, by taking various measures such as optimising the corporate governance mechanism, improving the risk management system, the effectiveness of the data quality monitoring system, the information system and the effect of verification and audit, accurately measuring risk-weighted assets and using the advanced methods to deal with more risk-weighted assets, fully met the regulatory requirements. Currently, the application for implementation of the Company's advanced methods for capital measurement has passed the CBRC's on-site acceptance and re-evaluation. The Board of Directors of the Company has agreed to submit the application to CBRC in a timely manner to implement its advanced methods for capital measurement.

5.13 Profit appropriation

5.13.1 Proposal of the profit appropriation for the year 2012

As stated in the audited financial statements of the Company for 2012, 10% of the profit after tax of RMB42.933 billion, equivalent to RMB4,293 million, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, namely RMB20.278 billion was appropriated to the general reserve.

Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend (tax included) of RMB6.30 for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The actual distribution amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by PBOC for the week before the date of the general meeting (inclusive of the day of the general meeting). The retained profit will be carried forward to the next year. In 2012, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2012 Annual General Meeting of the Company.

5.13.2 Profit appropriation for the previous 3 years:

| Year | Number of bonus shares for every ten shares held (No. of shares) | Cash Dividend for every ten shares held (RMB, inclusive of tax) | Number of shares issued on capitalisation of surplus reserve for every ten shares held (No. of shares) | Total cash dividends (Tax included) (in millions of RMB) | Net profit attributable to shareholders in the consolidated financial statements for the year (in millions of RMB) | Percentage of net profit attributable to shareholders in the consolidated financial statements (%) |
|----------------------|--|---|--|--|--|--|
| 2010 | – | 2.90 | – | 6,257 | 25,769 | 24.28 |
| 2011 | – | 4.20 | – | 9,062 | 36,129 | 25.08 |
| 2012 ^{Note} | – | 6.30 | – | 13,593 | 45,273 | 30.02 |

Note: The proposal of profit appropriation for 2012 is subject to consideration and approval at the 2012 Annual General Meeting of the Company.

V Report of the Board of Directors

5.13.3 The formulation and implementation of the Company's cash dividend policies

1. As specified in the Articles of Association (revised in 2010), the profit distribution policies of the Company are:
 - (1) profit distribution of the Company shall focus on reasonable returns to investment of the investors, and such policies shall maintain continuity and stability;
 - (2) dividend may be distributed by way of cash or allotment of new shares. Interim cash dividend may be paid out. Unless another resolution is passed at the shareholders' meeting, the Board shall be authorised at the shareholders' meeting to approve interim dividend distribution policy;
 - (3) the Company shall pay cash dividends and other amounts to holders of domestic shares and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant provisions on foreign exchange administration of the State;
 - (4) where appropriation of the Company's fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated.

Under the guidelines of the CSRC on further defining and refining the profit distribution policies of listed companies, the Company will continuously enhance its profit distribution policies based on the actual conditions and the desires of investors.

2. The Board of Directors agrees that, in principle, cash dividends to be distributed by the Company each year commencing from 2012 (including 2012 Profit Appropriations Scheme) shall be no less than 30% of net profit after tax for that year as audited in accordance with PRC GAAP and in compliance with the laws, regulations and regulatory requirements on capital adequacy ratio then in force with a view to enhance the reasonable return of shareholders' investments and to maintain the consistency and stability of the Company's dividend appropriation policy.
3. During the reporting period, the Company implemented the equity distribution plan for 2011 in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 28th meeting of the Eighth Session of the Board of Directors of the Company and approved at the 2011 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific. The Board of directors of the Company has implemented this Profit Distribution Plan. The Company will also implement the 2012 Profit Distribution Plan in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 43rd meeting of the Eighth Session of the Board of Directors of the Company and will be submitted to the 2012 Annual General Meeting for approval. The independent directors of the Company have expressed independent opinions on those profit distribution plans for 2011 and 2012 that the equity distribution plans of the Company and their implementation process have adequately protected the legal rights and interests of minority shareholders.

5.14 Social responsibility

Sticking to the principle of "Gain from society and contribute to society", the Company is always active in fulfilling its social responsibilities on poverty alleviation, green loans, charity activities and support of SMEs. The total amount of the charitable donations and other donations contributed by the Company and its employees for the reporting period was RMB22,635,500, representing a social contribution value of RMB7.08 per share at the end of the period. For details of the Company's fulfilment of its social responsibilities, please refer to the "Corporate Social Responsibility Report of China Merchants Bank Co., Ltd. in 2012".

V Report of the Board of Directors

5.15 Outlook and Measures

In 2013, both domestic and overseas financial situations will remain complicated and volatile. Internationally, the deep-rooted impact of the international financial crisis have not yet been eliminated, the global economy is undergoing a slow rebalancing process and the rapid development of the world economy prior to the crisis is giving way to a cycle of drastic structural adjustments. Domestically, China's economic growth tends to slow down, being driven primarily by consumption and investment now in contrast to exports and investment in the past, which creates more uncertainties and instability in the economy. With accelerating disintermediation, the domestic social financing system is undergoing great changes, as evidenced especially by the rising proportion of non-bank financing and the significantly enhanced financing function of the off-the-balance-sheet businesses of financial institutions. It is expected that the social financing structure will experience rapid changes within the next few years.

The complicated business environment will bring about various challenges to our operation and management. For example, on the front of liability expansion, we will face great pressure in expanding our liability business as a result of the continuous interest rate liberalisation, accelerating deposit disintermediation and residents' higher awareness of wealth management and the increasingly fierce competition from peers, and the cost of capital tends to rise; on the front of "small and micro enterprise" business development, we will have much difficulty in balancing pricing improvement, cost reduction and risk prevention given the increasing number of market players, the deteriorating business environment of certain small and medium-sized enterprises, and the prominent contradiction between the downward pressure on economic growth and the excessive capacity; on the front of earnings growth, we will face great pressure in maintaining a sustainable and steady earning growth due to re-pricing of assets and liabilities, cuts in bank card transaction fees and increasing uncertainty in the capital market and the rising cost of risk.

For now and onward, the Company also faces various good development opportunities, including the accelerating transformation of economy and society, the inflating financing needs of small businesses, the accelerating urbanisation process, the rapid accumulation of social wealth, the constant changes in financial markets, the steady promotion of RMB internationalisation and the rapid prevalence of internet-based mobile devices, which will bring many new growth points in businesses and earnings for banks. At the same time, the Company has gained certain leading advantage in retail banking business, emerging wholesale banking business and cross-border financing after two consecutive transformations, thus laying a solid foundation for the Company to achieve sustainable development.

Confronted with opportunities and challenges under new circumstances and in light of the work philosophy of "deepening management reform and accelerating Second Transformation under the customer-centric and market-oriented principles", we will fully implement the "small and micro enterprise" business development strategy, accelerate the development of intermediary businesses, proactively explore the on-and-off balance sheet business innovation and further strengthen cost management. The Company has basically fulfilled the 2012 business plan for customer deposits and customer loans. In view of the current operation environment, the Company anticipates that loans to customers and deposits from customers will increase by approximately RMB265.00 billion and RMB310.00 billion respectively in 2013. We will adopt the following operation management measures in 2013: (1) focusing more efforts on enhancing our competitive strength in wholesale banking business, taking innovative measures to solve the difficulty in developing corporate deposits business, earnestly implementing the new development strategies for small enterprise business, expediting the establishment of our new advantage in intermediary businesses and vigorously carrying out the customer doubling plan; (2) continuing to increase profit contribution of retail banking, making all our efforts to ensure our leading position in private banking and wealth management, exploring and improving the customer acquisition mode of small and micro enterprise customers and mass customers, further consolidating brand position in credit card business and striving to lead the new development trend of electronic banking and accelerating to establish a unique development mode of pension business; (3) updating our risk concepts, and effectively improving the management levels of credit risk, liquidity risk, market risk, operational risk, reputation risk so as to do a good job of internal control and compliance and misconduct case prevention. For details about the Company's risk management, please refer to the section titled "Risk Management" in the Chapter "Report of the Board of Directors"; (4) accelerating process re-engineering and resource integration, and creating a process system that supports the new organisational structure, boasting quick response to customer demands and focusing on customer values; (5) breaking down departmental barriers and constantly improving the management of planning finance, performance appraisal, human resource and IT development; and (6) making greater effort in the cross-border finance platform and steadily advancing internationalisation and all-function banking operation.

By Order of the Board of Directors
Fu Yuning
Chairman of the Board of Directors
28 March 2013

VI Important Events

6.1 Principal business activities

The Company is engaged in banking and related financial services.

6.2 Financial highlights

Details are set out in Chapter II Summary of Accounting Data and Financial Indicators of this annual report.

6.3 Reserves

Details of the changes in reserves of the Company are set out in “Statement of Changes in Equity” of the Company.

6.4 Fixed assets

Changes in fixed assets as at 31 December 2012 of the Company are set out in Note 25 to the financial statements in this annual report.

6.5 Shareholdings and trading in equity interest of other listed companies

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

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

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

6.7 Pre-emptive rights

There is no provision for pre-emptive rights for the subscription of shares by the Company's shareholders under the Articles of Association of the Company and the shareholders of the Company have not been granted any pre-emptive rights to subscribe shares.

6.8 Retirement and welfare

Details about retirement and welfare provided by the Company to its employees are set out in Note 37 to the financial statements in this annual report.

6.9 Principal customers

During the reporting period, the operating income of the top 5 customers of the Company did not exceed 30% of the total operating income of the Company. The directors and the related persons of the Company did not have any beneficial interests in the aforesaid top 5 customers.

6.10 Progress on Rights Issue

The “Proposal on the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd.” was considered and passed at the 2011 First Extraordinary General Meeting, the 2011 First A Shareholders Class Meeting and the 2011 First H Shareholders Class Meeting of the Company. To ensure the Rights Issue to be compliant with the relevant laws and regulations, the Company considered and approved the extension of the validity period of the resolutions on the Rights Issue for one year at the 33rd Meeting of the Eighth Session of the Board of Directors held on 20 July 2012, and the 2012 First Extraordinary General Meeting, the 2012 First A Shareholders Class Meeting and the 2012 First H Shareholders Class Meeting held on 7 September 2012. As at the reporting date, the Company has obtained approval from CBRC in respect of the Rights Issue, and the proposal on the Rights Issue of A Shares was considered and passed by the Review Committee under CSRC. However, the Rights Issue is still subject to the final approval from CSRC and SEHK.

VI Important Events

6.11 Use of raised funds 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 funds raised under the A Share Rights Issue and the H Share Rights Issue were RMB17,764,081,690.65 and HK\$4,525,772,680 (equivalent to approximately RMB3,980,417,072) respectively. The expenses incurred in connection with the A Share Rights Issue and the H Share Rights Issue, including fees on financial consultancy, underwriting commission, legal and accounting charges, printing, registration and translation expenses, etc., amounted to approximately RMB82,654,295.77 and HK\$108,233,784.48 (equivalent to approximately RMB95,191,613.45) respectively. The net amount of raised funds after deducting the issuing expenses was fully used to replenish the working capital of the Company for further business development.

Use of RMB20 billion raised from issuance of financial bonds and RMB11.7 billion raised from issuance of subordinated debts in 2012

For details of the Company's use of RMB20 billion raised from issuance of financial bonds and RMB11.7 billion raised from issuance of subordinated debts in 2012, please refer to the section titled "Issue of Bonds" in Chapter VII of this annual report.

Major investment not financed by the raised fund

As of the end of 2012, the accumulative investment in Shanghai Lujiazui Project amounted to RMB1,560 million, among which RMB160 million was invested during the reporting period. The project has now been at the last stage of fitting-out works and the stage of commissioning of mechanical and electrical equipment. The entire construction is expected to be completed by the end of June 2013.

6.12 Interests and short positions of the Directors, Supervisors and Chief Executives under Hong Kong laws and regulations

As at 31 December 2012, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance ("SFO")), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

| Name | Position | Class of shares | Long/short position | Capacity | No. of shares | Percentage of the relevant class of shares in issue (%) | Percentage of all the issued shares (%) |
|--------------|------------|-----------------|---------------------|------------------|---------------|---|---|
| Peng Zhijian | Supervisor | A | Long position | Beneficial Owner | 20,000 | 0.00011 | 0.00009 |

VI Important Events

6.13 Directors' interests in competing business

None of the directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Company.

6.14 Financial, business and kinship relations among directors, supervisors and senior management

Save as disclosed herein, the Company is not aware that the directors, supervisors and senior management of the Company have any relations between each other with respect to financial, business, kinship or other material or connected relations.

6.15 Contractual rights and service contacts of Directors and Supervisors

No contract of significance in relation to the business of the Company, to which the Company or any of its subsidiaries was a party and in which a director or supervisor of the Company had a material interest during the reporting period. None of the directors and supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensation).

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

So far as the Company is aware, during the reporting period, none of the Company, its Directors, Supervisors or senior management or the shareholders holding more than 5% of our shares was subject to investigation by relevant authorities or 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, nor being prohibited from engagement in the securities markets, given notice of criticism, nor determined as unqualified, nor been publicly censured by any stock exchange. Neither the Company nor the shareholders holding more than 5% of the shares of the Company has been penalised by other regulatory bodies which have significant impact on the businesses of the Company.

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

The Company and the shareholders holding more than 5% of our shares have no undertakings which need to be notified during the reporting period.

6.18 Significant connected transactions

6.18.1 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. and its members, subject to the requirements of non-exempt continuing connected transactions set by the Hong Kong Stock Exchange.

6.18.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company during the reporting period were those conducted between the Company and CIGNA & CMC Life Insurance, CMFM and CM Securities, respectively.

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On 28 December 2011, with the approval of the Board of Directors, the Company announced the continuing connected transactions between the Company and CIGNA & CMC Life Insurance, CMFM and CM Securities respectively. The Company approved the cap for each of the years of 2012, 2013 and 2014 to be RMB800,000,000 (for CIGNA & CMC Life Insurance), RMB500,000,000 (for CMFM) and RMB300,000,000 (for CM Securities) respectively. Further details were disclosed in the Announcement on Continuing Connected Transactions issued by the Company on 28 December 2011.

CIGNA & CMC Life Insurance

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

China Merchants Steam Navigation Company Limited is one of the substantial shareholders of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company and currently holds 18.63% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). CM Group is an indirect controlling shareholder of Shenzhen Dingzun Investment Advisory Company, Ltd. ("Dingzun"), which in turn holds 50% equity interest of CIGNA & CMC Life Insurance. Pursuant to the Hong Kong Listing Rules, CIGNA & CMC Life Insurance is an associate of the connected person of the Company and therefore a connected person of the Company.

Pursuant to the Share Transfer Agreement entered into between the Company and Dingzun on 5 May 2008, the Company acquired from Dingzun its 50% equity interest in CIGNA & CMC Life Insurance for a consideration of RMB141,865,000 (please refer to the section headed "Acquisition of CIGNA & CMC Life Insurance" in this report). The principal business of CIGNA & CMC Life Insurance includes life insurance, accidents and health insurance products. The completion of the acquisition is subject to the approval from the independent shareholders of the Company and the regulatory authorities. The CBRC and CIRC have granted their approvals for the acquisition. The Company will complete relevant subsequent matters in accordance with relevant regulatory requirements, and will publish an announcement upon the completion of the acquisition and settlement. Prior to the completion of the acquisition by the Company, the agency services conducted by the Company relating to the sales of insurance products of CIGNA & CMC Life Insurance constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 28 December 2011, the Company entered into service co-operation agreement with CIGNA & CMC Life Insurance for a term commencing on 1 January 2012 and expiring on 31 December 2014. The agreement was entered into on normal commercial terms. The agency 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) where there are fees prescribed by the State government, to follow these fees; 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 market fee rates in ordinary business transactions 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 2012 was set at RMB800,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements pursuant to Rules 14A.45 to 14A.47 and Rule 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2012, the aggregate amount of related transactions between the Company and CM Securities amounted to RMB185,520,000.

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CMFM

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

The Company held 33.4% of the equity interest in CMFM. The remaining equity interest in CMFM was equally held by CM Securities and ING Asset Management B.V., namely 33.3% of the equity interest each. The Company and CM Securities proposed to acquire the equity interest in CMFM held by ING Asset Management B.V. (please refer to the Company's announcement in respect of the resolution passed at the 37th meeting of the eighth session of the board of directors dated 8 October 2012). 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 28 December 2011 for a term commencing on 1 January 2012 and expiring on 31 December 2014. 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 2012 was set at RMB500,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements pursuant to Rules 14A.45 to 14A.47 and Rule 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2012, the aggregate value of related transactions between the Company and CMFM amounted to RMB240,250,000.

CM Securities

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

China Merchants Steam Navigation Company Limited, a wholly owned subsidiary of CM Group, is a substantial shareholder of the Company. CM Group currently holds 18.63% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). As CM Group also holds 45.88% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

The Company entered into a service co-operation agreement with CM Securities on 28 December 2011 for a term commencing on 1 January 2012 and expiring on 31 December 2014. The agreement was entered into on normal commercial terms. The service fees payable by CM Securities to the Company should be determined in accordance with the following pricing policies:

- (1) where there are State prescribed prices, to follow these prices; or
- (2) where there are no State prescribed prices but there are applicable State guided prices, to follow the State guided prices; or
- (3) where there are no State prescribed prices or State guided prices, to follow the market fee rates in ordinary business transactions agreed between the parties based on arm's length negotiations.

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The annual cap for continuing connected transactions between the Company and CM Securities for 2012 was set at RMB300 million which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would be subject only to the reporting, announcement and annual review requirements pursuant to Rules 14A.45 to 14A.47 and Rule 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2012, the aggregate value of connected transactions between the Company and CM Securities amounted to RMB39.55 million.

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 related to the transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole;
- (3) the transactions were entered into on normal commercial terms and conditions which were no more favorable than those to or from independent third parties; and
- (4) the transactions were conducted in accordance with the terms of relevant agreements.

Furthermore, the Company engaged KPMG to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. KPMG have issued their unqualified letter containing their findings and conclusions in respect of the aforesaid transactions in accordance with Rule 14A.38 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to SEHK.

6.18.3 Material related-party transactions

The Company's material related-party transactions are set out in Note 55 to the financial statements. These transactions entered into with related-parties in the ordinary course of its business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. These transactions were entered into by the Company in the ordinary and usual course of business on normal commercial terms, and those which constituted connected transactions under the Hong Kong Listing Rules were in compliance with the applicable regulations of the Hong Kong Listing Rules.

6.19 Inter-company transactions

The inter-company transactions of the Company cover cross-shareholding, credit and guarantees, asset transfer, receivables and payables, service charges and agency transactions between the Company and its subsidiaries as well as between the subsidiaries. The inter-company transactions of the Company were in line with regulatory requirements, and did not bring about any negative impact upon the Group's sound operation.

For details of inter-company transactions as defined under the laws and regulations of the PRC, please refer to Note 55 to the financial statements in this annual report.

6.20 Material litigation and arbitration

So far as the Company is aware, as at 31 December 2012, the Company was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases in which the Company was involved totaled 1,635 with a total principal amount of approximately RMB3,616,306,800 and total interest of approximately RMB106,341,900. Of which, there were a total of 122 pending litigation and arbitration cases against the Company as at 31 December 2012, with a total principal amount of approximately RMB566,017,500 and total interest of approximately RMB17,819,700. There was 1 pending case with a principal amount exceeding

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RMB100,000,000, involving a principal amount of approximately RMB305,995,900 and interest of RMB16,707,400. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

6.21 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, contracting or hiring or leasing any assets of other companies and vice versa out of the Company's normal business scope.

Significant entrustments in respect of fund and asset management

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

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the PBOC and the CBRC, there was no other significant discloseable guarantee.

China Merchants Bank Co., Ltd. Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

In accordance with CSRC Approval [2003] No.56 of China Securities Regulatory Commission and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due diligence review of the Company's guarantees for 2012 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the People's Bank of China and CBRC, and it is carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2012, the balance of the Company's guarantee business (including irrevocable letters of guarantees and shipping guarantees) was RMB117.84 billion, accounting for 57.68% of the Company's net assets.

The Company emphasises risk management of the guarantee business. It formulates specific management measures and operation workflow according to the risk characteristics of this business. In addition, the Company enhances risk monitoring and safeguards this business through management means such as on-site and offsite checks. During the reporting period, the operations of the Company's guarantee business was normal and there was no non-compliant guarantees.

China Merchants Bank Co., Ltd.
Independent Non-executive Directors
Yi Xiqun, Wong Kwai Lam, Yan Lan, Pan Chengwei, Pan Yingli and Guo Xuemeng

6.22 Significant event in respect of fund entrusting

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

6.23 Major activities in asset acquisition, disposal and reorganisation

6.23.1 Acquisition of CIGNA & CMC Life Insurance

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

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

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008. The CBRC and CIRC have granted their approvals for the acquisition. The Company will complete relevant subsequent matters in accordance with relevant regulatory requirements, and will publish an announcement upon the completion of the acquisition and settlement.

Further details of the above acquisition were set out in the announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 6 May 2008, 28 June 2008, 4 June 2011 and 29 March 2013 respectively.

6.23.2 Termination of the acquisition of Tibet Trust

Pursuant to the "Resolution on Acquisition of Controlling Interest in Tibet Autonomous Region Trust and Investment Corporation ("Tibet Trust") passed at the 27th meeting of the Seventh Session of the Board of Directors of the Company on 18 August 2008, the Company entered into an agreement in relation to the transfer of equity interest in Tibet Autonomous Region Trust and Investment Corporation (hereinafter referred to as the "Equity Transfer Agreement") with Tibet Autonomous Region Finance Bureau and Tibet Ai Wo Rui Feng Investment Development Co., Ltd (西藏愛沃瑞峰投資發展有限公司) (hereinafter referred to as "Ai Wo Rui Feng") on 3 August 2009, pursuant to which the Company intended to acquire 60.5% equity interest in Tibet Trust for a consideration of RMB363,707,028.34.

The Equity Transfer Agreement has not been approved by the relevant regulatory authorities even long time after it was signed. In order to end the status of uncertainty in the rights and obligations of the relevant parties to the Equity Transfer Agreement as soon as possible, and to promote the continuous healthy development of Tibet Trust, the relevant parties unanimously agreed to terminate the Equity Transfer Agreement through friendly negotiation as proposed by Tibet Autonomous Region Finance Bureau, and entered into the "Termination Agreement Regarding the Transfer of Equity Interest in Tibet Autonomous Region Trust and Investment Corporation" on 2 July 2012, pursuant to which the Company formally terminated the acquisition of 60.5% equity interest in Tibet Trust. The relevant details were set out in the Announcement on Termination of the Agreement on Acquisition of Equity Interest in Tibet Trust published on newspapers and websites designated for disclosure of the information on 3 July 2012.

6.23.3 Progress of the acquisition of China Merchants Fund

Pursuant to the "Resolution on Acquisition of Additional Equity Interest in China Merchants Fund" considered and passed at the 37th Meeting of the Eighth Session of the Board of Directors of the Company on 28 September 2012, the Company and ING Asset Management B.V. executed an Equity Transfer Agreement on 24 October 2012, pursuant to which the Company proposed to acquire a 21.6% equity interest in China Merchants Fund from ING Asset Management B.V. at a consideration of €63,567,567.57. After the acquisition, the Company's equity interest in China Merchants Fund will be increased from 33.4% to 55%. The acquisition is still pending for approval from China Banking Regulatory Commission, China Securities Regulatory Commission, the Ministry of Commerce of the PRC and other governing authorities. Relevant details were set out in the Announcement in respect of the Resolutions passed at the 37th Meeting of the Eighth Session of the Board of Directors published on newspapers and websites designated for disclosure of the information on 8 October 2012.

The acquisition of such equity interest involved the simultaneous increase by the Company and CM Securities, one of its connected parties, in equity interest in China Merchant Fund due to the sell down by ING Asset Management B.V.. Pursuant to the Equity Transfer Agreement, CM Securities proposed to acquire 11.7% equity interest in China Merchants Fund from ING Asset Management B.V. at a consideration of €34,432,432.43. After the acquisition, CM Security's equity interest in China Merchants Fund will be increased from 33.3% to 45%.

For details about the business of China Merchants Fund, please refer to section 5.11.9.

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6.24 Implementation of the H-Share Appreciation Rights Incentive Scheme during the reporting period

For details about the implementation of the Company's H-Share Appreciation Rights Incentive Scheme, please refer to Chapter VIII.

6.25 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 related party transactions on anything other than an arm's length basis. KPMG Huazhen Certified Public Accountants, being the auditor of the Company, has issued a special audit opinion in this regard.

6.26 Appointment of accounting firm

According to the resolutions passed at the 2011 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the auditor for domestic business for the year 2012 and KPMG Certified Public Accountants as the auditor for overseas business for the year 2012. Those two Certified Public Accountants have been engaged as auditors of the Company since 2002.

The financial statements of the Group for the year 2012 prepared under PRC GAAP and the internal control of the Group as at the year end of 2012 were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2012 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB14.00 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries), among which the audit expenses for internal control was approximately RMB1.42 million. The auditor's responsibility statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Certified Public Accountants was approximately RMB4.00 million.

6.27 Review on annual results

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee of the Company has reviewed the financial results and financial report of the Company for the year ended 31 December 2012.

6.28 Annual general meeting and closure of register of members

The Company's 2012 Annual General Meeting will be convened on 31 May 2013, the notice of which will be further announced by the Company.

6.29 Publication of annual report

The Company prepared the annual report in both English and Chinese versions in accordance with the International Financial Reporting Standards and the Hong Kong Listing Rules. These reports are available on the websites 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 annual report in Chinese in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for annual reports, which is available on the website of Shanghai Stock Exchange and the website of the Company.

VII Changes in Shares and Information on Shareholders

7.1 Changes in shares of the Company during the reporting period

| | 31 December 2011 | | Changes in the reporting period | 31 December 2012 | |
|--|---------------------|-------------------|---------------------------------------|---------------------|-------------------|
| | Quantity (share) | Percentage (%) | | Quantity (share) | Percentage (%) |
| I. Shares subject to trading moratorium | – | – | – | – | – |
| II. Shares not subject to trading moratorium | 21,576,608,885 | 100.00 | – | 21,576,608,885 | 100.00 |
| 1. Common shares in RMB (A Shares) | 17,666,130,885 | 81.88 | – | 17,666,130,885 | 81.88 |
| 2. Foreign shares listed domestically | – | – | – | – | – |
| 3. Foreign shares listed overseas (H Shares) | 3,910,478,000 | 18.12 | – | 3,910,478,000 | 18.12 |
| 4. Others | – | – | – | – | – |
| III. Total shares | 21,576,608,885 | 100.00 | – | 21,576,608,885 | 100.00 |

As at the end of the reporting period, the Company had a total of 533,864 shareholders, including 48,567 holders of H Shares and 485,297 holders of A Shares, and all the shares are not subject to trading moratorium.

As at the close of the fifth trading day preceding the disclosure day of the annual report, the Company had a total of 524,136 shareholders, including 48,276 holders of H Shares and 475,860 holders of A Shares, and all the shares are not subject to trading moratorium.

Based on the public information available to the Company and as far as its directors are aware, as at 31 December 2012, the Company had met the public float requirement of the Hong Kong Listing Rules.

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

| Serial No. | Name of shareholder | Type of shareholder | Shares held at the end of the period (share) | Percentage of total share capital % | Type of shares | Changes in the reporting period (share) | Number of Shares subject to trading moratorium (share) | Shares pledged or frozen (share) |
|------------|--|---------------------------------------|--|-------------------------------------|--|---|--|----------------------------------|
| 1 | HKSCC Nominees Ltd. ⁽¹⁾ | / | 3,855,228,974 | 17.87 | H Shares | 1,083,119 | – | – |
| 2 | China Merchants Steam Navigation Company Ltd. | State-owned legal person | 2,675,612,600 | 12.40 | A Shares not subject to trading moratorium | – | – | – |
| 3 | China Ocean Shipping (Group) Company | State-owned legal person | 1,341,336,551 | 6.22 | A Shares not subject to trading moratorium | – | – | – |
| 4 | Shenzhen Yan Qing Investment and Development Company Ltd. | State-owned legal person | 636,788,489 | 2.95 | A Shares not subject to trading moratorium | – | – | – |
| 5 | Guangzhou Maritime Transport (Group) Company Ltd. | State-owned legal person | 631,287,834 | 2.93 | A Shares not subject to trading moratorium | – | – | – |
| 6 | An-Bang Insurance Group Co., Ltd – Conventional Insurance Products | Domestic non-state-owned legal person | 602,568,437 | 2.79 | A Shares not subject to trading moratorium | 571,791,709 | – | – |
| 7 | Shenzhen Chu Yuan Investment and Development Company Ltd. | State-owned legal person | 556,333,611 | 2.58 | A Shares not subject to trading moratorium | – | – | – |
| 8 | China Communications Construction Company Ltd. | State-owned legal person | 383,445,439 | 1.78 | A Shares not subject to trading moratorium | – | – | – |
| 9 | SAIC Motor Corporation Limited | State-owned legal person | 368,079,979 | 1.71 | A Shares not subject to trading moratorium | – | – | – |
| 10 | Sino Life Insurance Co., Ltd. – Universal Insurance H | Domestic non-state-owned legal person | 331,999,475 | 1.54 | A Shares not subject to trading moratorium | 331,999,475 | – | – |

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. The Company is not aware of any affiliated relationships among other shareholders.

(3) The above shareholders do not hold the shares of the Company through securities accounts.

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

As at 31 December 2012, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (chapter 571 of the Laws of Hong Kong):

| Name of Substantial Shareholder | Class of shares | Long/short position | Capacity | No. of shares | Notes | Percentage of the relevant class of shares in issue (%) | Percentage of all issued shares (%) |
|---|-----------------|---------------------|------------------------------------|----------------------------|-------|---|-------------------------------------|
| China Merchants Group Ltd. | A | Long | Interest of controlled corporation | 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 [#] | | 6.86 | 5.61 |
| Shenzhen Yan Qing Investment and Development Company Ltd. | A | Long | Beneficial owner | 636,788,489 | 1 | | |
| | | Long | Interest of controlled corporation | 556,333,611 | 1 | | |
| | | | | 1,193,122,100 | | 6.75 | 5.53 |
| China Ocean Shipping (Group) Company | A | Long | Beneficial owner | 1,284,140,156 [#] | | 7.27 | 5.95 |
| China Shipping (Group) Company | A | Long | Beneficial owner | 258,470,781 | | | |
| | | Long | Interest of controlled corporation | 695,697,834 | | | |
| | | | | 954,168,615 | 2 | 5.40 | 4.42 |
| Templeton Asset Management Ltd. | H | Long | Investment manager | 429,972,565 | | 11.00 | 1.99 |
| JPMorgan Chase & Co. | H | Long | Beneficial owner | 37,184,990 | | | |
| | | Long | Investment manager | 229,219,537 | | | |
| | | Long | Custodian | 130,275,883 | | | |
| | | | | 396,680,410 | 3 | 10.14 | 1.84 |
| | | Short | Beneficial owner | 22,203,000 | 3 | 0.57 | 0.10 |
| BlackRock, Inc | H | Long | Interest of controlled corporation | 346,451,254 | 4 | 8.86 | 1.61 |
| | | Short | Interest of controlled corporation | 36,143,096 | 4 | 0.92 | 0.17 |

VII Changes in Shares and Information on Shareholders

- * As at 31 December 2012, China Merchants Group Ltd. indirectly held an aggregate of 18.63% of the total issued shares of the Company, consisting of 18.43% of the A shares of the Company and 0.20% of the H shares of the Company, respectively.
- # The above numbers of shares were recorded in interests disclosure forms completed by the relevant substantial shareholders before 31 December 2012. During the period from the date on which the respective substantial shareholders submitted the said forms up to 31 December 2012, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation under SFO.

Notes :

- (1) China Merchants Group Ltd. was deemed to hold interests 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 and Development Company Ltd. held 636,788,489 A shares (Long position) in the Company. Shenzhen Yan Qing Investment and Development Company Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.
 - (1.4) Shenzhen Chu Yuan Investment and Development Company Ltd. held 556,333,611 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment and Development Company Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., referred to in (1.3) above, respectively.
- (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:
 - (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.

VII Changes in Shares and Information on Shareholders

- (3) JPMorgan Chase & Co. was deemed to hold interests in a total of 396,680,410 H shares (Long position) and 22,203,000 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 154,244,437 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 33,316,992 H shares (Long position) and 21,985,000 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.3) J.P. Morgan Investment Management Inc. held 64,052,023 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.4) JPMorgan Asset Management (UK) Limited held 136,524,443 H shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.5) JPMorgan Asset Management (Taiwan) Limited held 3,872,282 H shares (Long position) in the Company. JPMorgan Asset Management (Taiwan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.6) J.P. Morgan Securities plc held 3,867,998 H shares (Long position) and 188,000 H shares (Short position) in the Company. J.P. Morgan Securities plc was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.7) JPMorgan Asset Management (Japan) Limited held 687,235 H shares (Long position) in the Company. JPMorgan Asset Management (Japan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.8) China International Fund Management Co Ltd held 115,000 H shares (Long position) in the Company. China International Fund Management Co Ltd was owned as to 49% by JPMorgan Asset Management (UK) Limited, which was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co..
 - (3.9) J.P. Morgan Markets Limited held 30,000 H shares (Short position) in the Company. J.P. Morgan Markets Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 130,275,883 H shares. Besides, 2,064,743 H shares (Long position) and 22,173,000 H shares (Short position) were held through derivatives as follows:

| | | |
|--|---|--|
| 359,000 H shares (Long position) and 188,000 H shares (Short position) | – | through physically settled derivatives (on exchange) |
| 11,000 H shares (Short position) | – | through cash settled derivatives (on exchange) |
| 1,705,743 H shares (Long position) and 21,974,000 H shares (Short position) | – | through cash settled derivatives (off exchange) |

- (4) BlackRock, Inc. had a long position in 346,451,254 H shares (in which 386,500 H shares were held through physically settled derivatives (on exchange) and a short position in 36,143,096 H shares (in which 424,000 H shares were held through physically settled derivatives (on exchange)) of the Company by virtue of its control over a number of wholly-owned subsidiaries.

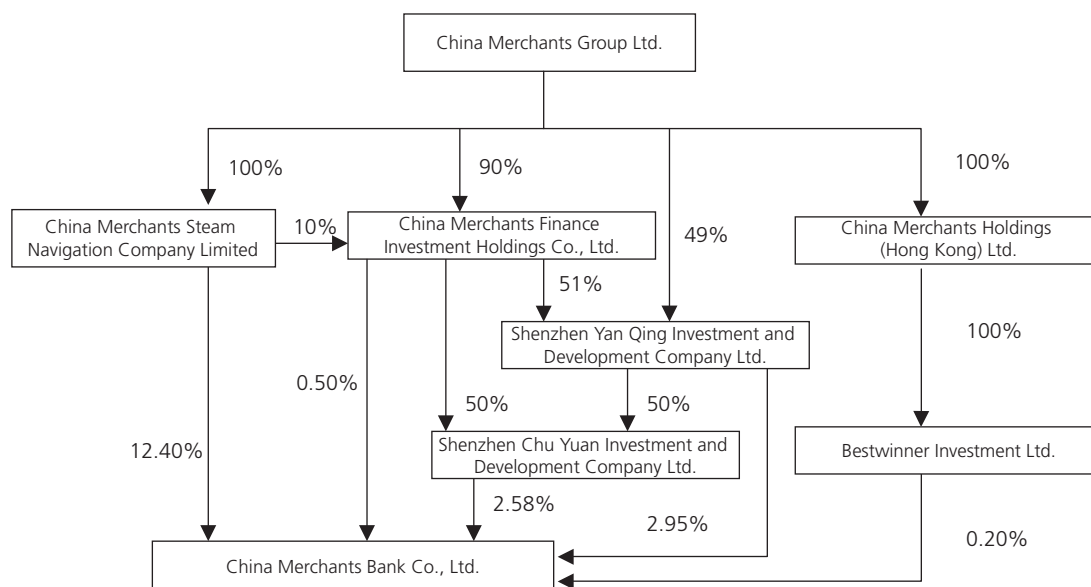
Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2012 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

VII Changes in Shares and Information on Shareholders

7.4 Information about the Company's largest shareholder and its parent company

- (1) China Merchants Steam Navigation Company Ltd., being the largest shareholder of the Company, was founded on 11 October 1948 with a registered capital of RMB2.2 billion (organisation code: 100011452). Its legal representative is Mr. Fu Yuning. It is a wholly owned subsidiary of China Merchants Group Ltd. The said company is mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc; as well as investment and management of transportation-related financial businesses including banking, securities and insurance.
- (2) China Merchants Group Ltd. directly holds 100% equity interest in China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder. Its legal representative is Mr. Fu Yuning. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was incorporated in 1872, a time when China was in its late Qing Dynasty and was undergoing the Westernisation Movement, and was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a conglomerate, specialising in transportation infrastructure, industrial zone development, port, finance, property and logistics businesses, etc.

The Company has no controlling shareholder or de facto controlling party. The equity relationship between the Company and its largest shareholder is illustrated as follows:



Note: As at 31 December 2012, China Merchants Group Ltd. indirectly held an aggregate of 18.63% of the total shares of the Company, consisting of 18.43% of A Shares and 0.20% of H Shares of the Company.

VII Changes in Shares and Information on Shareholders

7.5 Particulars of other shareholders holding over 5% of the shares of the Company

China Ocean Shipping (Group) Company was founded on 27 April 1961 with a registered capital of RMB4.1 billion. Its legal representative is Mr. Wei Jiafu. The company is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council and a multinational company with international shipping as its principal business. It is mainly engaged in international passenger and cargo shipping businesses along with leasing, building, sale and purchase of vessels, containers and their maintenance and device fabrication; domestic coastal transportation of goods and shipping agency services; communication services and ship/cargo agency in major ports in China.

7.6 Particulars on share issuance and listing **2010 rights issue**

On 26 February 2010, the Bank received from China Securities Regulatory Commission the “Reply Regarding the Approval of China Merchants Bank Co., Ltd.’s Rights Issue” (CSRC Approval [2010] No. 257), approving the Bank to place new shares to holders of its A Shares. As at the last day (11 March 2010) for subscription and payment under the rights issue, a total of 2,007,240,869 A Shares had been validly subscribed at a price of RMB8.85 per share. A Shares issued under the rights issue commenced trading on 19 March 2010.

On 20 February 2010, the Bank received from CSRC the “Reply Regarding the Approval of China Merchants Bank Co., Ltd.’s Rights Issue for Overseas-listed Foreign Shares”, together with the approval of the Hong Kong Stock Exchange, pursuant to which the Bank placed 449,878,000 new shares to holders of its H Shares at a price of HK\$10.06 per share, and the paid-up H Shares under the rights issue commenced trading on 9 April 2010.

The above rights issue resulted in an increase of the total number of the Company’s shares by 2,457,118,869 shares.

Internal staff shares

The Company did not issue internal staff shares during the reporting period.

7.7 Issuance of bonds

Issuance of financial bonds in 2012

Approved by China Banking Regulatory Commission and the People’s Bank of China (PBOC), the Company issued the financial bonds (the “Bonds”) at the amount of RMB20 billion on 14 March 2012. The Bonds were divided into two types, type I is a 5-year bonds with fixed interest rate, issuance size of RMB6.5 billion and annual coupon rate of 4.15%; type II is a 5-year bonds with floating interest rate, issuance size of RMB13.5 billion and a basic spread of 0.95%, and the coupon rate being the sum of benchmark interest rate plus basic spread. The benchmark interest rate represented the one-year lump-sum deposit and withdrawal time deposit rate published by PBOC and applicable for the first date of issuance and the value date in each interest-bearing year. The benchmark interest rate applicable to the first interest-bearing period is 3.50%. As at 31 December 2012, the proceeds raised from issuance of the financial bonds were fully used to support small- and micro-enterprise financings.

Issuance of subordinated debts in 2012

Approved by CBRC and PBOC, the Company issued subordinated debts in an amount of RMB11.7 billion in the domestic interbank debt markets on 27 December 2012. The total size for such issuance of subordinated debts amounted to RMB11.7 billion, all of which are fixed rate debts for a term of 15 years. The coupon rate is 5.20% and the issuer may select to redeem the debts by the end of the first 10 years. As at 31 December 2012, the proceeds raised from issuance of the subordinated debts were fully used to replenish the supplementary capital of the Company.

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

8.1 Directors, supervisors and senior management

| Name | Gender | Date of birth (Y/M) | Title | Term of office | Shareholding at the beginning of the year (share) | Shareholding at the end of the year (share) | Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand) | Aggregate pre-tax remunerations received from the shareholders' companies during the reporting period (RMB ten thousand) |
|-----------------|--------|---------------------|--|------------------|---|---|--|--|
| Fu Yuning | Male | 1957.3 | Chairman & Non-Executive Director | 2010.6 – 2013.6 | – | – | – | – |
| Wei Jiafu | Male | 1950.1 | Vice Chairman & Non-Executive Director | 2010.6 – 2013.6 | – | – | – | Note (1) |
| Li Yinquan | Male | 1955.4 | Non-Executive Director | 2010.6 – 2013.6 | – | – | – | – |
| Fu Gangfeng | Male | 1966.12 | Non-Executive Director | 2010.8 – 2013.6 | – | – | – | – |
| Hong Xiaoyuan | Male | 1963.3 | Non-Executive Director | 2010.6 – 2013.6 | – | – | – | – |
| Xiong Xianliang | Male | 1967.10 | Non-Executive Director | 2012.7-2013.6 | – | – | – | – |
| Sun Yueying | Female | 1958.6 | Non-Executive Director | 2010.6 – 2013.6 | – | – | – | Note (1) |
| Wang Daxiong | Male | 1960.12 | Non-Executive Director | 2010.6 – 2013.6 | – | – | – | Note (2) |
| Fu Junyuan | Male | 1961.5 | Non-Executive Director | 2010.6 – 2013.6 | – | – | – | 88.45 |
| Ma Weihua | Male | 1948.6 | Executive Director, President and Chief Executive Officer | 2010.6 – 2013.6 | – | – | 474.60 | – |
| Zhang Guanghua | Male | 1957.3 | Executive Director and Executive Vice President | 2010.6 – 2013.6 | – | – | 308.49 | – |
| Li Hao | Male | 1959.3 | Executive Director, Executive Vice President and Chief Financial Officer | 2010.6 – 2013.6 | – | – | 308.49 | – |
| Yi Xiqun | Male | 1947.8 | Independent Non-Executive Director | 2010.6 – 2013.6 | – | – | 30.00 | – |
| Wong Kwai Lam | Male | 1949.5 | Independent Non-Executive Director | 2011.7-2013.6 | – | – | 30.00 | – |
| Yan Lan | Female | 1957.1 | Independent Non-Executive Director | 2010.6 – 2013.6 | – | – | 30.00 | – |
| Pan Chengwei | Male | 1946.2 | Independent Non-Executive Director | 2012.7-2013.6 | – | – | 12.50 | – |
| Pan Yingli | Female | 1955.6 | Independent Non-Executive Director | 2011.11 – 2013.6 | – | – | 30.00 | – |

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

| Name | Gender | Date of birth (Y/M) | Title | Term of office | Shareholding at the beginning of the year (share) | Shareholding at the end of the year (share) | Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand) | Aggregate pre-tax remunerations received from the shareholders' companies during the reporting period (RMB ten thousand) |
|------------------------|--------|---------------------|---|-------------------|---|---|--|--|
| Guo Xuemeng | Female | 1966.9 | Independent Non-Executive Director | 2012.7-2013.6 | – | – | 12.50 | – |
| Han Mingzhi | Male | 1955.1 | Chairman of Board of Supervisors | 2010.8 – 2013.6 | – | – | 332.22 | – |
| Zhu Genlin | Male | 1955.9 | Shareholder Supervisor | 2010.6 – 2013.6 | – | – | – | Note (3) |
| An Luming | Male | 1960.4 | Shareholder Supervisor | 2012.5 – 2013.6 | – | – | – | – |
| Wen Jianguo | Male | 1962.10 | Shareholder Supervisor | 2010.6 – 2013.6 | – | – | – | Note (4) |
| Liu Zhengxi | Male | 1963.7 | Shareholder Supervisor | 2012.5 – 2013.6 | – | – | – | 29.81 |
| Peng Zhijian (note 5) | Male | 1948.11 | External Supervisor | 2011.10 – 2013.6 | 25,000 | 20,000 | 5.00 | – |
| Pan Ji | Male | 1949.4 | External Supervisor | 2011.5 – 2013.6 | – | – | 30.00 | – |
| Yang Zongjian | Male | 1957.4 | Employee Supervisor | 2010.6 – 2013.6 | – | – | 202.75 | – |
| Zhou Qizheng | Male | 1964.11 | Employee Supervisor | 2010.6 – 2013.6 | – | – | 199.19 | – |
| Tang Zhihong | Male | 1960.3 | Executive Vice President | 2010.6 – 2013.6 | – | – | 284.76 | – |
| Yin Fenglan | Female | 1953.7 | Executive Vice President | 2010.6 – 2013.6 | – | – | 284.76 | – |
| Ding Wei | Male | 1957.5 | Executive Vice President | 2010.6 – 2013.6 | – | – | 284.76 | – |
| Zhu Qi | Male | 1960.7 | Executive Vice President | 2010.6 – 2013.6 | – | – | Note (6) | – |
| Tang Xiaoqing | Male | 1954.8 | Executive Vice President | 2012.4 – 2013.6 | – | – | 284.76 | – |
| Wang Qingbin | Male | 1956.12 | Executive Vice President | 2011.6 – 2013.6 | – | – | 284.76 | – |
| Xu Lianfeng | Male | 1953.2 | Chief Technology Officer | 2001.11 up to now | – | – | 189.84 | – |
| Lan Qi | Male | 1956.6 | Secretary of Board of Directors | 2010.6 – 2013.6 | – | – | 237.30 | – |
| Chow Kwong Fai, Edward | Male | 1952.8 | Former Independent Non-Executive Director | 2010.6 – 2012.7 | – | – | 17.50 | – |
| Liu Hongxia | Female | 1963.9 | Former Independent Non-Executive Director | 2010.6 – 2012.7 | – | – | 17.50 | – |
| Hu Xupeng | Male | 1975.10 | Former Shareholder Supervisor | 2010.6 – 2012.5 | – | – | – | – |
| Li Jiangning | Male | 1959.4 | Former Shareholder Supervisor | 2010.6 – 2012.5 | – | – | – | 37.96 |

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

- Notes:
1. For details of the remuneration of Mr. Wei Jiafu and Ms. Sun Yueying (both are Directors) received from the shareholders' company during the reporting period, please refer to the 2012 annual report of China COSCO Holdings Co., Ltd.;
 2. For details of the remuneration of Mr. Wang Daxiong (a Director) received from the shareholders' company during the reporting period, please refer to the 2012 annual report of China Shipping Development Co., Ltd.;
 3. For details of the remuneration of Mr. Zhu Genlin (a Supervisor) received from the shareholders' company during the reporting period, please refer to the 2012 annual report of SAIC Motor Corporation, Ltd.;
 4. For details of the remuneration of Mr. Wen Jianguo (a Supervisor) received from the shareholders' company during the reporting period, please refer to the 2012 annual report of China Shipping Haisheng Co., Ltd.;
 5. Mr. Peng Zhijian, a Supervisor, sold his 5,000 A Shares in the Company on 31 December 2012. Mr. Peng has been paid by the Company since November, 2012;
 6. Mr. Zhu Qi received his remuneration from WLB, a subsidiary of the Company;
 7. The total pre-tax remuneration of the full-time Executive Directors, chairman of the Board of Supervisors and senior management of the Company is still being verified, and the information about the remaining part will be disclosed separately upon confirmation of payment.

8.2 Appointment and resignation of Directors, Supervisors and Senior Management during the reporting period

During the reporting period, pursuant to the resolution considered and passed at the 28th meeting of the Eighth Session of the Board of Directors and the 2011 Annual General Meeting, as Mr. Chow Kwong Fai, Edward and Ms. Liu Hongxia (both being an independent non-executive director who held the position in the special committee under the Board of Directors) completed their terms of office and resigned from the positions, the Board of Directors appointed Mr. Pan Chengwei and Ms. Guo Xuemeng as the independent non-executive directors of the Eighth Session of the Board of Directors, and Mr. Xiong Xianliang was appointed as an additional non-executive director of the Eighth Session of the Board of Directors to fill the vacant position. The qualification of Mr. Xiong Xianliang as a director, and the qualifications of Mr. Pan Chengwei and Ms. Guo Xuemeng as directors were approved by China Banking Regulatory Commission Shenzhen Office on 2 July 2012 and 9 July 2012 respectively. Their appointments as directors were effective from the date of approval and their tenure of office will expire as at the conclusion of the Eighth Session of the Board of Directors of the Company.

During the reporting period, Mr. Hu Xupeng and Mr. Li Jiangning, the Company's shareholder supervisors resigned from the position as supervisor due to job-related reasons. Approved by the Eleventh Meeting of the Eighth Session of the Board of Supervisors held from 27 to 28 March 2012 and the 2011 Annual General Meeting held on 30 May 2012, the Board of Supervisors appointed Mr. An Lumeng and Mr. Liu Zhengxi as supervisors of the Eighth Session of the Board of Supervisors, with a term effective from the date of approval by the shareholders general meeting and ending at the expiration of the term of the Eighth Session of the Board of Supervisors.

Save as disclosed above, there were no other changes to members of the Board of Directors and the Board of Supervisors during the reporting period.

The resolution was passed at the 28th meeting of the Eighth Session of the Board of Directors to appoint Mr. Tang Xiaoqing as the Executive Vice President of the Company and his qualifications were approved by CBRC, Shenzhen Office in April 2012.

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

8.3 Particular changes to Directors and Supervisors during the reporting period

1. Mr. Fu Yuning, Chairman and Non-Executive Director of the Company, ceased to be an independent non-executive director of CapitaLand Ltd. (a company listed in Singapore).
2. Mr. Li Yinquan, Non-Executive Director of the Company, has acted as the vice chairman of China Merchants Capital Investment Co., Ltd. since January 2012.
3. Ms. Yan Lan, Independent Non-Executive Director of the Company, ceased to be an independent non-executive director of Anhui Tianda Oil Pipe Company Limited.
4. Ms. Pan Yingli, Independent Non-Executive Director of the Company, serves as vice president of Shanghai World Economy Association, vice president of Shanghai Institute of International Financial Centers, and chief expert of Pan Yingli (International Financial Center Construction) Studio at Shanghai Institute of Development Strategies under Development Research Center of Shanghai Municipal Government.
5. Mr. Zhu Genlin, Shareholder Supervisor of the Company, was appointed as the chairman of China Automotive Industry Investment and Development Co., Ltd. since June 2012, and ceased to be the chairman of board of supervisors of Huayu Automotive Systems Company Ltd. (a company listed on the Shanghai Stock Exchange).
6. Mr. An Luming, Shareholders Supervisor of the Company, ceased to be the deputy general manager of the Financial Assets Department of the CNOOC.
7. Mr. Wen Jianguo, Shareholder Supervisor of the Company, ceased to be the chief supervisor of Qinhuangdao Qinyun Energy Development Company Limited, a director of Holiday Inn Sea View Qinhuangdao and a director of Hebei Tower Company Limited.
8. Mr. Peng Zhijian, external supervisor of the Company, ceased to be the executive director of the Seventh Congress of the Chinese Monetary Society and the Sixth General Assembly of the Chinese Numismatic Association.
9. Mr. Ma Weihua, Executive Director, President and CEO of the Company, has served as an independent director of Guotai Junan Securities Co., Ltd. since January 2013.
10. Mr. Yang Zongjian, an employee supervisor of the Company, was appointed as the general manager of the Operation Department of the Head Office in January 2013 (his qualification is subject to the approval of CBRC), and ceased to be the general manager of the Administration Department of the Head Office.
11. Mr. Zhou Qizheng, an employee supervisor of the Company, was appointed as the general manager of the Changsha Branch of the Company since January 2013 (his qualification is subject to the approval of CBRC) and ceased to be the general manager of the Audit Department of the Head Office.

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

8.4 Current positions held by the directors and supervisors in the shareholders' companies or associates of the Bank

| Name | Name of Company | Title | Term of office |
|-----------------|--|---|-------------------------------|
| Fu Yuning | China Merchants Group Ltd. | Chairman | From August 2010 up to now |
| Wei Jiafu | China Ocean Shipping (Group) Company | Chairman | From August 2011 up to now |
| Li Yinquan | China Merchants Group Ltd. | Vice President | From July 2002 up to now |
| Fu Gangfeng | China Merchants Group Ltd. | Chief Financial Officer | From November 2011 up to now |
| Hong Xiaoyuan | China Merchants Group Ltd. | Executive Assistant President & Managing Director of China Merchants Finance Holdings Company Limited | From September 2011 up to now |
| Xiong Xianliang | China Merchants Group Ltd. | General Manager of the Strategy Research Department | From October 2011 up to now |
| Sun Yueying | China Ocean Shipping (Group) Company | Chief Accountant | From December 2000 up to now |
| Wang Daxiong | China Shipping (Group) Company | Vice General Manager | From August 2011 up to now |
| Fu Junyuan | China Communications Construction Co., Ltd | Executive Director & Chief Financial Officer | From September 2006 up to now |
| Zhu Genlin | SAIC Motor Corporation Limited | Vice President | From January 2012 up to now |
| An Luming | The Financial Assets Department of China National Offshore Oil Corporation | Vice General Manager | From December 2011 up to now |
| | CNOOC Investment Co., Ltd. (note) | General Manager | From December 2011 up to now |
| Wen Jianguo | Hebei Port Group Co., Ltd. | Director & Chief Accountant | From July 2009 up to now |
| Liu Zhengxi | Shandong State-owned Assets Investment Holdings Co. Ltd | Vice President | From March 2011 up to now |

Note: CNOOC Investment Co., Ltd. (a shareholder of the Company) is a subsidiary of China National Offshore Oil Corporation.

8.5 Major career profiles of directors, supervisors and senior management and information of their concurrent posts

Directors

Mr. Fu Yuning, Chairman and non-executive director of the Bank. He has been a director of the Bank since March 1999 and has been the Chairman of the Bank since October 2010. Mr. Fu obtained a doctorate degree from Brunel University, the United Kingdom. He is a member of the Twelfth National Committee of CPPCC. He has been the chairman of China Merchants Group Ltd. since August 2010. Mr. Fu concurrently holds the posts as the chairman of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and an independent non-executive director of Li & Fung Limited (a company listed on the Hong Kong Stock Exchange), and a General Committee Member of the Hong Kong General Chamber of Commerce. He is also the chairman of China Nanshan Development (Group) Inc.

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Mr. Wei Jiafu, Vice Chairman and non-executive director of the Bank. He has been the Vice Chairman of the Bank since April 2001. He obtained a doctorate degree from Tianjin University. He is a member of the sixteenth and seventeenth sessions of Chinese Communist Party Central Committee for Discipline Inspection. He has been the chairman of China Ocean Shipping (Group) Company since August 2011. Mr. Wei is the chairman of the board of directors and non-executive director of China COSCO Holdings Company Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange), and the chairman of the board of COSCO (Hong Kong) Group Ltd. He is also the chairman of China Association of Trade in Services and China Shipowners Mutual Assurance Association. He is also a member of the Committee of Boao Forum for Asia Commission, the 21st Century Committee for China-Japan Friendship, China National MBA Education Supervisory Committee, and Harvard Business School Asia-Pacific Advisory Board, and an adviser of the Panama Canal Authority. He was the President of China Ocean Shipping (Group) Company from November 1998 to August 2011.

Mr. Li Yinquan, non-executive director of the Bank. He has been a director of the Bank since April 2001. He obtained a master's degree in economics in the Graduate School of the People's Bank of China and a master's degree in finance in FINAFRICA, Italy, and is a senior economist. He is a member of the Twelfth National Committee of CPPCC of Hong Kong Special Administrative Region. He is the vice president of China Merchants Group Ltd., the chairman of China Merchants Finance Holdings Company Limited and China Merchants China Direct Investments Ltd. (a company listed on the Hong Kong Stock Exchange), and the vice chairman of China Merchants Capital Management Ltd. He is also a director of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange). He was the chief financial officer, vice president and chief financial officer of China Merchants Group Ltd.

Mr. Fu Gangfeng, non-executive director of the Bank. He has been a director of the Bank since August 2010. He obtained a bachelor's degree in finance and a master's degree in business administration from Xi'an Highway College and is a senior accountant. He is the chief financial officer of China Merchants Group Ltd. He also serves as a director of China Merchants Securities (a company listed on the Shanghai Stock Exchange) and China Merchants Energy Shipping Company Co., Ltd (a company listed on the Shanghai Stock Exchange). He was the deputy director of the Shekou ZhongHua Certified Public Accountants, the director of the chief accountant office and deputy chief accountant of China Merchants Shekou Industrial Zone Co., Ltd. respectively, and the chief financial officer of China Merchants Shekou Holdings Co. Ltd. and China Merchants Shekou Industrial Zone Co., Ltd., and the general manager of the finance division of China Merchants Group Ltd.

Mr. Hong Xiaoyuan, non-executive director of the Bank. He has been a director of the Bank since June 2007. He obtained a master's degree in economics from Peking University and a master's degree in science from Australian National University. Since September 2011, he has been an Executive Assistant President of China Merchants Group Ltd. and the General Manager of China Merchants Finance Holdings Company Ltd. since May 2007. He is also the chairman of China Merchants China Investment Management Ltd., China Merchants Kunlun Equity Investment Fund Management Co., Ltd. (招商昆侖股權投資管理有限公司), Houlder Insurance Brokers Far East Ltd., China Merchants Finance Investment Holdings Co., Ltd., China Merchants Insurance Co. and China Merchants Holdings (U.K.) Co., Ltd.. He had also served as a director of China Merchants Securities (a company listed on the Shanghai Stock Exchange), China Merchants China Direct Investments Ltd. (a company listed on the Hong Kong Stock Exchange), China Credit Trust Co., Ltd., Morgan Stanley Huaxin Fund Management Company Ltd., and Great Wall Securities Co., Ltd..

Mr. Xiong Xianliang, non-executive director of the Bank. He has been a director of the Bank since July 2012. He obtained a doctorate degree in economics from Nankai University and is a researcher. He is currently the general manager of the Strategic Research Department of China Merchants Group Limited, and a standing committee member of the Youth Federation of the Central Government Departments. He was a director of the Industry Department of the Development Research Center of the State Council, deputy director of the Planning Committee and deputy director of the Western Development Office of Chongqing, deputy group leader of the Comprehensive Group of the Western Development Office of the State Council and inspector of the Research Office of the State Council.

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

Ms. Sun Yueying, non-executive director of the Bank. She has been a director of the Bank since April 2001. She is a university graduate and is a senior accountant. She has been the chief accountant of China Ocean Shipping (Group) Company since December 2000. She has also been a non-executive director of China COSCO Holdings Company Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange), the chairman of COSCO Finance Co., Ltd. and a director of China Merchants Securities (a company listed on the Shanghai Stock Exchange).

Mr. Wang Daxiong, non-executive director of the Bank. He has been a director of the Bank since March 1998. He is a university graduate and is a senior accountant. He has been the deputy general manager of China Shipping (Group) Company since August 2011. He has also been a non-executive director of China Shipping Container Lines Company Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange), an executive director of China Shipping Development Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) and the chairman of the board of directors of China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd. (a company listed on the Shanghai Stock Exchange). He successively served as the vice president and the chief accountant of China Shipping (Group) Company from 1997 to 2011.

Mr. Fu Junyuan, non-executive director of the Bank. He has been a director of the Bank since March 2000. He obtained a doctorate degree in management and is a senior accountant. He has been the executive director and chief financial officer of China Communications Construction Ltd. (a company listed on the Hong Kong Stock Exchange) since September 2006. He has also been the vice chairman of Jiang Tai Insurance Broker Co., Ltd.. He was the chief accountant of China Harbour Engineering (Group) Ltd. from October 1996 to September 2005, and the chief accountant of China Communications Construction (Group) Ltd. from September 2005 to September 2006.

Mr. Ma Weihua, executive director of the Bank. He has been the President and CEO as well as the executive director of the Bank since March 1999. He obtained a doctorate degree in economics and is a senior economist. He is a member of the Twelfth National Committee of CPPCC. He is also a director of China Merchants Group Ltd., the chairman of CIGNA & CMC Life Insurance, China Merchants Fund and Wing Lung Bank, as well as an independent non-executive director of China Petroleum & Chemical Corporation (a company listed on the Hong Kong Stock Exchange) and Winox Holdings Limited (a company listed on the Hong Kong Stock Exchange). He has been an independent director of Guotai Junan Securities Co., Ltd. since January 2013. He is also the vice chairman of China Chamber of International Commerce, the executive deputy chairman of China Entrepreneurs Association, a member of the Standing Council of China Society for Finance and Banking, a member of the Standing Council of the Ninth Council of Red Cross Society of China, a director of Shenzhen Soft Science Development Foundation and an adjunct professor at several higher educational institutions including Peking University and Tsinghua University.

Mr. Zhang Guanghua, executive director of the Bank. He joined the Bank as an executive vice president in April 2007 and has been an executive director of the Bank since June 2007. Mr. Zhang obtained a doctorate degree in economics and is a senior economist. He is also the vice chairman of the board of directors of Wing Lung Bank. He is a member of the Standing Council of China Society for Finance and Banking, the deputy chairman of both Guangdong Society for Finance and Banking and Guangdong Commerce Association respectively, a member of the Fifth Committee of China Council for the Promotion of International Trade and an adjunct professor at Southwestern University of Finance and Economics and Jilin University. From September 2002 to April 2007, he served as the president of Guangdong Development Bank.

Mr. Li Hao, executive director of the Bank. He joined the Bank in May 1997 and has been an executive vice president of the Bank since March 2002, and the Chief Financial Officer since March 2007. He served as an executive director of the Bank since June 2007. Mr. Li obtained a master's degree in business administration and is a senior accountant. He is also a non-executive director of Wing Lung Bank. He has been an executive assistant president and subsequently an executive vice president of the Bank. He was the president of the Shanghai Branch of the Bank from April 2000 to March 2002.

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

Mr. Yi Xiqun, independent non-executive director of the Bank. He has been a director of the Bank since January 2008. He obtained a master's degree in economics management engineering from Tsinghua University. He is currently the vice president of China Association of Private Equity and the vice president and the first alternate chairman of Beijing Association of Private Equity. He concurrently acts as an independent non-executive director of SOHO China Ltd. (a company listed on the Hong Kong Stock Exchange), Zheshang Jinhui Trust Co., Ltd. and Asian Capital (Corporate Finance) Limited, the president of Capital Enterprises Association (京城企業協會會長), the vice president of China Association for the Promotion of Industrial Development, and a member of Zhong Guancun Advisory Committee. He had been the president of Beijing Holdings Ltd., the chairman of the board of directors of Beijing Enterprises Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) and the president of Beijing Enterprises Group Company Ltd., the chairman of the board of directors of Beijing Private Equity Investment & Development Fund Management Co., Ltd. and the chairman of Bowei Capital.

Mr. Wong Kwai Lam, independent non-executive director of the Bank. He has been a director of the Bank since July 2011. He obtained a bachelor degree from the Chinese University of Hong Kong and Ph. D from Leicester University, England. He is the chairman of IncitAdv Consultants Ltd. and a director of Opera Hong Kong, a member of the Strategic Investment Society of The Chinese University of Hong Kong, and a member of the Board of Trustee and the Strategic Investment Society of New Asia College of The Chinese University of Hong Kong. He also serves as the manager of Prosperity Real Estate Investment Trust and an independent non-executive director of K. Wah International Holdings Limited (a company listed on the Hong Kong Stock Exchange). He once serviced at Merrill Lynch (Asia Pacific) Limited from May 1993 to August 2009, and acted as the managing director & Head of Asia Pacific Investment Banking and managing director & chairman of Asia Pacific Investment Banking. Mr. Wong used to be a member of Advisory Committee under the Securities and Futures Commission in Hong Kong and its committee on Real Estate Investment Trusts and a member of the China Committee to the Hong Kong Trade Development Council.

Ms. Yan Lan, independent non-executive director of the Bank. She has been a director of the Bank since June 2007. She obtained a bachelor's degree in French Language and Literature from Beijing Foreign Studies University, a master's degree in international law from Peking University, a doctorate degree in international law from Graduate Institute of International Studies in Geneva, and has been the managing director of Lazard Ltd and the president of Greater China Investment Banking. She has served as the chief representative in the Beijing Office of Gide Loyrette et Nouel from 1998 to April 2011. She has also been the vice chairlady of Chinese Arts Fund, the chairman of China Heritage Protection Fund (NGO), an adviser of France's foreign trade and the honorary consul of the Principality of Monaco in Beijing.

Mr. Pan Chengwei, independent non-executive director of the Bank. He has been a director of the Bank since July 2012. He graduated from Cadre Institute under the Ministry of Transport with an associate bachelor's degree and is an accountant. Mr. Pan started his career in 1965 and retired in November 2008. He consecutively served as the head of finance department of China Ocean Shipping Company, the general manager of finance department of China Ocean Shipping (Group) Company, the general manager of finance department of COSCO (Hong Kong) Group Limited, the general manager of COSCO (H.K.) Property Development Limited, the general manager of COSCO (H.K.) Industry & Trade Holdings Ltd., the chief representative of Shenzhen representative office of COSCO HK Group, the general manager of COSCO (Cayman) Fortune Holding Co., Ltd. and its Hong Kong branch, and the compliance manager of the Fuel Oil Futures Department of China Ocean Shipping (Group) Company. He is currently an independent director of Shenzhen Nanshan Power Station Co. Ltd., a company listed on the Shenzhen Stock Exchange.

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

Ms. Pan Yingli, independent non-executive director of the Bank. She has been a director of the Bank since November 2011. She holds a Bachelor's degree in Economics from East China Normal University, a Master's degree in Economics from Shanghai University of Finance and Economics and a Doctor's degree in World Economics from East China Normal University. Ms. Pan had taught at East China Normal University since 1984. She was an associate professor, a professor and a tutor of doctorate candidates in East China Normal University, and an invited expert of Shanghai Municipal Government on decision-making consultation (1998-2007). She joined Shanghai Jiao Tong University in November 2005. She is currently a director of Research Center for Global Finance, Shanghai Jiao Tong University, a professor and a tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, vice president of Shanghai World Economy Association, vice president of Shanghai Institute of International Financial Centers, chief expert of Pan Yingli (International Financial Center Construction) Studio at Shanghai Institute of Development Strategies under Development Research Center of Shanghai Municipal Government, and an independent supervisor of China Shipping Container Lines Company Limited.

Ms. Guo Xuemeng, independent non-executive director of the Bank. She has been a director of the Bank since July 2012. She holds a Master's degree in accounting of economics department from Northern Jiaotong University (renamed as Beijing Jiaotong University in 2003) and a Doctor's degree in economics of School of Economics and Management from Beijing Jiaotong University. She is currently a professor, a tutor of doctorate candidates and a vice dean of the School of Economics and Management of Beijing Jiaotong University, a secretary general of Transportation and Economics Committee of China Communication and Transportation Association, a direct member of Railway Accounting Association (鐵道會計學會直屬學會理事), an independent director of Gvitech Corporation (偉景行科技股份有限公司), and an independent director of Beijing Bode Communication Equipment Co., Ltd. (北京博得交通設備股份有限公司). From July 2001 to July 2007, she successively served as the deputy secretary of the CCP committee of the School of Economics and Management of Beijing Jiaotong University and a deputy director of the general office of the university.

Supervisors

Mr. Han Mingzhi, Chairman of the Board of Supervisors of the Company since August 2010. He holds a Master's degree in International Economics from the Johns Hopkins University of the United States of America and is a senior economist. He was also assigned to the Executive Director for the seventh session of the Council for China Society for Finance and Banking. He had been the Deputy Executive Director for China in the International Monetary Fund from 1996 to 1998, Deputy Director-General of the International Department of the People's Bank of China from 1999 to 2003, and Director-General of the International Department of the CBRC from 2003 to June 2010.

Mr. Zhu Genlin, director of the Company from April 2001 to May 2003, and Supervisor of the Company since May 2003. Mr. Zhu graduated from Shanghai University of Finance and Economics and obtained a master's degree in economics. He is a senior economist and associate researcher. He has been the chief financial officer of Shanghai Automotive Industry Corporation (Group) from February 2002 to August 2010, a vice president of Shanghai Automotive Industry Corporation (Group) from August 2010 to January 2012 and a vice president of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) since January 2012. He is concurrently the chairman of the Board of Supervisors of Shanghai Foundation for Promotion of Transformation of Scientific and Technological Achievements, the deputy chairman of Shanghai Cost Study Society, Shanghai Creative Industry Centre, the general manager of Shanghai Automotive Group (Beijing) Co., Ltd., the chairman of China Automotive Industry Investment and Development Co., Ltd., the chairman of Shanghai Automotive Asset Management Co., Ltd., the chairman of Shanghai Creative Industry Investment Corp., the vice chairman of the board of supervisors of Shenyin & Wanguo Securities Co., Ltd. and a director of Changjiang Pension Insurance Co., Ltd..

Mr. An Luming, supervisor of the Company since May 2012. Mr. An graduated from Beijing Institute of Economics majoring in political economics and is a senior economist. He joined China National Offshore Oil Corporation (the "CNOOC") in 1995, and had served as the Chief of the Corporate Management Office (企業管理處) of the Corporate Policy Research Department, the Chief of the System Reform Department of the Corporate Reform Office, the Restructure and Listing Manager of the Corporate Reform Office, General Manager Assistant and Deputy General Manager of Zhonghai Trust and Investment Co., Ltd., the deputy general manager of the Asset Management Department of the CNOOC, and the deputy general manager of the Financial Assets Department of the CNOOC. From December 2011 to present, Mr. An has acted as the general manager of the CNOOC Investment Holding Co., Ltd.

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

Mr. Wen Jianguo, supervisor of the Company since June 2010. He is a university graduate and is an accountant. He has been the director and chief accountant of Hebei Port Group Co., Ltd since July 2009. He also serves as a director of China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd. (a company listed on the Shanghai Stock Exchange) and director of the Hebei Banking Corporation Limited. He served as director of finance of Qinhuangdao Port Group Co. Ltd. from April 2003 to July 2007 and director and chief accountant of Qinhuangdao Port Group Co. Ltd. from July 2007 to December 2008.

Mr. Liu Zhengxi, supervisor of the Company since May 2012. He graduated from the Hangzhou Institute of Commerce majoring in enterprise management. Mr. Liu served as a section officer, the deputy director of the Planning and Financial Division and the deputy director of the Labor Wage Division of Shandong Provincial Department of Labor and Social Security from 2000 to 2004, he had also served as the deputy director and the director of the Distribution Department and the Head of the Capital Operation and Gains Management Department of State-owned Assets Supervision and Administration Commission of Shandong Province from 2004 to 2011. From March 2011 to present, Mr. Liu has acted as the vice president of Shandong State-owned Assets Investment Holding Co., Ltd.

Mr. Peng Zhijian, external supervisor of the Company since October 2011. He holds a Master's degree in Financial Investment from Guangxi Normal University and is a senior economist. He serves as the independent non-executive director of Dongguan Trust Co., Ltd., and the external supervisor of Ping An Insurance (Group) Company of China, Ltd.. He has previously served as the deputy governor, governor of People's Bank of China (PBOC) Guangxi Branch, the deputy governor of PBOC Guangzhou Regional Branch, the governor of PBOC Shenzhen Central Branch, the governor of PBOC Wuhan Regional Branch and the head of the State Administration of Foreign Exchange Hubei Bureau, and the governor of Guangdong Regulatory Bureau of the CBRC.

Mr. Pan Ji, external supervisor of the Company since May 2011. He graduated in Labour Economics from Beijing Institute of Economics. He previously served as the supervisor (at director-general level) of the Board of Supervisors of the previous State-owned Assets Supervision and Administration Commission under the State Council. He successively served as the vice director of the Cadre Division Office of the Labour & Personnel Bureau, the deputy head of Planning & Recruitment Department, the vice director, office head, the chief of the Central Committee, the assistant inspector (at deputy director-general level) of the Recruitment Office of the Examination Recruitment Department of the Ministry of Personnel, the assistant to Commissioner and office head of the Investigating Commissioner Office under the State Council, the supervisor and office head of the Board of Supervisors of the Central Enterprises Work Committee, and the supervisor (at deputy director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council.

Mr. Yang Zongjian, joined the Company in 1997 and has been an employee supervisor of the Company since June 2007. He is a postgraduate and a senior economist. He successively served as the deputy general manager of the Development Department and Institutional Management Department (in charge of daily management) of the Head Office of the Company, and the deputy general manager (at a general manager's level) of the Human Resources Department, the general manager of CMB Kunming Branch and the general manager of the Administration Department of the Head Office. Since March 2007, he has served as the deputy director of the Labor Union of the Company. Since January 2013, he has served as the general manager of the Operation Department of the Head Office of the Company (his qualification is subject to the approval of CBRC).

Mr. Zhou Qizheng, joined the Company in 1995 and has been an employee supervisor of the Company since June 2010. He is a postgraduate and is a senior economist. He served as the assistant general manager and the deputy general manager of the Credit Management Department of the Head Office of the Company, the deputy general manager of the Risk Control Department of the Head Office of the Company, the deputy general manager of the Wuhan Branch of the Company, the deputy general manager of the Asset Preservation Department of the Head Office of the Company, the deputy general manager of the Credit Control Department of the Head Office of the Company (responsible for overall management), the general manager of the Credit Risk Control Office of the Head Office, and the general manager of the Audit Department of the Head Office. He has been the general manager of Changsha Branch of the Company since January 2013 (his qualification is subject to the approval of CBRC).

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

Senior Management

Mr. Ma Weihua, President and Chief Executive Officer of the Bank. Please refer to Mr. Ma Weihua's biography under the paragraph headed "Directors" above.

Mr. Zhang Guanghua, Executive Vice President of the Bank. Please refer to Mr. Zhang Guanghua's biography under the paragraph headed "Directors" above.

Mr. Li Hao, Executive Vice President and Chief Financial Officer of the Bank. Please refer to Mr. Li Hao's biography under the paragraph headed "Directors" above.

Mr. Tang Zhihong, Executive Vice President of the Bank. Mr. Tang graduated from Jilin University and is a senior economist. He joined the Bank in May 1995. He successively served as the deputy general manager of the Shenyang Branch, the deputy head of the Shenzhen Administration Unit, the general manager of the Lanzhou Branch, the general manager of the Shanghai Branch, head of the Shenzhen Administration Unit, and Executive Assistant President of the Bank. He has been Executive Vice President of the Bank since April 2006.

Ms. Yin Fenglan, Executive Vice President of the Bank. Ms. Yin obtained a master's degree in Economics and is a senior economist. She joined the Bank in May 1994. She successively served as the deputy general manager and later the general manager of the Beijing Branch, and an Executive Assistant President of the Bank and at the same time the general manager of the Beijing Branch. She has been Executive Vice President of the Bank since April 2006.

Mr. Ding Wei, Executive Vice President of the Bank. Mr. Ding is a university graduate and associate researcher. He joined the Bank in December 1996. He successively served as the director of the General Office and the general manager of the Operation Department of Hangzhou Branch, the assistant general manager and the deputy general manager of Hangzhou Branch, the general manager of Nanchang sub-branch, the general manager of Nanchang Branch, and the general manager of the Human Resources Department of the Head Office, and an executive assistant president of the Head Office. He has served as Executive Vice President of the Bank since April 2008. He is concurrently a director of CIGNA & CMC Life Insurance and China UnionPay Co., Ltd.

Mr. Zhu Qi, Executive Vice President of the Bank, executive director and Chief Executive Officer of WLB. Mr. Zhu holds a master's degree in economics. He joined the Bank in August 2008, and he has been executive director and Chief Executive Officer of Wing Lung Bank since September 2008. He has been the Executive Vice President of the Bank since December 2008. He worked in the Industrial and Commercial Bank of China from 1986 to 2008, and successively served as the vice general manager and general manager of Industrial and Commercial Bank of China Ltd., Hong Kong Branch, a director, the managing director and the chief executive officer of Industrial and Commercial Bank of China (Asia) Ltd., the chairman of Chinese Mercantile Bank, and an independent non-executive director of Great Eagle Holdings Limited.

Mr. Tang Xiaoping, Executive Vice President of the Bank. Mr. Tang obtained a doctorate degree in economics from Zhongnan Finance and Economics University. He is a senior economist. He joined the Bank in November 2008, and served as the Secretary of the Party Discipline Committee of the Bank. He has been the Executive Vice President since April 2012. He worked in the CBRC from March 2003 to November 2008, and successively served as a deputy director of its Cooperative Finance Supervision Department, the secretary and director of CBRC Inner Mongolia Bureau, CPC (Communist Party of China), the secretary and director of CBRC Shanxi Bureau, CPC, the director of the Banking Regulatory Department I of CBRC and the director of its Finance and Accounting Department.

Mr. Wang Qingbin, Executive Vice President of the Bank. He is a graduate from Chinese Academy of Social Sciences with a master's degree and also a senior economist. He joined the Bank in May 2000 and successively served as the general manager of Jinan Branch and Shanghai Branch. He has been Executive Assistant President of the Bank since May 2009 and Vice President of the Bank since June 2011 and is concurrently the chairman of CMB Financial Leasing. He has also been the chairman of CMB International since July 2012.

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

Mr. Xu Lianfeng, Chief Technology Officer of the Bank. He is a graduate of Tsinghua University. He joined the Bank in October 1991. He has served as Chief Technology Officer since November 2001, and was the general manager of the Information Technology Department of the Bank from December 2005 to September 2007.

Mr. Lan Qi, Secretary of the Board of Directors, Head of the Office of the Board of Directors and Head of the Office of the Board of Supervisors, and one of the joint company secretaries of the Bank. Mr. Lan obtained a master's degree in economics from the Graduate School of the People's Bank of China and is a senior economist. He joined the Bank in April 1993, and successively served as the deputy general manager of the Development and Research Department of the Head Office, the deputy general manager of the Securities Department of the Head Office and the deputy general manager of CMB Securities Company, the general manager of the Human Resources Department, Research and Development Department, Merchant Banking Department of the Head Office and the general manager of CMB International and the director of the General Affairs Department. He has been Director of the Office of the Board of Directors and Head of the Office of the Board of Supervisors of the Bank since February 2004 and has also been Secretary of the Board of Directors of the Bank since March 2004.

Mrs. Seng Sze Ka Mee, Natalia, one of the joint company secretaries of the Company since August 2006. Mrs. Seng is the Chief Executive Officer (China & Hong Kong) and Head of Corporate Services (China & Hong Kong) of Tricor Group. Prior to joining Tricor Group, she was a director of Company Secretarial Services at Ernst & Young, Hong Kong and Tengis Limited from 1994 to 2002. Mrs. Seng is a Chartered Secretary, a past President (2007-2009) and a past Council Member (1997-2012) of The Hong Kong Institute of Chartered Secretaries; a Fellow and Council Member of The Institute of Chartered Secretaries and Administrators, and a Fellow of the Hong Kong Institute of Directors and the Taxation Institute of Hong Kong. Mrs. Seng holds a master's degree in Business Administration (Executive) from City University of Hong Kong. Up till present, apart from the Company, she has also been providing professional secretarial services to other listed companies together with the support of her professional team.

8.6 Explanation on the office location of Chairman of the Company

Mr. Fu Yuning, Chairman of the Company, also acts as the chairman of China Merchants Group Ltd.. China Merchants Group Ltd. is the parent company of the Company's largest shareholder and is directly managed by the State-owned Assets Supervision and Administration Committee under the State Council. It is a state-owned large-sized business group with business operations headquartered in Hong Kong. Therefore, Mr. Fu Yuning's daily office place is located in Hong Kong.

8.7 Evaluation and incentive system and annual remuneration for directors, supervisors and senior management

The Company offers remuneration to independent directors and external supervisors according to the "Resolution in respect of Adjustment to Remuneration of Independent Directors and External Supervisors"; offers remuneration to executive directors and other senior executives according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released on 27 March 2012) of the Company; and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees of the Company. Directors and supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

The Board of Supervisors evaluates the performance of directors according to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)" and through the review of the working report of the Directors. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released on 27 March 2012) and the "Assessment Standards of H-Share Appreciation Rights Incentive Scheme for the Senior Management".

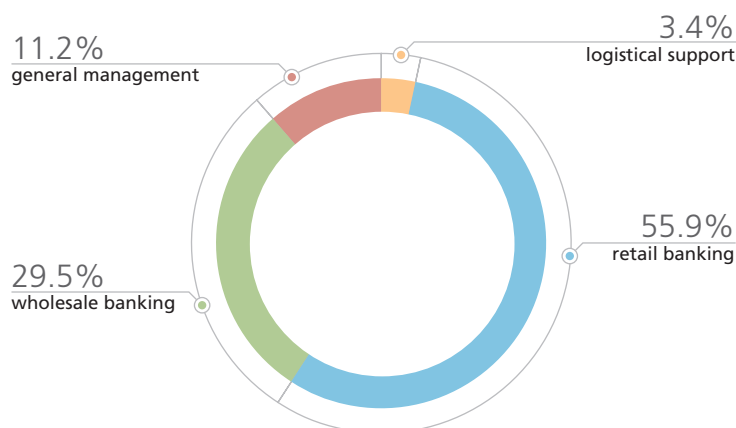
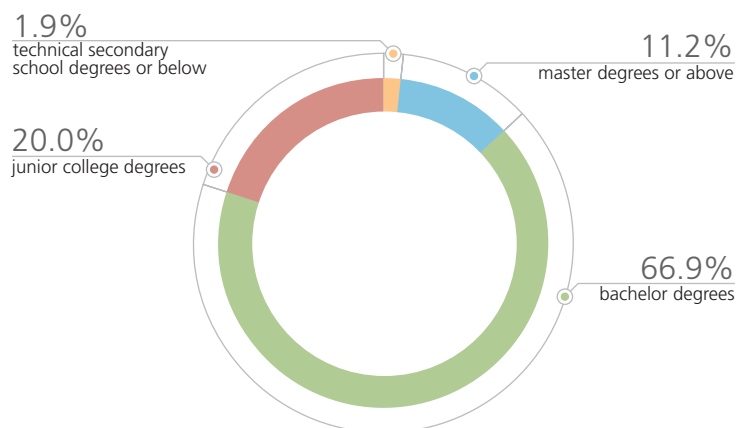
VIII Directors, Supervisors, Senior Management, Employees and Organisational Structure

8.8 H Share Appreciation Rights Incentive Scheme during the reporting period

To further establish and enhance its incentive system for reconciling the 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, 7 November 2008, 16 November 2009, 18 February 2011 and 4 May 2012, the Board of Directors of the Company granted the H Share appreciation rights of Phases I, II, III, IV and V under the Scheme respectively. Please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company for details.

8.9 Information about employees

As at 31 December 2012, the Company had 59,340 employees (including 10,887 dispatched employees). In addition, the Company is subject to payment of costs for 255 retired employees. For details of employees of the major subsidiaries of the Company, please refer to the section 5.11.6. The composition of the Company's employees is set out as follows:

1. Professional Structure**2. Educational Structure**

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

Core technical team and key technical personnel

During the reporting period, there was no change in the personnel (including the Company's core technical team and key technical staff other than directors, supervisors or senior management members) who may exercise significant influence on the Company's core competitiveness.

Staff Remuneration Policies

The Company's remuneration policy aims to promote the implementation of corporate strategies, to improve unit performance and to control the risks of operation and management, which is in line with the operation targets, cultural philosophy and value concept of the Company. The Company adheres to its remuneration policies of "basing salaries on position value and business performance" which links salary distribution to corporate profits and individual performance, and fully reflects risk restraints in the process of salary distribution.

The Company carries out its remuneration management at three levels comprising of the Board of Directors, Head Office and branches. The Board of Directors takes charge of managing the Company's total remuneration amounts and the remuneration packages for its senior management. The Head Office takes charge of distributing and managing the total remuneration amounts for various branches and representative offices as required by the Board of Directors. Each of the branches and the representative offices takes charge of managing staff's salaries as required by the Head Office.

Staff training program

The Company formulated an annual training program based on its development strategy as well as its education and training development plan, under which the Company launched various training courses to ensure its talent training and cultivation and to provide support to the enhancement of professional skills and career development of its employees. During the reporting period, the Company launched a number of key training programs including "Jin Ying Program (金鷹計劃)", "Business Navigator Program (領航計劃)" and "Happy Learning Program (樂學計劃)", made a serious commitment to knowledge management, teaching material development, part-time teacher training and postdoctoral workstation construction and organised a total of over 200 Level-1 trainings covering more than 300,000 trainees.

8.10 Branches and representative offices

The Company continued to extend the branch network in 2012. During the reporting period, 11 domestic branches were approved to commence business, namely Xining Branch, Haikou Branch, Zunyi Branch, Tonghua Branch, Loudi Branch, Jiangmen Branch, Binzhou Branch, Baoji Branch, Zhanjiang Branch, Yancheng Branch and Huaibei Branch. The Company received approvals for setting up another 8 branches, namely Xuchang Branch, Sanming Branch, Fushun Branch, Daqing Branch, Qianhai Branch, Lvliang Branch, Qingyuan Branch and Jinzhou Branch.

The Company will continue to carry out its network planning in 2013. In such practice, the Company will adhere to the basic principles of "controlling development pace, emphasising efficiency, ensuring quality and prioritising key issues" with a focus on the development of second-tier branches and sub-branches at county level, continuously expand the coverage of its intra-city sub-branches and self-service equipment in urban area, and steadily proceed with the construction of its branches and representative offices. As for its regional layout, the Company will penetrate deeper into the three largest markets, namely Yangtze River Delta, Pearl River Delta and Bohai Rim, to further strengthen its development advantage, thus enhancing its regional competitiveness in these key regions.

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

The following table sets forth the branches and representative offices as at 31 December 2012:

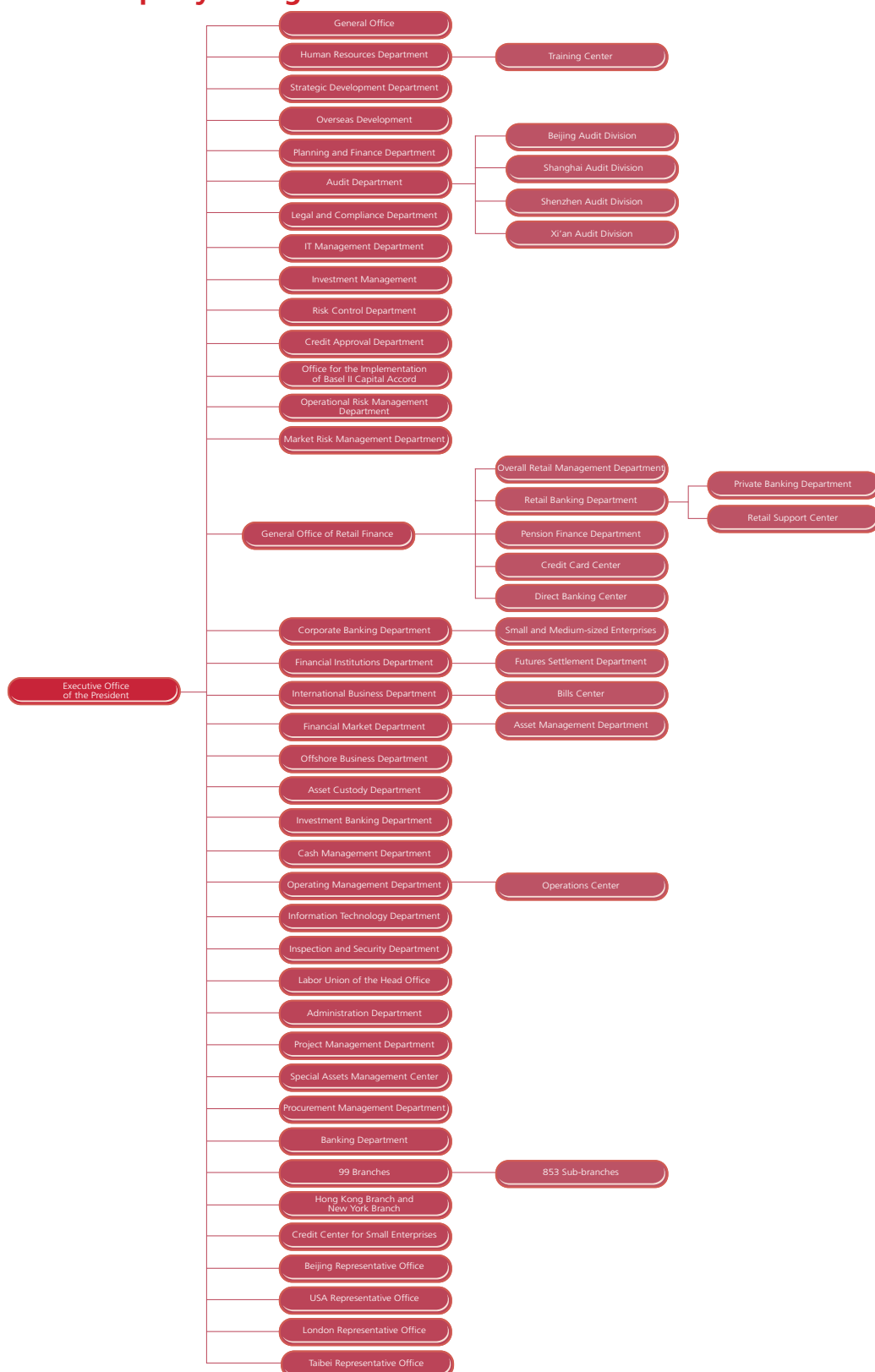
| Regions | Name of branches | Business address | Postal code | No. of branches | No. of staff | Size of assets (in millions of RMB) |
|--|-------------------------------------|--|-------------|-----------------|--------------|-------------------------------------|
| Head Office | Head Office | 7088 Shennan Boulevard, Shenzhen | 518040 | 1 | 4,341 | 1,162,091 |
| | Credit Card Center | 316 Lao Shan Road, Pudong New District, Shanghai | 200120 | 1 | 7,826 | 105,915 |
| | Credit Center for Small Enterprises | Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou | 215028 | 1 | 715 | 39,462 |
| Yangtze River Delta | Shanghai Branch | 161 Lujiazui Road East, Pudong, Shanghai | 200120 | 60 | 3,126 | 136,019 |
| | Nanjing Branch | 1 Hanzhong Road, Nanjing | 210005 | 53 | 2,533 | 90,393 |
| | Hangzhou Branch | 23 Hangda Road, Hangzhou | 310007 | 52 | 2,304 | 109,652 |
| | Ningbo Branch | 938 Baizhang Road East, Ningbo | 315041 | 24 | 1,022 | 46,017 |
| | Suzhou Branch | 128 Sanxiang Road, Suzhou | 215004 | 21 | 1,122 | 65,039 |
| Bohai Rim | Beijing Representative Office | 35 Jinrong Avenue, Xicheng District, Beijing | 100005 | 1 | 7 | 1 |
| | Beijing Branch | 156 Fuxingmen Nei Dajie, Beijing | 100031 | 61 | 3,365 | 150,745 |
| | Qingdao Branch | 36 Hong Kong Road Central, 8 Shinan District, Qingda | 266071 | 32 | 1,645 | 47,197 |
| | Tianjin Branch | 55 Youyi Road North, Hexi District, Tianjin | 300204 | 31 | 1,336 | 49,654 |
| | Jinan Branch | 21 Chaoshan Street, Lixia District, Jinan | 250011 | 35 | 1,565 | 55,993 |
| | Shijiazhuang Branch | 172 Zhonghua Street South, Shijiazhuang | 050000 | 3 | 161 | 6,841 |
| Pearl River Delta and West Side of Taiwan Strait | Guangzhou Branch | 5 Huasui Road, Tianhe District, Guangzhou | 510620 | 45 | 1,982 | 71,011 |
| | Shenzhen Branch | 2 Shennan Road Central, Shenzhen | 518001 | 72 | 4,229 | 190,732 |
| | Fuzhou Branch | 60 Guping Road, Fuzhou | 350003 | 28 | 1,201 | 42,003 |
| | Xiamen Branch | 862 Xiahe Road, Xiamen | 361004 | 15 | 780 | 36,283 |
| | Dongguan Branch | 200 Hongfu Road, Nancheng District, Dongguan | 523129 | 20 | 743 | 59,411 |
| | Foshan Branch | Hongye Mansion, 23 Jihua 5th Road, Foshan | 528000 | 18 | 816 | 60,790 |
| North-eastern China | Shenyang Branch | 12 Shiyiwei Road, Heping District, Shenyang | 110003 | 25 | 1,490 | 37,090 |
| | Dalian Branch | 17 Renmin Road, Zhongshan District, Dalian | 116001 | 19 | 954 | 35,854 |
| | Harbin Branch | 3 Zhongyang Avenue, Daoli District, Harbin | 150001 | 15 | 764 | 25,137 |
| | Changchun Branch | 1111 Ziyou Avenue, Zhaoyang District, Changchun | 130000 | 8 | 475 | 21,376 |

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

| Regions | Name of branches | Business address | Postal code | No. of branches | No. of staff | Size of assets (in millions of RMB) |
|------------------------|------------------------------|--|-------------|-----------------|---------------|-------------------------------------|
| Central China | Wuhan Branch | 518 Jianshe Avenue, Hankou, Wuhan | 430022 | 41 | 1,944 | 61,772 |
| | Nanchang Branch | 162 Bayi Avenue, Nanchang | 330003 | 24 | 1,114 | 48,478 |
| | Changsha Branch | 24 Cai'e Road Central, Furong District, Changsha | 410005 | 28 | 1,202 | 48,139 |
| | Hefei Branch | 436 Changjiang Road Central, Hefei | 230061 | 23 | 1,020 | 33,611 |
| | Zhengzhou Branch | 39 Huayuan Road, Zhengzhou | 450000 | 19 | 899 | 29,292 |
| | Taiyuan Branch | 1 Xinjian Road South, Taiyuan | 030001 | 12 | 664 | 21,116 |
| | Haikou Branch | 1-3/F, Complex Building C, Hainan Yihao, 1 Shimao Road North, Haikou | 570100 | 1 | 83 | 458 |
| | | | | | | |
| Western China | Chengdu Branch | No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu | 610000 | 30 | 1,370 | 42,946 |
| | Lanzhou Branch | 9 Qingyang Road, Chengguan District, Lanzhou | 730030 | 17 | 688 | 25,140 |
| | Xi'an Branch | 1 Gaoxin No.2 Road, Xi'an | 710001 | 30 | 1,496 | 42,628 |
| | Chongqing Branch | 2 Linjiangzhi Road, Yuzhong District, Chongqing | 400010 | 28 | 1,236 | 48,687 |
| | Urumchi Branch | 80 Xinhua Road North, Urumchi | 830002 | 11 | 560 | 20,148 |
| | Kunming Branch | 48 Dongfeng Road East, Kunming | 650051 | 25 | 1,098 | 41,012 |
| | Hohhot Branch | 56 Xinhua Street, Hohhot | 010010 | 9 | 451 | 20,677 |
| | Nanning Branch | 92-1 Minzu Avenue, Nanning | 530022 | 8 | 323 | 9,250 |
| | Guiyang Branch | 284 Zhonghua Road North, Yunyan District, Guiyang | 550001 | 3 | 215 | 12,816 |
| | Yinchuan Branch | 217 Xinhua Street East, Xingqing District, Yinchuan | 750000 | 5 | 209 | 7,500 |
| Outside Mainland China | Xining Branch | 4 Xinning Road, Chengxi District, Xining | 810000 | 1 | 77 | 3,126 |
| | Hong Kong Branch | 12 Harcourt Road, Central, Hong Kong | - | 1 | 119 | 67,010 |
| | USA Representative Office | 509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A | - | 1 | 1 | 2 |
| | New York Branch | 535 Madison Avenue | - | 1 | 40 | 9,033 |
| | London Representative Office | 39 Cornhill EC3V 3ND, London, UK | - | 1 | 2 | 2 |
| | Taipei Representative Office | 333, Section 1, Jilong Road, Xinyi District, Taipei | - | 1 | 1 | 1 |
| Other assignments | | | | | 26 | - |
| Total | | - | - | 961 | 59,340 | 3,237,550 |

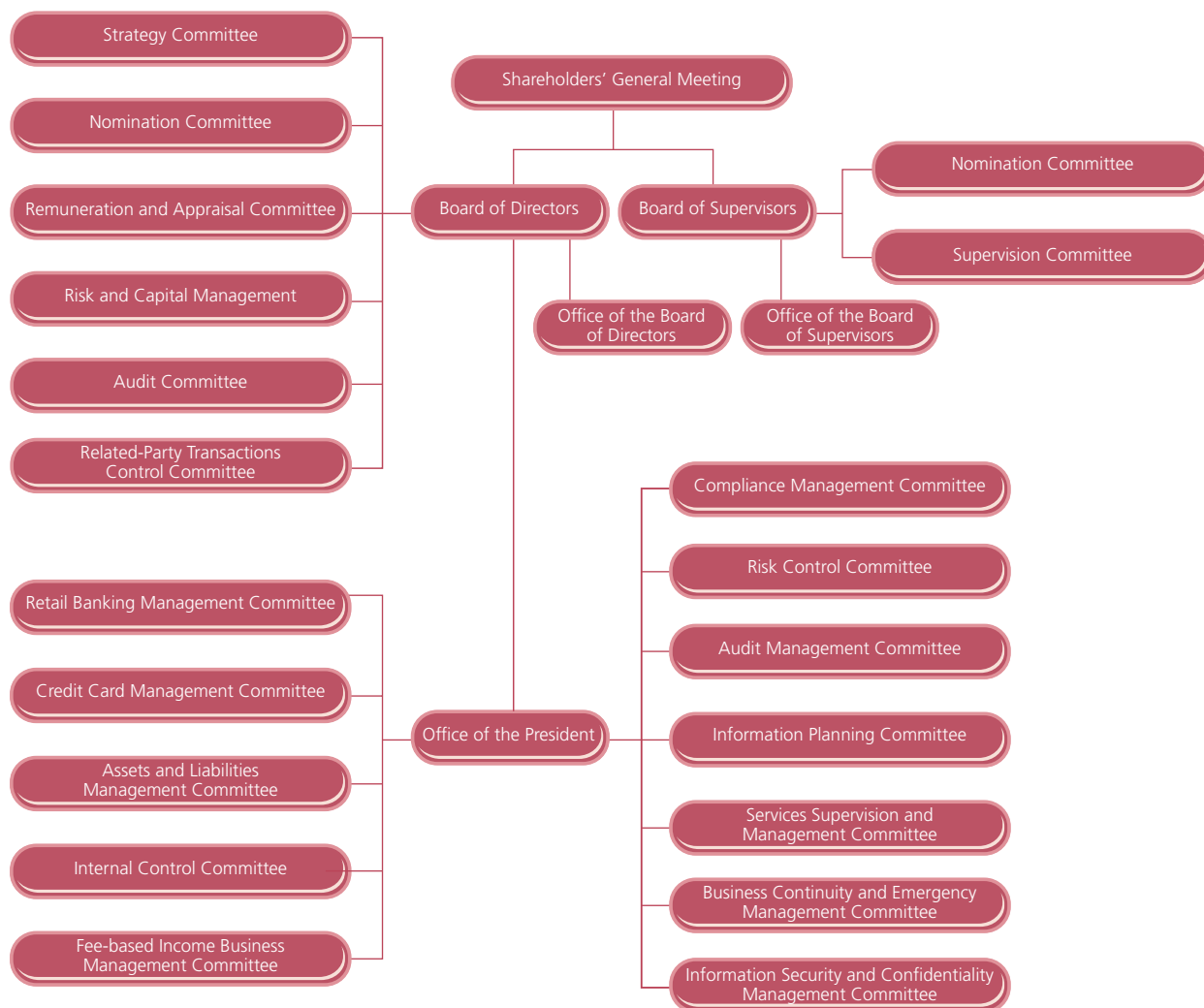
VIII Directors, Supervisors, Senior Management, Employees and Organisational Structure

8.11 The Company's Organisational Structure:



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9.1 Corporate Governance Structure:



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9.2 Governance

Confronted with a more complicated operating environment in 2012, the Shareholders' General Meeting, Board of Directors, Board of Supervisors and the specialised committees of the Company had consistently followed the nation's macroeconomic control policy and regulatory requirements, performed duties with diligence, forged ahead and functioned proactively and effectively, successfully completed analysis and review of important issues of the operation and management of the Company, and guaranteed compliant operation and sustainable and steady development of the Company. Particulars of which are set out as follows:

During the year, the Company organised and convened in aggregate 52 important meetings at which 163 proposals were reviewed and 43 reports were delivered. Among which, there were 2 general meetings (17 proposals were reviewed), 16 meetings of the Board of Directors (55 proposals were reviewed and 11 reports were delivered), 6 meetings of the Board of Supervisors (21 proposals were reviewed and 5 reports were delivered), 22 meetings of the specialised committees of the Board of Directors (64 proposals were reviewed and 24 reports were delivered), 4 meetings of the specialised committees of the Board of Supervisors (5 proposals were reviewed), 1 board meeting of non-executive directors without presence of executive directors (1 report was delivered) and 1 meeting of independent non-executive directors (1 proposal was reviewed and 2 reports were delivered). The Board of Directors and the Board of Supervisors organised 21 activities in the form of research and investigation and training.

The Board of Directors continued playing the role of decision-making and strategic management, conducted analysis, discussion and review of strategies for major issues in the development of the Company, continuously strengthened risk management and capital management, attached great importance to the implementation applications and scheduling of New Basel requirements, and guaranteed compliant operation and steady development of the Company. During the year, the specialised committees of the Board of Directors diligently performed their duties. The specialised committees of the Board of Directors made full advantage of their expertise and research capability. The matters under their review had covered most of the resolutions proposed to the Board of Directors, thus enhanced the efficiency and scientific decision-making ability of the Board of Directors, and promoted the healthy development of various businesses of the Company.

Through their presence at the meetings of the Board of Directors and the specialised committees of the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors supervised the compliance of convening, reviewing and voting procedures of the meetings of the Board of Directors and the specialised committees of the Board of Directors, and the Shareholders General Meetings, and supervised the performance of Directors.

For details of information disclosure and management of investors relations of the Company, please refer to section 9.11 of this report.

Having conducted a careful self-inspection, the Company was not aware of any non-compliance of its corporate governance practice with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies. There was no disclosure of information to its major shareholders before such information being published and any other irregularities in the Company's corporate governance.

During the reporting period, the Company received recognitions from the capital markets and regulatory authorities in respect of corporate governance, information disclosure as well as investors relations management, and won a number of awards mainly including "2012 Board Award for Listed Companies" (10 listed companies in total) from *Shanghai Stock Exchange*, "Gold Award for Annual Reports of Listed Companies in China (ranked 1st among comprehensive rankings)" from *Investor Relations*, "Best Investor Relations Award (ranking 1st among both the purchasers' and vendors' selections)" from *Institutional Investors*, "Top 100 Chinese Listed Companies in Terms of Brand Value for 2012 (ranking No.1)" from *China Center for Market Value Management*, gold award in the first "Chinese Listed Company Annual Report Contest" (ranking 1st among comprehensive rankings), bronze award in LACP Annual Report Competition, the "Best CEO for 2012" for President Ma Weihua from *Institutional Investors*, the "Best CFO for 2012" for Vice President Li Hao from *Institutional Investors* and "Gold Medal Board Secretary" for Mr. Lan Qi, Secretary of the Board of Directors by *New Wealth* for seven consecutive years, one of the "Best 10 Board Secretaries" for information disclosure during 2011-2012 recognised by Shanghai Stock Exchange as well as 29 other prizes awarded by 17 institutions including Shanghai Stock Exchange and CSRC Shenzhen Office.

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9.3 Information about general meetings

During the reporting period, the Company convened 2 shareholders' general meetings, details of which are set out as follows:

On 30 May 2012, the Company convened its 2011 Annual General Meeting, and considered and passed the "Work Report of the Board of Directors for the Year 2011", "the Work Report of the Board of Supervisors for the Year 2011", the "2011 Annual Report (including the audited financial report)", the "2011 Financial Statements", the "Profit Distribution Plan for the Year 2011", the "Resolution on Appointing the Accounting Firms for the Year 2012 and their Remuneration", the "Resolution on Appointing an Additional Shareholding Director", the "Resolution on Change of Independent Directors", the "Resolution on Changing Members of the Board of Supervisors", the "Appraisal Report on the Duty Performance of Directors in 2011", the "Appraisal Report on the Duty Performance of Supervisors in 2011", the "2011 Report of the Independent Non-executive Directors on Their Performance and Their Cross-evaluation", the "Report on Related-party Transactions in 2011", the "Resolution on the Issuance to Substitute for 23 Billion Maturing Tier 2 Capital Instruments", the "Resolution on Expanding the Scope of Mandate to Issue Financial Bonds" and the "Resolution on the General Mandate to Issue New Shares and/or Purchase Share Options".

On 7 September 2012, the 2012 First Extraordinary General Meeting, 2012 First A Shareholders Class Meeting and 2012 First H Shareholders Class Meeting were convened in Shenzhen, at which the Resolution on the Extension of Validity Period of the Proposal of A Share Rights Issue and H Share Rights Issue of China Merchants Bank Co., Ltd. was considered and approved.

The notifying, convening, holding and voting procedures of the meeting complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company and on China Securities Journal, Shanghai Securities News and Securities Times on 31 May 2012 and 8 September 2012.

For more information on the attendance of the directors at the above-mentioned shareholders' general meetings, please refer to section 9.4.5 of this report.

9.4 Board of Directors

The Board of Directors is the core of our corporate governance. The Company implements a system in which the President assumes full responsibility under the leadership of the Board of Directors, which in turn is an independent policy-making body of the Company, responsible for execution of resolutions passed by the general meetings; devising the Company's major principles, policies and development plans; deciding on the Company's operating plans, investment proposals and the establishment of internal management organs; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing members of senior management. The Company's management team has discretionary powers in terms of operation, and the Board of Directors would not interfere with any specific matters in the Company's daily operation and management.

In institution development and actual operation, the Company places great emphasis on the "Unity of Form and Spirit". With respect to the development of organisational structure of the Board of Directors, the Company facilitates more scientific and reasonable decision-making by the Board of Directors through the establishment of a diversified director structure, and improves the decision-making ability and operational efficiency of the Board of Directors through promoting the effective operation of each specialised committee. With respect to the operation of the Board of Directors, the Company focuses on key issues, major direction, and strategy. The Board of Directors continues to strengthen the scientific concept of development to seek balance, health and sustainability; ensures the Company's rapid, sustainable and sound development through effective management of its strategy, risks, capital, remuneration, and audit, etc., and provides a solid basis for the Company to achieve strategic transformation, higher level of managerial ability and internationalised operation.

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9.4.1 Composition of the Board of Directors

As at 31 December 2012, the Board of Directors of the Company had 18 members, including 9 non-executive directors, 3 executive directors, and 6 independent non-executive directors. All non-executive directors come from large state-owned enterprises where they hold key positions and are experienced in management. Most of them have work experience in financial industry. All 3 executive directors have been engaging in the management of banking operations and have extensive professional experience in this area. The 6 independent non-executive directors are renowned experts in finance, accounting and law who have extensive knowledge of the development of the domestic and overseas banking industry, with one from Hong Kong who is proficient in international accounting standards and requirements of Hong Kong capital market. Currently, the Board of Directors of the Company has 4 female directors who, together with other directors of the Company, offer professional opinions to the Company in their respective fields. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and high professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

The list of directors is set out in Section VIII of this report. To comply with the Hong Kong Listing Rules, the independent non-executive directors have been clearly identified in all corporate communications of the Company which disclose their names.

9.4.2 Appointment, re-election and removal of directors

In accordance with the Articles of Association of the Company, the directors of the Company shall be elected or replaced by shareholders at general meetings, and the term of office for a director shall be three years. The term of office for a director of the Company shall commence from the date on which the approval from the banking regulatory authority of the State Council is obtained. A director is eligible for re-election upon the expiry of his/her current term of office. The director's term of office shall not be terminated without any justification at a general meeting before expiry of his term.

A director may be removed by an ordinary resolution at a general meeting before the expiry of his term of office in accordance with relevant laws and administrative regulations (however, any claim which may be made in accordance with any contract will not be affected).

The term of office for independent non-executive directors of the Company shall be the same as that for other directors of the Company. The term of office for an independent non-executive director of the Company shall comply with the relevant laws and requirements of the governing authority.

The procedures for appointment, re-election and removal of directors of the Company are set out in the Articles of Association of the Company. The Nomination Committee of the Company carefully considers the qualifications and experience of every candidate for director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors proposes election of related candidates at a general meeting and proposes the relevant resolution at a general meeting for consideration and approval. Except the independent non-executive directors, who will be treated individually due to the restriction of their terms of office, other new directors shall, upon expiry of the current session of the Board of Directors (the term of office for each session is 3 years), be subject to re-election at the general meeting together with other members of the Board, and they will not be subject to individual re-election at the first general meeting after their appointment.

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9.4.3 Responsibilities of directors

During the reporting period, all directors of the Company had cautiously, seriously and diligently exercised their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All directors of the Company are aware of their joint and individual responsibilities towards shareholders. During the year, their attendance of meetings has been satisfactory, with the attendance rates of each director reaching 94% or above.

The independent non-executive directors of the Company have presented their professional advice on the resolutions reviewed by the Board of Directors, including offering independent written opinions on matters regarding the profit appropriation preliminary plan, major connected party transactions, the Company's guarantees and the remuneration for senior management. In addition, the independent non-executive directors of the Company played an active role in each specialised committee, including the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Connected Party Transactions Control Committee of the Company. They have made full advantage of their professional edges, provided a lot of valuable, professional and independent advice regarding corporate governance and operation management of the Company, and played a positive role in facilitating the scientific decision-making of the Board of Directors.

The Board of Directors of the Company reviewed its work during the reporting period, for which it also consulted the senior management for their opinions and took consideration of those opinions set out in the Report of the Board of Supervisors. The Board of Directors believes that it has effectively performed its duties and safeguarded the interests of the Company and shareholders during the reporting period. The Company is of the opinion that all the directors have spent enough time to perform their duties.

The Company also pays high attention to the continuous training of directors, so as to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities and obligations under the laws and the regulatory requirements of CBRC, CSRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and the Articles of Association of the Company. The Company has renewed the "insurance for liabilities of directors and senior management".

During the reporting period, the Company also initiated the practice of annual appraisal of the performance of directors performed by the Board of Supervisors, the practice of making an annual report on their duty performance and cross-evaluation performed by independent non-executive directors and external supervisors respectively. The appraisal results have been reported to the general meeting.

9.4.4 Chairman of the Board and Chief Executive Officer ("CEO")

The positions of the chairman of the Board of Directors and the president of the Company have been taken up by different persons and their duties have been clearly defined in accordance with the requirements of the Hong Kong Listing Rules. Mr. Fu Yuning serves as the Chairman of the Board of Directors and has been responsible for leading the Board of Directors, chairing board meetings, ensuring that all directors receive briefings on issues arising at board meetings, managing the operations of the Board of Directors, and ensuring that all major and relevant issues are discussed by the Board of Directors in a constructive and timely manner. To enable the Board of Directors to discuss all important and relevant matters timely, the Chairman and senior management have worked together to ensure that the directors duly receive appropriate, complete and reliable information for their consideration and review. Mr. Ma Weihua serves as the President and CEO, responsible for the business operations and implementation of the strategic and business plans of the Company.

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9.4.5 Attendance of Directors at Relevant Meetings

The following table sets forth the records of attendance of the respective directors at physical board meetings, meetings of specialised committees under the Board of Directors and shareholders' general meeting held in 2012.

| Specialised Committees under the Board of Directors | | | | | | | | |
|---|--------------------------------------|--------------------|----------------------|--------------------------------------|---------------------------------------|-----------------|----------------------------|-------------------------------|
| Directors | Board of Directors ^{Note 1} | Strategy Committee | Nomination Committee | Remuneration and Appraisal Committee | Risk and Capital Management Committee | Audit Committee | Related-Party Transactions | Shareholders' General Meeting |
| | | | | | | | Control | |
| | | | | | | | Committee | |
| Actual attendance/Number of meetings requiring attendance | | | | | | | | |
| Non- Executive Directors | | | | | | | | |
| Fu Yuning | 16/16 | 2/2 | 1/1 | / | / | / | / | 2/2 |
| Wei Jiafu | 15/16 ^{Note 2} | 2/2 | / | / | / | / | / | 1/2 |
| Li Yinquan | 16/16 | / | / | 4/4 | / | / | / | 2/2 |
| Fu Gangfeng | 16/16 | / | / | / | / | 4/4 | / | 2/2 |
| Hong Xiaoyuan | 16/16 | / | / | / | 9/9 | / | / | 2/2 |
| Xiong Xianliang | 8/8 | / | / | / | / | / | 2/2 | 0/1 |
| Sun Yueying | 16/16 | / | / | / | 9/9 | 4/4 | / | 2/2 |
| Wang Daxiong | 16/16 | 2/2 | / | / | 9/9 | / | / | 2/2 |
| Fu Junyuan | 15/16 ^{Note 2} | 1/2 | / | 4/4 | / | / | / | 2/2 |
| Executive Directors | | | | | | | | |
| Ma Weihua | 16/16 | 2/2 | 1/1 | / | / | / | / | 2/2 |
| Zhang Guanghua | 16/16 | / | / | / | 9/9 | / | / | 2/2 |
| Li Hao | 16/16 | / | / | / | / | / | 2/2 | 2/2 |
| Independent Non-Executive Directors | | | | | | | | |
| Yi Xiqun | 16/16 | / | / | 4/4 | 9/9 | / | / | 2/2 |
| Wong Kwai Lam | 15/16 ^{Note 2} | / | / | 4/4 | / | / | 2/2 | 1/2 |
| Yan Lan | 16/16 | / | 1/1 | / | / | 4/4 | / | 2/2 |
| Pan Chengwei | 8/8 | / | 0/0 | / | / | 1/1 | 0/0 | 1/1 |
| Pan Yingli | 16/16 | / | 1/1 | 4/4 | / | / | / | 2/2 |
| Guo Xuemeng | 8/8 | / | / | / | / | 1/1 | 0/0 | 1/1 |
| Zhou Guanghui ^{Note 3} | 8/8 | / | / | / | / | 3/3 | 2/2 | 1/1 |
| Liu Hongxia ^{Note 3} | 8/8 | / | 1/1 | / | / | 3/3 | 2/2 | 1/1 |

Notes:

- During the reporting period, the Board of Directors of the Company held a total of 16 meetings, including 3 physical meetings and 13 meetings by way of written resolutions, at which the Board of Directors reviewed and approved major issues in relation to the strategies, risks, remuneration, audit, finance and operation of the Company.
- Actual attendance does not include attendance by proxy. The above directors who did not attend the meetings in person had appointed other directors to attend such meetings on their behalf.
- During the reporting period, Mr. Zhou Guanghui and Ms. Liu Hongxia resigned as Independent Non-Executive Directors of the Company and the relevant positions in the specialised committees under the Board of Directors upon the expiry of their respective term of appointment.

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9.4.6 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 year ended 31 December 2012.

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 mentioned guidelines by employees.

9.4.7 Performance of duties by independent non-executive directors

The Board of Directors of the Company currently comprises 6 independent non-executive directors, which meets the requirement that the number of independent directors shall at least account for one third of total directors of a company. The qualification, number and proportion of whom meet the relevant requirements of the CBRC, CSRC, the Shanghai Stock Exchange and the Hong Kong Listing Rules. All 6 independent non-executive directors of the Company are not involved in the circumstances set out in Rule 3.13 of Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from those independent non-executive directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of Hong Kong Listing Rules. Therefore, the Company is of the opinion that all independent non-executive directors have complied with the requirement of independence set out in Hong Kong Listing Rules. Among all members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related-Party Transactions Control Committee under the Board of Directors of the Company, the majority are independent non-executive directors, who also act as chairmen of the said specialised committees. During the reporting period, the 6 independent non-executive directors maintained communication with the Company through personal attendance at the meetings, on site visits, research and investigations and conferences, and diligently attended meetings of the Board and the specialised committees, actively expressed their opinions and attended to the interests and requests of small and medium shareholders, thus fully performed their roles as independent non-executive directors.

During the reporting period, the independent non-executive directors expressed independent opinions on material issues including change of Directors, appointment of senior management, profit appropriation and related party transactions of the Company. They made no objection to the proposals made by the Board of Directors or to the proposals not made by the Board of Directors.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the independent non-executive directors of the Company performed the following duties in preparing and reviewing the annual report for the year.

1. The independent non-executive directors received reports from the management and Chief Financial Officer on the operations, financial condition and operating results of the Company in 2012 and on significant matters such as investment and financing activities, and carried out on-site inspection. The independent non-executive directors believed that the reports prepared by the management of the Company had fully and objectively reflected the operating results of the Company in 2012 as well as the progress of significant matters, and they recognised and were satisfied with the measures taken by the management team and the results recorded in 2012.
2. The independent non-executive directors reviewed the Company's work plan prepared for its annual report as well as its unaudited financial statements.
3. Prior to the annual audit conducted by the accounting firm in charge of the annual audit, the independent non-executive directors discussed with the certified public accountants in respect of the composition of the auditing team, the auditing plan, risk judgement, tests and assessment on risks and embezzlement as well as the key aspects of audit for the year.
4. After receiving the initial audit opinions from the auditors, the independent non-executive directors discussed the major issues with the auditors and prepared their written opinions.
5. The independent non-executive directors reviewed the procedures for convening board meetings for the preparation of the annual report, the decision-making procedures for matters to be considered and the adequacy of the information used for making reasonable and accurate judgment.

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9.5 Specialised committees of the Board of Directors

There are six specialised committees under the Board of Directors of the Company, namely the Strategy Committee, the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Related-Party Transactions Control Committee.

In 2012, all specialised committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 22 meetings, studied and reviewed 64 proposals which were significant to the sustainable development of the Company and the enhancement of corporate governance, including periodic reports, profit appropriation for the previous year, construction of outlets by subsidiaries, changes of directors and senior management and mid-term strategic planning. All these efforts have improved the efficiency of the Board of Directors and its ability of scientific decision-making, and contributed to the healthy development of all our businesses.

The composition and duties of the six specialised committees and their work performed in 2012 are summarised as follows:

9.5.1 Strategy committee

The Strategy Committee consists of equity holding directors and directors from senior management, including Fu Yuning (chairman), Wei Jiafu, Wang Daxiong and Fu Junyuan (all being non-executive directors), and Ma Weihua (executive director). It is mainly responsible for studying the middle and long term development strategies and significant investment decisions of the Company and making relevant proposals.

Main authorities and duties

- to formulate operational goals and medium to long term development strategies of the Company;
- to supervise and examine implementation of the Company's annual operating plans and investment proposals;
- to examine and supervise implementation of the Board's resolutions; and
- to put forward proposals and plans for important issues to be discussed and decided by the Board of Directors.

In 2012, the Strategy Committee considered and passed the Medium-term Strategic Development Plan of China Merchants Bank (2012 Amendment), Profit Distribution Plan for the Year 2011, the Capital Increase of HKD750 million in CMB International Capital Corporation Limited, the Establishment of Singapore Branch and the Measures of Management of Equity Investments of China Merchants Bank, and reviewed reports on the process re-engineering and progress in Wing Lung integration.

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9.5.2 Nomination Committee

The Nomination Committee is composed of a majority of the independent non-executive directors with one serving as the chairman. The current members of the Nomination Committee include Yan Lan (chairman), Pan Chengwei, Pan Yingli (all being independent non-executive directors), Fu Yuning (non-executive director) and Ma Weihua (executive director).

It is mainly responsible for selecting the candidates for directors and senior management staff of the Company, determining the standards and procedures for such selection and making relevant proposals.

Main authorities and duties:

- to put forward proposals to the Board on the size and composition of the Board according to the business operations, asset scale and shareholding structure of the Company;
- to study the standards and procedures for the election of directors and senior management, and propose the same to the Board;
- to conduct extensive searches for qualified candidates as directors and senior management;
- to conduct preliminary examination on the qualifications of the candidates for directors and senior management and put forward proposals; and
- to execute other duties as may be delegated by the Board of Directors.

In 2012, in accordance with the terms of reference set out in Rules for the Nomination Committee under the Board of Directors of China Merchants Bank Co., Ltd., the Nomination Committee searched extensively for qualified candidates for the positions of Directors and senior management personnel, and conducted preliminary examination on their qualifications. During the year, the Nomination Committee convened 2 meetings, considered and passed the "Proposal regarding the Change of Independent Directors", the "Proposal regarding the Appointment of an Additional Director" and the "Proposal regarding the Appointment of Tang Xiaoqing as Vice-president of China Merchants Bank", and submitted the same to the Board of Directors for consideration.

9.5.3 Remuneration and Appraisal Committee

The majority of the members of the Remuneration and Appraisal Committee were independent non-executive directors, with one of them serving as the chairman. The members include Yi Xiqun (chairman), Wong Kwai Lam, Pan Yingli (all being independent non-executive directors), Li Yinquan and Fu Junyuan (both being non-executive directors). The Company's Remuneration and Appraisal Committee is established to formulate and review the remuneration policies and plans for directors and senior management staff of the Company and make recommendations to the Board of Directors.

Main authorities and duties:

- to study and propose standards for appraising directors and senior management, to conduct appraisals and provide advices based on the actual situation of the Company;
- to study and review the remuneration policies and plans for directors and senior management; and
- to execute other duties as may be delegated by the Board of Directors.

In 2012, the Remuneration and Appraisal Committee considered and passed the proposals regarding Granting H Shares Appreciation Rights to Senior Management of China Merchants Bank Phase V, Adjustments to the Granted Prices of H Shares Appreciation Rights Phases I-V, the 2012 Appraisal on the H Shares Appreciation Rights coming into effect, the amendments to management measures on the remuneration of the senior management and relevant proposals on the remuneration of the senior remuneration and commencement of the remuneration system review project.

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9.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (chairman), Sun Yueying and Wang Daxiong (all being non-executive directors), Zhang Guanghua (executive director), and Yi Xiqun (independent non-executive director). It is mainly responsible for control, management, supervision and assessment of risks of the Company.

Main authorities and duties:

- to monitor the risk control by the senior management over the credit risks, market risks and operational risks, etc.;
- to regularly assess the risk position of the Company and evaluate the procedures and performances of internal auditors;
- to put forward proposals on the improvement of the risk management and internal control of the Company; and
- to execute other duties as may be delegated by the Board of Directors.

In 2012, the Risk and Capital Management Committee considered and passed the Comprehensive Risk Management Report for each quarter of 2011 and 2012, the Risk Appetite Statement of China Merchants Bank (released in 2012), the Mid-term Planning for Capital Management of China Merchants Bank (2012 Amendment), Authorisation to the Special Committees under the Board of Directors and the Senior Management to approve Basel II related issues, proposals regarding the implementation of Basel II, the Capital Increase of HKD750 million in CMB International Capital, Measures of Management of Equity Investments, the Resolution on Expanding the Scope of Mandate to Issue Financial Bonds, the Resolution on the Issuance to substitute for 23 billion Maturing Tier 2 Capital Instruments, reviewed the special report on information security and organised special trainings on capital measurement and risk management.

9.5.5 Audit Committee

The majority of the members of the Audit Committee were independent non-executive directors, with one of them serving as the chairman. The members include Guo Xuemeng (chairman), Yan Lan and Pan Chengwei (all being independent non-executive directors), Fu Gangfeng and Sun Yueying (both being non-executive directors). It was verified that no member of the Audit Committee has ever served as a partner of the current auditors of the Company. The Audit Committee is mainly responsible for communication, supervision and verification of internal and external auditing issues of the Company.

Main authorities and duties:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Company and its implementation;
- to coordinate the communication between internal auditors and external auditors;
- to review the financial information of the Company and its disclosure;
- to examine the internal control system of the Company; and
- to execute other duties as may be delegated by the Board of Directors.

In 2012, the Audit Committee considered and passed the the resolutions regarding the annual report and interim report of the Company, the auditor's annual audit plan and annual report, re-appointment of the auditors, Internal control evaluation work program, Measures of China Merchants Bank on Evaluation of Internal Control, Internal Control Manual, the assessment report on internal control, review of the effectiveness of the internal control evaluation, and reviewed the internal audit report and the annual work plan of the Audit Department.

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According to "Work Procedures on Annual Reports for Audit Committee of the Board of Directors" adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the report for 2012:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the 2012 audit plan of the accounting firm, including the composition of the auditing team, scope of audit work and schedule of audit, methods adopted for auditing the internal control, the priorities of 2012 audit, latest updates of accounting standards. They also reviewed the plan for preparing the annual report and the unaudited financial statements of the Company.
2. In the course of conducting annual audit and after a preliminary audit opinion being issued by the external auditors, the Audit Committee reviewed the management's report on the operations and the progress of significant matters of the Company for 2012. The Audit Committee exchanged opinions on the significant matters and the audit progress with the external auditors conducting annual audit, and reviewed the financial statements of the Company. The Audit Committee then made written opinions for the above issues.
3. Before the annual meeting of the Board of Directors was held, the Audit Committee voted on and made a resolution on the Company's Annual Report for 2012 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2012 to the Board of Directors.

9.5.6 Connected Transactions Control Committee

The majority of the members of the Connected Transactions Control Committee are independent non-executive directors, with one of them serving as the chairman. The members include Pan Chengwei (chairman), Wong Kwai Lam and Guo Xuemeng (all being independent non-executive directors), Xiong Xianliang (non-executive director) and Li Hao (executive director). It is mainly responsible for inspection, supervision and reviewing of connected transactions of the Company.

Main authorities and duties:

- to identify related parties of the Company according to relevant laws and regulations;
- to inspect, supervise and review major connected transactions and continuing connected transactions, and to control the risks associated with connected transactions;
- to review the administrative measures on connected transactions of the Company, and to monitor the establishment and improvement of the connected transactions management system of the Company; and
- to review the announcements on connected transactions of the Company.

In 2012, the Connected Transaction Control Committee considered and passed the report on the connected transactions of the Company for 2011, the audit report on the connected transactions for 2011, the management plan for the connected transactions in 2012, the name list of connected parties for 2012, the major connected transaction projects with China Merchants Steam Navigation Company Limited and China Communications Construction Company Limited.

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9.6 Corporate governance functions

During the reporting period, the Board of Directors has performed the following duties on corporate governance:

- formulating and inspecting the policies and practices on corporate governance of the Company and making certain amendments as it deems necessary, to ensure the effectiveness of those policies and practices;
- inspecting and supervising the trainings and continuing professional development of directors and senior management;
- inspecting and supervising the policies and practices of the Company for compliance with laws and regulatory requirements;
- formulating, reviewing and supervising the Code of Conduct and the Compliance Handbook applicable to directors and employees; and
- reviewing the status of compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance.

9.7 Board of Supervisors

The Board of Supervisors oversees the financial activities, internal control, risk management of the Company and its compliance with relevant laws and regulations, the duty performance of the Board of Directors and the senior management with an aim to protect the legitimate rights and interests of the commercial bank, its shareholders, employees, creditors and other stakeholders.

9.7.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of 9 members, 4 of whom are shareholder supervisors, 3 are employee supervisors and 2 are external supervisors. The 4 shareholder supervisors from large state-owned enterprises where they hold key responsible positions and have extensive experience in business management and professional knowledge in finance and accounting; the 3 employee supervisors have long participated in banking operation and administration, accumulating rich professional experience in finance; and the 2 external supervisors are experts on corporate governance of financial institutions and large state-owned enterprises. The composition of the Board of Supervisors of the Company is reasonable, having adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

A Nomination Committee and a Supervision Committee are established under the Board of Supervisors.

9.7.2 How the Board of Supervisors performs its supervisory duties

The Board of Supervisors discharges its supervisory duties primarily by: holding regular meetings, attending shareholders' general meetings, board meetings and special committee meetings, attending various meetings of the senior management; reviewing various documents submitted by the Company, reviewing work reports and specific reports of the management, conducting investigations and surveys at domestic and overseas branches (on a collective or separate basis) of the Company and having talks with directors and the senior management over their performance of duties, etc. By doing so, the Board of Supervisors monitors and evaluates the operations, risk management and internal control of the Company as well as duty performance of the directors and the senior management.

IX Corporate Governance

9.7.3 Meetings held by the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened 6 meetings, of which 2 were physical meetings and 4 were meetings convened and voted by correspondence. 21 proposals regarding the operations of the Bank, internal control, risk management and duty performance of the directors and supervisors were considered, and five reports involving internal audit and related party transactions, asset quality and the prevention and control of crimes were reviewed at these meetings.

In 2012, the Company convened 2 general meetings and 16 board meetings. Supervisors attended all the general meetings and were present at all the board meetings as non-voting delegates, and supervised compliance with the relevant laws and regulations, voting procedures of the general meetings and board meetings, the Directors' attendance, statements made and voting at the general meetings and board meetings respectively.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

9.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervision Committee are established under the Board of Supervisors, each consisting of 3 supervisors. The chairman of the Nomination Committee and the Supervision Committee is served by an external supervisor respectively.

The Nomination Committee under the Board of Supervisors

The members of the Nomination Committee of the Eighth Session of the Board of Supervisors were Pan Ji (chairman), Zhu Genlin and Yang Zongjian. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for supervisors; to undertake preliminary examination on the qualifications of the candidates for supervisors nominated by shareholders and provide relevant recommendations.

On 21 March 2012, the second meeting of the Nomination Committee of the Eighth Session of the Board of Supervisors was convened and voted by correspondence. The "Resolution on Changes of Board of Supervisors" and the "Appraisal Report on Duty Performance of the Supervisors in 2011" were considered and approved at the meeting.

On 10 August 2012, the third meeting of the Nomination Committee of the Eighth session of the Board of Supervisors was convened and voted by correspondence. Briefing on Duty Performance of the Supervisors in the first half of 2012 was considered and approved at the meeting.

By doing so, the Nomination Committee under the Board of Supervisors completed both the preliminary review of the qualifications of candidates for supervisors and the evaluation of the annual and semi-annual duty performance of the supervisors.

IX Corporate Governance

The Supervision Committee under the Board of Supervisors

The members of the Supervision Committee the Eighth Session of the Board of Supervisors were Peng Zhijian (chairman), Wen Jianguo and Zhou Qizheng. The major duties of the Supervision Committee are to carry out inspection on the Company's financial position, to assess the duty performance of directors and senior management, and to conduct audit of resigning directors and senior management.

On 21 March 2012, the third meeting of the Supervision Committee of the Eighth session of the Board of Supervisors was convened and voted by correspondence. The Appraisal Report on duty Performance of the Directors in 2011 was considered and approved at the meeting.

On 10 August 2012, the fourth meeting of the Supervision Committee of the Eighth session of the Board of Supervisors was convened and voted by correspondence. Briefing on Duty Performance of the Directors in the first half of 2012 was considered and approved at the meeting.

During the reporting period, the Supervision Committee of the Board of Supervisors completed the evaluation of the annual and semi-annual duty performance of the directors; the Chairman of the Board of Supervisors and the members of the Supervision Committee under the Board of Supervisors attended four meetings held by the special committees under the Board of Directors, reviewed the process of consideration and discussion on the bank's operation, internal control, risk management, strategic management and capital management conducted by relevant special committees of the Board of Directors, and got further information about the work of the special committees under the Board of directors, supervised the duty performance of the directors and offered comments and suggestions on some issues.

9.8 Trainings and investigations/surveys conducted by Directors and Supervisors during the reporting period

During the reporting period, the Company's Board of Directors and Board of Supervisors organised 21 investigations/surveys and training activities. The Chairman of the Board of Supervisors conducted investigations/surveys on all 34 departments and units and 20 branches of the Head Office in Shenzhen, to enhance duty performance and effectiveness of decision-making of Directors and Supervisors.

During the reporting period, the Company organised Directors and Supervisors who were newly appointed to participate in training sessions provided by relevant regulatory authorities and authorised institutions. Special trainings on themes such as Basel II and management of market risk and operational risk were organised for members of the Risk and Capital Management Committee of the Board, and a number of other trainings were offered to Directors and Supervisors as required by regulatory authorities. The purpose of which is to have considerable understanding of the operation and businesses of the Company and its duties under relevant laws, regulations and rules.

During the reporting period, the Company organised Directors to participate in 9 investigations/surveys which involving 27 visits on a total of 16 departments of the Head Office and branches and sub-branches. In particular, these investigations/surveys primarily include: visits made by independent directors to the corporate banking department, retail banking department, the Small Enterprise Credit Center of the Head Office to understand the development of SME business; various inspections on the local branches of the Company made by some Directors on their business travel opportunities to understand the business operations and progress in the Second Transformation of such branches; inspections on the local branches of the Company made by members of the special committees while attending site-meetings to understand the business operations, risk management and innovations of such branches; special investigations/surveys conducted by some Directors on Beijing Branch and Changsha Branch to understand the progress in the Second Transformation, the pilot system reform of the corporate banking services and the development of small and micro enterprise businesses.

IX Corporate Governance

During the reporting period, the Company organised three collective investigations/surveys by members of the Board of Supervisors, including one domestic and two overseas, involving a total of 21 visits; and 2 independent investigations/surveys were carried out by Supervisors. In June and November 2012, the Board of Supervisors visited Fuzhou Branch and Jinan Branch respectively to conduct collective investigations/surveys and put forward specific advices and recommendations on the business operations of these branches. Such advices and recommendations are set forth in the "Report on Investigation Results by the Board of Supervisors" submitted to the Board of Directors and senior management for reference. In September 2012, some members of the Board of Supervisors visited Europe for investigations/surveys with a focus on three fields, namely the trend of the European debt crisis, corporate governance and the functions of the Board of Supervisors, and the strategy for Basel implementation. During the reporting period, a total of three supervisors completed independent investigations on Guangzhou Branch and Shanghai branch. They held seminars with the management team and business backbones of such branches and sub-branches and offered constructive advices and recommendations on their business development and management. During the reporting period, the Chairman of the Board of Supervisors of the Company conducted investigations/surveys on all 34 departments of the Head Office in Shenzhen, and 16 first-tier branches and 4 remote branches and sub-branches to learn more about the progress in the implementation of the "Second Transformation" strategy by these departments of the Head Office and Branches and the development of small and micro enterprise businesses and to acquire in-depth understanding of the risk management and regulatory evaluation of the regulatory authorities from the regulatory authorities' perspective. As for problems found during the investigations and the difficulties and challenges faced by branches in implementation of the "Second Transformation" strategy, the Chairman of the Board of supervisors communicated in a timely manner with their management, and submitted a special investigation report to the management with specific suggestions for improvement.

The Company also provided its directors with the latest information and relevant trainings on the Hong Kong Listing Rules and other applicable regulatory requirements to ensure that they follow and better understand good corporate governance, and took a number of approaches such as the provision of special reports and reference information to improve and update their knowledge and skills. According to the training records for 2012 kept by the Company for Directors, the status of relevant trainings is as follows:

| Name of Directors | Provision of Information and Scope of Trainings | | |
|--|---|--------------------------|---------------------|
| | Corporate Governance | Policies and Regulations | Business/Management |
| Non-executive directors | | | |
| Fu Yuning | √ | √ | √ |
| Wei Jiafu | √ | √ | √ |
| Li Yinquan | √ | √ | √ |
| Fu Gangfeng | √ | √ | √ |
| Hong Xiaoyuan | √ | √ | √ |
| Xiong Xianliang | √ | √ | √ |
| Sun Yueying | √ | √ | √ |
| Wang Daxiong | √ | √ | √ |
| Fu Junyuan | √ | √ | √ |
| Executive directors | | | |
| Ma Weihua | √ | √ | √ |
| Zhang Guanghua | √ | √ | √ |
| Li Hao | √ | √ | √ |
| Independent non-executive directors | | | |
| Yi Xiqun | √ | √ | √ |
| Yan Lan | √ | √ | √ |
| Wong Kwai Lam | √ | √ | √ |
| Pan Chengwei | √ | √ | √ |
| Pan Yingli | √ | √ | √ |
| Guo Xuemeng | √ | √ | √ |

IX Corporate Governance

9.9 Company Secretary under Hong Kong Listing Rules

Mr. Lan Qi, Secretary of the Board of Directors, Head of the Office of Board of Directors and Head of the Office of Board of Supervisors of the Company, and Mrs. Seng Sze Ka Mee, Natalia of Tricor Services Limited, an external services provider, are both the joint company secretaries of the Company under Hong Kong Listing Rules. Mr. Lan Qi is the major contact person of the Company for internal issues.

During the reporting period, Mr. Lan Qi and Mrs. Seng Sze Ka Mee, Natalia both attended relevant professional trainings of not less than 15 hours in accordance with the requirements of Rule 3.29 of Hong Kong Listing Rules.

9.10 Misconduct reporting and monitoring

In 2012, the Company reported no material internal cases or external malignant cases of consummated theft and robbery and severe accidents. During the reporting period, the Company adopted the following major measures to prevent crimes: 1. establishing an accountability system for construction of the Party conduct and of an honest and clean government and crime prevention; 2. strengthening education on clean practice and crime prevention and control; 3. conducting investigation on abnormal behaviors of employees and risks in key areas and positions; 4. deepening administrative supervision with a focus on implementation of decision-making system; 5. improving the responsibility system for verifying and handling cases and seriously investigating and punishing any violation of laws; 6. effectively implementing the "Three Systems for Handling Cases in Banking and Financial Institutions" to ensure the timely and accurate reporting of crime risk information.

9.11 Communications with shareholders Investor Relations

The Company attaches great importance to the opinions and proposals of its shareholders, proactively communicates with investors and analysts to maintain a good relationship, and strives to satisfy the reasonable demands of each shareholder in a timely manner.

The Board of the Company maintains regular dialogues with shareholders, especially through the Annual General Meetings where shareholders are encouraged to participate. The senior management of the Company communicates regularly with institutional investors and analysts with regard to the operations and management of the Company. To ensure effective communication, the Company has also maintained a website (www.cmbchina.com), which provides information about the business developments and operations, financial information, corporate governance and other information of the Company. Inquiries from the investors will be dealt with immediately. For any inquiries, investors may write directly to the Company at its principal operating venues in Shenzhen or Hong Kong, or login to the Company's web page on investor relations (www.cmbchina.com/CMBIR) and click "Email" under the subdirectory "Contact Us" to leave message.

In 2012, adhering to the basic investor-oriented principle of improving investor experience and increasing efficiency, the Company maintained positive communication with various investors and analysts in the capital markets with a positive, professional, open and innovative attitude. We delivered the strategies, operating results, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. During the year, the Company held two regular results announcement and analyst meetings, one press conference, one global roadshow for annual results and one roadshow for 2012 interim results to conduct in-depth and effective communications with 188 institutional investors at home and abroad. We received 124 visits from 291 institutional investors and analysts, answered 853 inquiry calls from investors and analysts, promptly handled 247 online messages and 22 email enquiries from investors, and participated in 27 investments banking presentations in China and abroad and held 135 one-to-one meetings and one-to-many meetings with hundreds of institutional investors.

In order to expand the channels and forms of communication with investors, the Company has set up a contact system for investor relations management at each business unit of the Head Office and its branches so that investor relations management is extended from the Head Office to the branches. Under this system, investor delegations were arranged to conduct investigations/surveys at the Beijing and Chengdu branches, which received positive feedbacks. The Bank takes the initiatives to collect and listen to various reasonable opinions and recommendations from investors, and submitted two reports on capital market feedbacks to the management. We have completed the system development of an investor online reservation system Phase II, which has been launched online in 2013. We also updated, maintained and improved the web pages of investor relations to ensure the contents are current, accurate and valid, which has further improved the experience and satisfaction of investors. In addition, to actively respond to the call of the CSRC, the Company successfully conducted the publicity campaign themed by "playing an active role in the protection of investors", which further enhanced the Company's image in the capital market.

IX Corporate Governance

During the reporting period, there had been no material change in the Articles of Association of the Company.

Information Disclosure

The Board of Directors and management of the Company attaches great importance to information disclosure. They have developed a series of rules and regulations to strengthen information disclosure in terms of framework and system constructions. They also ensure investors' access to information in a timely, accurate and equal manner by leveraging on good corporate governance and sound internal control.

In 2012, the Company has disclosed material information in a true, accurate, complete, timely and fair manner in strict accordance with the requirements of relevant laws and regulations governing information disclosure. It has issued more than 230 disclosure documents in aggregate on Shanghai Stock Exchange and the Hong Kong Stock Exchange, including periodic reports, interim announcements, corporate governance documents, shareholder meeting circulars, proxy forms and reply slips in a total size of more than 1.60 million words. Apart from fulfilling its statutory obligation of information disclosure, the Company continued to be more initiative and transparent in information disclosure through optimisation and integration of the contents of periodic reports, making more analysis on hot issues that concern investors and information particularly related to the banking sector, which has improved the efficiency of information disclosure and better satisfied the needs of investors. In 2012, the Company straightened out the whole information disclosure process and proactively improved the information disclosure system. No material error was reported in information disclosure throughout 2012.

In order to regulate the administration of the Company's inside information, enhance the confidentiality of inside information, maintain the principle of fairness in information disclosure and safeguard the legitimate rights and interests of the investing public, the Company formulated the "Rules of China Merchants Bank Co., Ltd on Inside Information and Persons with Knowledge of Inside Information." Pursuant to these rules, the Company regulated inside information and persons with inside information and completed registration and filing for inside information in four cases in the reporting period. In 2012, the Company also implemented the requirements of the regulatory authorities by carrying out the publicity and education of warning against insider trading within the whole bank, so as to further improve the awareness of prevention and control of insider transaction within the whole Company and effectively prevent and control potential illegal acts of insider transaction within the Company. During the reporting period, none of the persons with inside information were found dealing in the Company's shares by taking advantage of such inside information.

9.12 Shareholders' rights

The Convening of Extraordinary General Meeting

An extraordinary general meeting shall be convened by the Board of Directors within two months upon request in writing by shareholders individually or jointly holding 10% or more of the Company's voting shares.

Two or more shareholders holding more than 10% of the voting shares at the proposed general meeting may sign one or several same written requests requisitioning the Board of Directors to convene an extraordinary general meeting or class meeting and stating the subjects to be considered at the meeting. The number of shares held referred to above shall be calculated on the date the shareholders submit their written request. The Board of Directors shall give written replies as to whether it agrees or disagrees to the convening of the extraordinary general meeting or class meeting within 10 days after receiving the request according to the provisions of laws, administrative regulations and the Articles of Association of the Company.

If the Board of Directors agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice on convening the shareholders' general meetings or class meeting within 5 days after passing the board resolution. Any changes to the original proposal as stated in the notice shall be approved by the relevant shareholders.

IX Corporate Governance

Making Proposals at the Shareholders' General Meeting

If the Company convenes a shareholders' general meeting, Shareholders individually or jointly holding more than 3% of the total issued voting shares of the Company may submit interim proposals in writing to the Company 10 days before convening the shareholders' general meeting and submit the same to the convenor. The convenor shall issue a supplemental notice to the shareholders' general meeting and announce the contents of the interim proposal within two days after receiving the proposal.

Shareholder individually or jointly holding more than 1% of the issued shares of the Company may nominate candidate(s) for independent director(s) for election at the shareholders' general meeting.

The Convening of Extraordinary Board Meeting

An extraordinary Board meeting may be held if it is requisitioned by shareholders representing more than one-tenth(10%) of the voting rights. The Chairman shall convene and preside over the extraordinary Board meeting within ten(10) days upon receiving such proposal.

Making Inquiries to the Board of Directors

Shareholders are entitled to review the information about the Company (including the Articles of Association, the status of share capital, the minutes of shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports, etc.) in accordance with the provisions of the Articles of Association after submitting written documents certifying the class and quantity of shares of the Company held by them and the Company verifies the identity of such shareholders.

9.13 Statement on compliance with the Banking (Disclosure) Rules

The 2012 annual financial statements of the Company (H shares) have been prepared in accordance with the guidelines set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

9.14 Statement made by the directors about their responsibility on the financial statements

The senior management of the Company provides the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2012 to present a true view of the operating results of the Company. So far as the directors are aware, there is no material uncertainties related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

9.15 Statement of compliance with the Hong Kong Listing Rules

Save as disclosed below, the Company has fully complied with the principles of the Code on Corporate Governance Practices (from 1 January 2012 to 31 March 2012) and the Corporate Governance Code (from 1 April 2012 to 31 December 2012) set out in Appendix 14 of the Hong Kong Listing Rules and has complied with all code provisions and recommended best practices (if applicable). For Code A.6.7 of the Corporate Governance Code, an Independent Non-Executive Director did not attend the 2011 Annual General Meeting of the Company held on 30 May 2012 due to other work arrangement, and two Non-Executive Directors did not attend the 2012 First Extraordinary General Meeting, 2012 First A Shareholders Class Meeting and 2012 First H Shareholders Class Meeting of the Company all of which were held on 7 September 2012 due to other work arrangement.

X Internal Control

10.1 Internal Control

10.1.1 The Internal Control System and Its Operation

The Board of Directors of the Company is responsible for ensuring the establishment and implementation of an adequate and effective internal control system by the Company; the Board of Supervisors is responsible for supervising the Board of Directors and senior management to establish and implement internal control; and the senior management is responsible for the daily operation of internal control of the Company. In accordance with the laws and regulations such as the “Basic Principles for Internal Control of Enterprises” and the relevant guidelines, the “Internal Control Guidelines for Commercial Banks” as well as the requirements of Shanghai Stock Exchange and Hong Kong Stock Exchange, the Company has currently formulated the objectives and principles of internal control, and established an internal control system consisting of five elements, namely internal environment, risk assessment, control measures, information and communication and internal supervision.

During the reporting period, the Company organised and launched a special campaign to rectify non-compliant operations across the Bank, thereby improving relevant systems and establishing an long-term effective mechanism for standardised operations. The Company aggressively promoted mechanism development by issuing 224 measures including the “Internal Control Evaluation Measures of China Merchants Bank Co., Ltd.” during the reporting period. In addition, the Company continuously optimised the risk management mechanisms and processes and constantly reinforced the risk management bases, so as to effectively enhance the level of risk management. The Company actively promoted the implementation of and compliance with all the requirements of the Basel II, and completed on-site assessment, acceptance and review carried out by CBRC in accordance with the requirements of the Basel II. The Company also continued to promote the Second Pillar of capital management projects and progressively pushed forward optimisation of risk management, thereby accomplishing the construction of a comprehensive risk and capital assessment management system and laying a solid foundation for overall risk management of the Company.

In accordance with the requirements of “China Accounting Standards for Business Enterprises (2006)”, the “Application Guidance to Accounting Standards for Business Enterprises (2006)” and the “International Financial Reporting Standards”, the Company has formulated “China Merchants Bank Accounting Policy Handbook” and the accounting systems for various businesses and established a standardised accounting process, so as to ensure the truthfulness and completeness of its accounting information as well as the truthfulness and fairness of its financial statements. During the reporting period, no material defects were identified in the Company’s internal control system in terms of financial reporting.

The Company has formulated the “Accountability System of China Merchants Bank Co., Ltd. in relation to Serious Faults in Information Disclosure in the Annual Report”, and complied with the principles of truthfulness, accuracy, completeness, timeliness and fairness in information disclosure, ensuring effective communication within the Company and that between the Company and external parties. There was no material mistake occurred in information disclosure during the reporting period.

During the reporting period, the Company assessed the status of its internal control in 2012. As reviewed by the Board of Directors of the Company, no significant defects were found in the Company’s internal control system in terms of completeness, reasonableness and effectiveness. For more details, please refer to the “2012 Report on the Assessment of Internal Control of China Merchants Bank Co., Ltd.”, and the “Auditors’ Report on Internal Control” issued by KPMG Huazhen Certified Public Accountants with standard unqualified opinions.

X Internal Control

10.1.2 Implementation of “Basic Principles for Internal Control of Enterprises” and their supporting guidelines

The Company put great emphasis on the thorough implementation of the “Basic Principles for Internal Control of Enterprises” and their supporting guidelines. During the reporting period, while pushing forward and completing internal control projects as planned, the Company formulated the “2012 Continuous Enhancement Plan for Internal Control of China Merchants Bank” in accordance with the requirements set out in the “Notice on Further Promoting Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies” issued by Shenzhen Securities Regulatory Bureau, and organised and carried out relevant work according to the plan.

Firstly, the Company reviewed the daily work organised and coordinated through internal control and expressly stipulated that the legal and compliance departments shall be responsible for the arrangement and coordination of establishment and implementation of internal control and relevant daily work, thus further defining the organisational structure and division of responsibilities of the Company's internal control. Secondly, the Company organised and completed the review of internal control conducted in 2012, and further diversified and improved standards for internal control management. Thirdly, the Company also reviewed internal control of CMB Financial Leasing, one of its subsidiaries, with a view to explore effective approaches and methods for its subsidiaries to consistently implement internal control standards, thereby incorporating the key businesses of its subsidiaries into the Group's internal control management and monitoring scope. Fourthly, the Company established an operation mechanism for regular internal control review by formulating and issuing the “Measures for Review and Management of Internal Control of China Merchants Bank”. Fifthly, the Company developed the “Work Plan for Internal Control Assessment of China Merchants Bank for 2012” and carried out internal control assessment for 2012 at both head office level and branch level. As at the end of the reporting period, the Company conducted various tasks for continuous enhancement of internal control according to the schedule in the “Continuous Enhancement Plan on Internal Control of China Merchants Bank for 2012”.

10.2 Internal Audit

The Company has established a complete internal auditing mechanism and set up independent auditing departments. The Company has also established a complete auditing mechanism covering general rules, operation rules and work 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. The audit on the whole Bank is directly under the management of the Head Office. Among which, the Audit Department at 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 at the Head Office has four local audit divisions in Beijing, Shanghai, Shenzhen and Xi'an.

The internal Audit Department of the Company is responsible for inspecting and assessing operation and management of the Bank, supervising, inspecting and evaluating the effectiveness of internal control as well as providing improvement suggestions to the senior management. In response to problems identified in such audits, the internal Audit Department will require the audited entities to conduct rectification, and use such inspection results in the annual appraisal of audited entities.

In 2012, the Audit Department of the Company carried out audit work on the Bank's operation management and internal control in various forms under the guiding ideology of “reinforcing foundation, revealing risks, accelerating rectification, improving internal control, promoting transformation process and adhering to sustainable development”. During the audit, the Audit Department of the Company strengthened examination on critical businesses, key points and key risks, and put forward a number of recommendations to improve internal control management and risk control. By combining examination and supervision with internal control assessment, linking rectification with accountability, connecting self-examination with internal steering, our internal control and compliance systems were further optimised, thereby improving the Company's internal control management level.

XI Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively operated and carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the Board of Supervisors of the Company pursuant to the Company Law, Articles of Association of the Company and supervisory duties delegated by relevant supervisory authorities.

Independent opinions on relevant matters from the Board of Supervisors: Lawful operation

During the reporting period, the business activities of the Company complied with the Company Law, Commercial Banking Law and Articles of Association, the internal control system was improved, and the decision making procedures were lawful and valid. None of the directors and senior management was found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company or shareholders.

Authenticity of financial statements

KPMG Huazhen and KPMG audited the financial reports for 2012 in accordance with the PRC accounting standards and the international accounting standards respectively and have each produced a standard unqualified audit report, Stating that the financial reports give a true, objective and accurate view of the financial position and operating results of the Company.

Use of capital raised

The application of fund from the capital raised into specific projects was consistent with the committed uses as stated in the relevant prospectus.

Purchase and sale of assets

During the reporting period, the Board of Directors of the Company held the 37th Meeting of the Eighth Session. The meeting has considered and passed the Resolution Regarding the Acquisition of Additional Equity Interest in China Merchants Fund, pursuant to which it was resolved that, subject to compliance with the laws and regulations in China, the Company shall acquire another 21.6% equity interest in CMFM. Following the acquisition, the Company's equity interest in CMFM increased from 33.4% to 55%. All the six connected Directors abstained from voting on the resolution. The Board of Supervisors was of the opinion that the approval procedures for this acquisition of equity interest complied with relevant requirements set out in the Measures of Management of Equity Investments of China Merchants Bank Co., Ltd.. The Board of Supervisors was not aware of any insider dealing or act which was detrimental to the interests of shareholders of the Company or caused the loss of the Company's assets.

Connected party transactions

The Board of Supervisors was not aware of any connected party transactions carried out during the reporting period on anything other than on an arm's length basis or was detrimental to the interests of the Company or its shareholders.

Implementation of resolutions passed at the general meetings

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meetings for 2012, and concluded that the board had duly implemented relevant resolutions passed by the General Meetings.

Internal control

The Board of Supervisors had reviewed the "Report on the Assessment of Internal Control of China Merchants Bank Co., Ltd. for 2012", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors

Han Mingzhi

Chairman of the Board of Supervisors

28 March 2013

XII Financial Report

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Independent Auditor's Report



Independent auditor's report to the shareholders of China Merchants Bank Co., Ltd

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

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiaries (together the "Group") set out on pages 148 to 313 which comprise the consolidated and Bank statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated and Bank statements of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

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

28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|--|------|----------------|----------|
| Interest income | 3 | 150,101 | 121,245 |
| Interest expense | 4 | (61,727) | (44,938) |
| Net interest income | | 88,374 | 76,307 |
| Fee and commission income | 5 | 21,167 | 16,924 |
| Fee and commission expense | | (1,428) | (1,296) |
| Net fee and commission income | | 19,739 | 15,628 |
| Other net income | 6 | 5,641 | 4,668 |
| Operating income | | 113,754 | 96,603 |
| Operating expenses | 7 | (48,350) | (40,889) |
| Charge for insurance claims | | (321) | (305) |
| Operating profit before impairment losses | | 65,083 | 55,409 |
| Impairment losses | 11 | (5,583) | (8,350) |
| Share of profits of associates | | 31 | 49 |
| Share of profits of jointly controlled entities | | 33 | 14 |
| Profit before taxation | | 59,564 | 47,122 |
| Income tax | 12 | (14,287) | (10,995) |
| Profit for the year | | 45,277 | 36,127 |
| Attributable to: | | | |
| Equity shareholders of the Bank | | 45,273 | 36,129 |
| Non-controlling interests | | 4 | (2) |

The notes on pages 159 to 313 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in note 46.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|--|-------|---------------|--------|
| Earnings per share | | | |
| Basic (RMB) | 14(a) | 2.10 | 1.67 |
| Diluted (RMB) | 14(b) | 2.10 | 1.67 |
| Other comprehensive income for the year | 13 | | |
| Exchange differences | | (115) | (624) |
| Available for sale investments: net movement in fair value reserve | | (120) | 1,468 |
| Cash flow hedge: net movements in hedging reserve | | (539) | 275 |
| | | (774) | 1,119 |
| Total comprehensive income for the year | | 44,503 | 37,246 |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the Bank | | 44,499 | 37,248 |
| Equity shareholders of the non-controlling interests | | 4 | (2) |

The notes on pages 159 to 313 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|---|----------|------------------|------------------|
| Assets | | | |
| Cash | | 12,742 | 10,725 |
| Balances with central bank | 15 | 458,673 | 397,579 |
| Balances with banks and other financial institutions | 16 | 280,870 | 63,046 |
| Placements with banks and other financial institutions | 17 | 103,420 | 131,381 |
| Amounts held under resale agreements | 18 | 106,965 | 73,975 |
| Loans and advances to customers | 19 | 1,863,325 | 1,604,371 |
| Interest receivable | 20 | 13,009 | 10,852 |
| Financial assets at fair value through profit or loss | 21(a) | 25,489 | 15,530 |
| Derivative financial assets | 53(h) | 1,975 | 1,887 |
| Available-for-sale investments | 21(b) | 285,344 | 275,860 |
| Held-to-maturity debt securities | 21(c) | 175,417 | 145,586 |
| Receivables | 21(d) | 32,221 | 22,085 |
| Interest in associates | 23 | 290 | 297 |
| Interest in jointly controlled entities | 24 | 165 | 159 |
| Fixed assets | 25 | 20,392 | 17,500 |
| Investment properties | 26 | 1,638 | 1,710 |
| Intangible assets | 27 | 2,851 | 2,605 |
| Goodwill | 28 | 9,598 | 9,598 |
| Deferred tax assets | 29 | 4,987 | 4,337 |
| Other assets | 30 | 8,848 | 5,888 |
| Total assets | | 3,408,219 | 2,794,971 |
| Liabilities | | | |
| Deposits from banks and other financial institutions | 31 | 258,692 | 205,699 |
| Placements from banks and other financial institutions | 32 | 109,815 | 67,484 |
| Amounts sold under repurchase agreements | 33 | 157,953 | 42,064 |
| Deposits from customers | 34 | 2,532,444 | 2,220,060 |
| Interest payable | 35 | 24,065 | 16,080 |
| Financial liabilities designated at fair value through profit or loss | 21(e)(f) | 6,854 | 4,724 |
| Derivative financial liabilities | 53(h) | 2,745 | 1,469 |
| Debts issued | 36 | 77,111 | 46,167 |
| Salaries and welfare payable | 37(a) | 4,056 | 3,320 |
| Tax payable | 38 | 6,679 | 7,112 |
| Deferred tax liabilities | 29 | 827 | 864 |
| Other liabilities | 39 | 26,471 | 14,918 |
| Total liabilities | | 3,207,712 | 2,629,961 |

The notes on pages 159 to 313 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|--|-------|------------------|------------------|
| Equity | | | |
| Share capital | 40 | 21,577 | 21,577 |
| Capital reserve | 41 | 37,508 | 37,508 |
| Investment revaluation reserve | 42 | 37 | 157 |
| Hedging reserve | 43 | (261) | 278 |
| Surplus reserve | 44 | 18,618 | 14,325 |
| Regulatory general reserve | 45 | 39,195 | 18,794 |
| Retained profits | | 71,432 | 64,446 |
| Proposed profit appropriations | 46(b) | 13,593 | 9,062 |
| Exchange reserve | 47 | (1,265) | (1,150) |
| Total equity attributable to shareholders of the Bank | | 200,434 | 164,997 |
| Non-controlling interests | 56 | 73 | 13 |
| Total equity | | 200,507 | 165,010 |
| Total equity and liabilities | | 3,408,219 | 2,794,971 |

Approved and authorised for issue by the board of directors on 28 March 2013.

Fu Yuning
Director

Ma Weihua
Director

Company Chop

The notes on pages 159 to 313 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|--|----------|------------------|------------------|
| Assets | | | |
| Cash | | 12,145 | 10,186 |
| Balances with central bank | 15 | 454,498 | 394,119 |
| Balances with banks and other financial institutions | 16 | 274,614 | 59,657 |
| Placements with banks and other financial institutions | 17 | 85,981 | 109,387 |
| Amounts held under resale agreements | 18 | 106,965 | 73,975 |
| Loans and advances to customers | 19 | 1,720,403 | 1,493,913 |
| Interest receivable | 20 | 12,346 | 10,363 |
| Financial assets at fair value through profit or loss | 21(a) | 22,058 | 11,067 |
| Derivative financial assets | 53(h) | 1,866 | 1,664 |
| Available-for-sale investments | 21(b) | 274,812 | 262,457 |
| Held-to-maturity debt securities | 21(c) | 172,994 | 143,398 |
| Receivables | 21(d) | 33,426 | 23,300 |
| Investments in subsidiaries | 22 | 34,565 | 32,565 |
| Interest in an associates | 23 | 191 | 191 |
| Fixed assets | 25 | 16,676 | 13,761 |
| Investment properties | 26 | 325 | 298 |
| Intangible assets | 27 | 1,760 | 1,466 |
| Deferred tax assets | 29 | 4,838 | 4,207 |
| Other assets | 30 | 7,087 | 3,950 |
| Total assets | | 3,237,550 | 2,649,924 |
| Liabilities | | | |
| Deposits from banks and other financial institutions | 31 | 253,134 | 203,614 |
| Placements from banks and other financial institutions | 32 | 66,431 | 34,896 |
| Amounts sold under repurchase agreements | 33 | 157,753 | 39,064 |
| Deposits from customers | 34 | 2,426,474 | 2,126,937 |
| Interest payable | 35 | 23,281 | 15,422 |
| Financial liabilities at fair value through profit or loss | 21(e)(f) | 6,355 | 3,558 |
| Derivative financial liabilities | 53(h) | 2,673 | 1,310 |
| Debts issued | 36 | 69,083 | 35,535 |
| Salaries and welfare payable | 37(a) | 3,766 | 3,085 |
| Tax payable | 38 | 6,401 | 6,849 |
| Other liabilities | 39 | 18,009 | 8,628 |
| Total liabilities | | 3,033,360 | 2,478,898 |

The notes on pages 159 to 313 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|-------------------------------------|-------|------------------|------------------|
| Equity | | | |
| Share capital | 40 | 21,577 | 21,577 |
| Capital reserve | 41 | 46,666 | 46,666 |
| Investment revaluation reserve | 42 | (46) | 130 |
| Hedging reserve | 43 | (261) | 278 |
| Surplus reserve | 44 | 18,618 | 14,325 |
| Regulatory general reserve | 45 | 38,849 | 18,571 |
| Retained profits | | 65,194 | 60,417 |
| Proposed profit appropriations | 46(b) | 13,593 | 9,062 |
| Total equity | | 204,190 | 171,026 |
| Total equity and liabilities | | 3,237,550 | 2,649,924 |

Approved and authorised for issue by the board of directors on 28 March 2013.

Fu Yuning
Director

Ma Weihua
Director

Company Chop

The notes on pages 159 to 313 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| 2012 | | | | | | | | | | | | | |
|---|-------|---|-----------------|--------------------------------|-----------------|-----------------|----------------------------|------------------|--------------------------------|------------------|----------|---------------------------|---------|
| | | Total equity attributable to shareholders of the Bank | | | | | | | | | | | |
| | Note | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Exchange reserve | Subtotal | Non-controlling interests | Total |
| At 1 January 2012 | | 21,577 | 37,508 | 157 | 278 | 14,325 | 18,794 | 64,446 | 9,062 | (1,150) | 164,997 | 13 | 165,010 |
| Amounts increase/(decrease) for the year | | - | - | (120) | (539) | 4,293 | 20,401 | 6,986 | 4,531 | (115) | 35,437 | 60 | 35,497 |
| (a) Profit for the year | | - | - | - | - | - | - | 45,273 | - | - | 45,273 | 4 | 45,277 |
| (b) Other comprehensive income for the year | 13 | - | - | (120) | (539) | - | - | - | - | (115) | (774) | - | (774) |
| Total comprehensive income for the year | | - | - | (120) | (539) | - | - | 45,273 | - | (115) | 44,499 | 4 | 44,503 |
| (c) Changes by the shareholder's equity | 56 | - | - | - | - | - | - | - | - | - | - | 56 | 56 |
| (d) Distribution of profits | | | | | | | | | | | | | |
| (i) Appropriations to statutory surplus reserve for the year 2012 | 44 | - | - | - | - | 4,293 | - | (4,293) | - | - | - | - | - |
| (ii) Transfer of retained profits to regulatory general reserve | 45 | - | - | - | - | - | 20,401 | (20,401) | - | - | - | - | - |
| (iii) Dividends paid for the year 2011 | 46(a) | - | - | - | - | - | - | - | (9,062) | - | (9,062) | - | (9,062) |
| (iv) Proposed dividends for the year 2012 | 46(b) | - | - | - | - | - | - | (13,593) | 13,593 | - | - | - | - |
| At 31 December 2012 | | 21,577 | 37,508 | 37 | (261) | 18,618 | 39,195 | 71,432 | 13,593 | (1,265) | 200,434 | 73 | 200,507 |

The notes on pages 159 to 313 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | | 2011 | | | | | | | | | | | |
|---|-------|---|-----------------|--------------------------------|-----------------|-----------------|----------------------------|------------------|--------------------------------|------------------|----------|---------------------------|---------|
| | | Total equity attributable to shareholders of the Bank | | | | | | | | | | | |
| | Note | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Exchange reserve | Subtotal | Non-controlling interests | Total |
| At 1 January 2011 | | 21,577 | 37,508 | (1,311) | 3 | 8,418 | 16,812 | 42,806 | 8,719 | (526) | 134,006 | – | 134,006 |
| Amounts increase/(decrease) for the year | | – | – | 1,468 | 275 | 5,907 | 1,982 | 21,640 | 343 | (624) | 30,991 | 13 | 31,004 |
| (a) Profit for the year | | – | – | – | – | – | – | 36,129 | – | – | 36,129 | (2) | 36,127 |
| (b) Other comprehensive income for the year | 13 | – | – | 1,468 | 275 | – | – | – | – | (624) | 1,119 | – | 1,119 |
| Total comprehensive income for the year | | – | – | 1,468 | 275 | – | – | 36,129 | – | (624) | 37,248 | (2) | 37,246 |
| (c) Changes by the shareholder's equity | 56 | – | – | – | – | – | – | – | – | – | – | 15 | 15 |
| (d) Distribution of profits | | | | | | | | | | | | | |
| (i) Appropriations to statutory surplus reserve for the year 2011 | 44 | – | – | – | – | 3,445 | – | (3,445) | – | – | – | – | – |
| (ii) Transfer of retained profits to regulatory general reserve | 45 | – | – | – | – | – | 1,982 | (1,982) | – | – | – | – | – |
| (iii) Dividends paid for the year 2010 | 46(a) | – | – | – | – | – | – | – | (6,257) | – | (6,257) | – | (6,257) |
| (iv) Proposed dividends for the year 2011 | 46(b) | – | – | – | – | – | – | (9,062) | 9,062 | – | – | – | – |
| (v) Appropriations to statutory surplus reserve for the year 2010 | | – | – | – | – | 2,462 | – | – | (2,462) | – | – | – | – |
| At 31 December 2011 | | 21,577 | 37,508 | 157 | 278 | 14,325 | 18,794 | 64,446 | 9,062 | (1,150) | 164,997 | 13 | 165,010 |

The notes on pages 159 to 313 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| 2012 | | | | | | | | | | |
|---|-------|---------------|-----------------|--------------------------------|-----------------|-----------------|----------------------------|------------------|--------------------------------|---------|
| | Note | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Total |
| At 1 January 2012 | | 21,577 | 46,666 | 130 | 278 | 14,325 | 18,571 | 60,417 | 9,062 | 171,026 |
| Amounts increase/(decrease) for the year | | - | - | (176) | (539) | 4,293 | 20,278 | 4,777 | 4,531 | 33,164 |
| (a) Profit for the year | | - | - | - | - | - | - | 42,941 | - | 42,941 |
| (b) Other comprehensive income for the year | 13 | - | - | (176) | (539) | - | - | - | - | (715) |
| Total comprehensive income for the year | | - | - | (176) | (539) | - | - | 42,941 | - | 42,226 |
| (c) Distribution of profits | | | | | | | | | | |
| (i) Appropriations to statutory surplus reserve for the year 2012 | 44 | - | - | - | - | 4,293 | - | (4,293) | - | - |
| (ii) Transfer of retained profits to regulatory general reserve | 45 | - | - | - | - | - | 20,278 | (20,278) | - | - |
| (iii) Dividends paid for the year 2011 | 46(a) | - | - | - | - | - | - | - | (9,062) | (9,062) |
| (iv) Proposed dividends for the year 2012 | 46(b) | - | - | - | - | - | - | (13,593) | 13,593 | - |
| At 31 December 2012 | | 21,577 | 46,666 | (46) | (261) | 18,618 | 38,849 | 65,194 | 13,593 | 204,190 |

| 2011 | | | | | | | | | | |
|---|-------|---------------|-----------------|--------------------------------|-----------------|-----------------|----------------------------|------------------|--------------------------------|---------|
| | Note | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Total |
| At 1 January 2011 | | 21,577 | 46,666 | (1,429) | 3 | 8,418 | 16,700 | 40,355 | 8,719 | 141,009 |
| Amounts increase/(decrease) for the year | | - | - | 1,559 | 275 | 5,907 | 1,871 | 20,062 | 343 | 30,017 |
| (a) Profit for the year | | - | - | - | - | - | - | 34,440 | - | 34,440 |
| (b) Other comprehensive income for the year | 13 | - | - | 1,559 | 275 | - | - | - | - | 1,834 |
| Total comprehensive income for the year | | - | - | 1,559 | 275 | - | - | 34,440 | - | 36,274 |
| (c) Distribution of profits | | | | | | | | | | |
| (i) Appropriations to statutory surplus reserve for the year 2011 | 44 | - | - | - | - | 3,445 | - | (3,445) | - | - |
| (ii) Transfer of retained profits to regulatory general reserve | 45 | - | - | - | - | - | 1,871 | (1,871) | - | - |
| (iii) Dividends paid for the year 2010 | 46(a) | - | - | - | - | - | - | - | (6,257) | (6,257) |
| (iv) Proposed dividends for the year 2011 | 46(b) | - | - | - | - | - | - | (9,062) | 9,062 | - |
| (v) Appropriations to statutory surplus reserve for the year 2010 | | - | - | - | - | 2,462 | - | - | (2,462) | - |
| At 31 December 2011 | | 21,577 | 46,666 | 130 | 278 | 14,325 | 18,571 | 60,417 | 9,062 | 171,026 |

The notes on pages 159 to 313 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|--|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 59,564 | 47,122 |
| Adjustments for: | | | |
| – Impairment losses on loans and advances | | 5,491 | 8,199 |
| – Impairment losses on investments | | 29 | 78 |
| – Impairment losses on other assets | | 63 | 73 |
| – Unwind of discount income on impaired loans | | (215) | (136) |
| – Fixed assets and investment properties depreciation | | 2,924 | 2,612 |
| – Amortisation of other assets | | 310 | 334 |
| – Amortisation of discount and premium of debt investments | | 6 | (100) |
| – Amortisation of discount and premium of issued debts | | 113 | 53 |
| – Share of profits of associates | | (31) | (49) |
| – Share of profits of jointly controlled entities | | (33) | (14) |
| – Gains on debt investments | | (3,355) | (1,519) |
| – Gains on disposal of fixed assets | | (21) | (1) |
| – Interest income on debt investments | | (15,950) | (12,468) |
| – Interest expense on issued debts | | 2,658 | 1,816 |
| Changes in: | | | |
| Balances with central bank | | (48,605) | (110,360) |
| Balances and placements with banks and other financial institutions with original maturity over 3 months | | (7,572) | 38,103 |
| Loans and advances to customers | | (264,075) | (210,142) |
| Other assets | | (14,310) | (2,015) |
| Deposits from customers | | 312,578 | 322,882 |
| Deposits and placements from banks and other financial institutions | | 211,017 | 33,224 |
| Other liabilities | | 24,047 | (5,911) |
| Cash generated from operating activities | | 264,633 | 111,781 |
| Income tax paid | | (14,920) | (10,485) |
| Cash flows from investing activities | | | |
| Payment for investments purchased | | (958,709) | (538,739) |
| Proceeds from investments disposed | | 913,430 | 470,066 |
| Interest received from debt investments | | 17,302 | 13,288 |
| Payment for purchase of fixed assets and other assets | | (6,494) | (4,226) |
| Proceeds from sale of fixed assets and other assets | | 243 | 253 |
| Repayment of loan to jointly controlled entities | | 19 | 5 |
| Net cash outflow from investing activities | | (34,209) | (59,353) |
| Net cash inflow before financing | | 215,504 | 41,943 |

The notes on pages 159 to 313 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2012 | 2011 |
|---|-------|----------------|----------------|
| Financing activities | | | |
| Proceeds from issuance of financial debts | | 19,970 | — |
| Proceeds from issuance of subordinated notes | | 12,877 | — |
| Cash received from minority shareholders | | 56 | 15 |
| Proceeds from issuance of certificates of deposit | | 18,107 | 29,174 |
| Repayment of certificates of deposit issued | | (21,447) | (19,659) |
| Dividends paid | | (9,062) | (6,249) |
| Interest paid on issued debts | | (2,054) | (1,821) |
| Net cash inflow from financing activities | | 18,447 | 1,460 |
| Net increase/(decrease) in cash and cash equivalents | | 233,951 | 43,403 |
| Cash and cash equivalents at 1 January | | 219,151 | 177,220 |
| Effect of foreign exchange rate changes | | (247) | (1,472) |
| Cash and cash equivalents at 31 December | 48(a) | 452,855 | 219,151 |
| Cash flows from operating activities include: | | | |
| Interest received | | 136,584 | 106,534 |
| Interest paid | | 52,986 | 37,395 |

The notes on pages 159 to 313 form part of these financial statements.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

1 Organisation, principal activities and details of subsidiaries

(a) Organisation

China Merchants Bank Company Limited (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2012, apart from the Head Office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi'an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Qingdao, Dongguan, Shaoxing, Yantai, Quanzhou, Changzhou, Taiyuan, Foshan, Changchun, Hohhot, Yangzhou, Nantong, Jinhua, Taizhou, Weifang, Nanning, Wuhu, Weihai, Ganzhou, Qujing, Yuling, Yichang, Dandong, Huangshi, Leshan, Yingkou, Zhenjiang, Huainan, Hengyang, Zibo, Linyi, Lijiang, Zhongshan, Huizhou, Anshan, Taizhou, Jining, Honghe, Luoyang, Jincheng, Guiyang, Yinchuan, Shijiazhuang, Haikou, Xining, Hong Kong and New York. In addition, the Bank has four representative offices in Beijing, London, the United States of America and Taiwan.

(b) Principal activities

The principal activities of the Bank and its subsidiaries ("the Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and trustee services and other financial services.

2 Significant accounting policies

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Changes in accounting policies and accounting estimations

A number of new IFRSs and amendments to IFRSs which became effective in 2012 do not significantly impact the Group.

IASB issued "Deferred Tax: Recovery of Underlying Assets (Amendment to IAS 12)" on 20 December 2010, whereby deferred taxes on investment property, carried under the fair value model in IAS 40, will be measured on the presumption that an investment property is fully recovered through sale. The presumption is rebutted if the investment property is held within a business whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendment became effective on 1 January 2012.

The Group has begun to adopt this amendment to IAS 12. It has not had a significant impact on the Group's consolidated financial statements.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies *(continued)*

(c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale assets are stated at their fair value.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in note 54.

(d) Subsidiaries and non-controlling interests

The financial statements include the financial statements of the Bank and its subsidiaries. Subsidiaries are enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The results and affairs of the subsidiaries are included from the date that control commences until the date that control ceases.

The results of the subsidiaries are included in the consolidated result of the Group. All significant inter company transactions and balances, and any unrealised gains or losses arising from inter company transactions, have been eliminated on consolidation.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Bank.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)) or, jointly controlled entity (see note 2(f)).

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less allowances for impairment losses.

(e) Associates

Associates are entities in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any acquisition-date excess over cost, the consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see notes 2(g) and (n)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Bank's statement of financial position, its interests in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(f) Jointly controlled entities

Jointly controlled entities are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated statement of comprehensive income includes the Group's share of the results of jointly controlled entities for the year and the consolidated statement of financial position includes the Group's share of the net assets of the jointly controlled entities.

In the Bank's statement of financial position, the interests in jointly controlled entities are stated at cost less allowance for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the Basis of dividends received and receivable.

(g) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see note 2(n)). Amortisation of intangible assets with finite useful lives is charged to the consolidated statement of comprehensive income on a straight-line basis over the assets' estimated useful lives (2 – 50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40 – 50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2012.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(i) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred.

Except for loans and advances to customers that is recognised using settlement date accounting, purchase or sale of financial assets is recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

- financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss. They are not allowed to reclassify into or out of this category which it is held or issued.

All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

- Financial instruments are designated at fair value through profit or loss upon initial recognition when:
 - the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
 - the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
 - the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
 - the separation of the embedded derivative from the financial instrument is not prohibited;

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(i) Initial recognition (continued)

- held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity;
- loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale upon initial recognition;
- available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and
- financial liabilities, other than that at fair value through profit or loss and designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of comprehensive income when they arise.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated statement of comprehensive income.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of comprehensive income when the financial asset or liability is derecognised, impaired and amortised.

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models referenced to the fair value of another instrument that is substantially the same (without deduction for transaction costs) or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate at the valuation date for an instrument with similar terms and risk profile.

Notes to the Financial Statements

*(Expressed in millions of Renminbi unless otherwise stated)***2 Significant accounting policies** *(continued)***(i) Financial instruments** *(continued)***(iii) Hedge accounting**

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of comprehensive income within "Trading profits" of "Other net income".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity to the statement of comprehensive income in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the consolidated statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of comprehensive income.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(iii) Hedge accounting (continued)

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of comprehensive income. These gains and losses are reported in "Trading profits" of "Other net income", except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in "Net income on financial instruments designated at fair value through profit or loss".

(iv) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with and takings from banks and other financial institutions

Banks represent other banks approved by the PBOC and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as trading or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity debt securities, receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances

Loans and advances directly granted by the Group to customers or participation in syndicated loans are accounted for as loans and advances.

(v) Derivative financial instruments

The Group's derivative financial instruments include mainly spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

*(Expressed in millions of Renminbi unless otherwise stated)***2 Significant accounting policies** *(continued)***(i) Financial instruments** *(continued)***(vi) Embedded derivatives**

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(i)(i) above.

(vii) Securitisations

The Group securitises various corporate loans, which generally results in the sale of these assets to special purpose entity, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in "Other net income".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over the financial assets:

- when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;
- when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and
- when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(j) Fixed assets and depreciation

Fixed assets, including investment properties, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of fixed assets over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

| | |
|--|----------------------------|
| Land and buildings | 20 years |
| Investment properties | 20 years |
| Computer equipment | 3 years |
| Motor vehicles and others | 3 – 5 years |
| Leasehold improvements (leasing property) | 3 years |
| Leasehold improvements (self-owned property) | the estimated useful lives |

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of comprehensive income. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a fixed asset is capitalised only when it is probable that future economic benefits associated with the fixed assets will flow to the Group. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the fixed assets and are accounted for in the consolidated statement of comprehensive income as they arise.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are measured at the lower of the carrying value of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

*(Expressed in millions of Renminbi unless otherwise stated)***2 Significant accounting policies** *(continued)***(l) Finance and operating lease****(i) Classification**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n).

(iii) Operating leases**– Operating leases charges**

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease expense is charged to profit and loss when actually happened.

– Assets leased out under operating leases

Fixed assets other than investment properties leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n). Income derived from operating leases is recognised in the statement of comprehensive income using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit and loss when actually happened.

(m) Resale and repurchase agreements

Securities sold under repurchase agreements are considered to be, in substance, secured loans borrowed. Therefore, the amounts received are included in "Amounts due to central bank" or "Placements from banks and other financial institutions", depending on the identity of the counterparty. Conversely securities or loans purchased subject to commitment to resell are considered as loans granted, and the amounts paid are accounted for as "Balances with central bank" or "Placements with banks and other financial institutions", depending on the identity of the counterparty.

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of comprehensive income.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(n) Impairment (continued)

(i) Financial assets (continued)

Impairment losses on loans and advances

The Group uses two methods of assessing impairment losses on loans and advances: those assessed individually and those assessed on a collective basis.

– *Individually assessed*

Loans and advances which are considered individually significant are assessed individually for impairment.

Impairment allowances are made on individually impaired significant loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

Impairment allowances of an individually impaired significant loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of the allowances for impairment losses.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

- no objective evidence of impairment exists for an individually assessed loans; and
- for homogeneous groups of loans that are not individually significant with similar credit risk characteristics.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(n) Impairment (continued)

(i) Financial assets (continued)

Impairment losses on loans and advances (continued)

– Collectively assessed (continued)

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

- the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;
- the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loan that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(n) Impairment (continued)

(i) Financial assets (continued)

Impairment losses on loans and advances (continued)

– Collectively assessed (continued)

Homogeneous groups of loans (continued)

When the Group determines that a loan has no reasonable prospect of recovery after the group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated statement of comprehensive income.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers. Upon the seizure of these assets, the carrying value of the related loan principal and interest receivable are initially transferred to "Repossession assets", and the respective allowances for impairment losses are transferred to "impairment allowance for repossession assets".

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated statement of comprehensive income even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of comprehensive income. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(n) Impairment (continued)

(i) Financial assets (continued)

Impairment losses on available-for-sale financial assets (continued)

Impairment losses recognised in the consolidated statement of comprehensive income for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of comprehensive income. Any subsequent increase in the fair value of these assets is recognised directly in equity.

(ii) Other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– **Recognition of impairment losses**

An impairment loss is recognised in the consolidated statement of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statement of comprehensive income in the year in which the reversals are recognised.

Notes to the Financial Statements

*(Expressed in millions of Renminbi unless otherwise stated)***2 Significant accounting policies** *(continued)***(o) Convertible bonds issued**

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

(p) Financial guarantee issued, provisions and contingent liabilities**(i) Financial guarantees issued**

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in the consolidated statement of comprehensive income over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies *(continued)*

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of comprehensive income on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of comprehensive income when the corresponding service is provided.

(iii) Dividend income

- Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.
- Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies *(continued)*

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies *(continued)*

(s) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated statement of comprehensive income.

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the end of the reporting period. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "Exchange reserve" in equity.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonus and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of comprehensive income as incurred.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(u) Employee benefits (continued)

(ii) Post employment benefits (continued)

Annual contributions to the retirement benefit schemes with defined benefit arrangements are determined based on periodic valuations of the assets and liabilities of such schemes by qualified actuaries using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the 10% of the greater of these schemes' assets and the defined benefit obligations are recognised in the statement of comprehensive income over the average expected future working lifetime of the members of the schemes.

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H-share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the consolidated statement of comprehensive income for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

2 Significant accounting policies (continued)

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the statement of financial position as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

Accounting Judgement and estimates

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

3 Interest income

| | 2012 | 2011 |
|---|---------|---------|
| Loans and advances (note) | | |
| – corporate loans | 68,719 | 56,020 |
| – retail loans | 41,303 | 32,142 |
| – discounted bills | 5,904 | 5,675 |
| Balances with central bank | 6,392 | 5,312 |
| Balances and placements with | | |
| – banks | 6,414 | 2,921 |
| – other financial institutions | 1,754 | 910 |
| Amounts held under resale agreements | 3,671 | 5,697 |
| Debt securities investments (note) | | |
| – listed | 13,575 | 11,743 |
| – unlisted | 2,369 | 825 |
| Interest income on financial assets that are not at fair value through profit or loss | 150,101 | 121,245 |

Note: Included in the above is interest income of RMB215 million accrued on impaired loans for the year ended 31 December 2012 (2011: RMB136 million) and none accrued on impaired debt securities investments for the year ended 31 December 2012 (2011: Nil).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

4 Interest expense

| | 2012 | 2011 |
|---|---------------|--------|
| Deposits from customers | 42,308 | 32,111 |
| Deposits and placements from | | |
| – banks | 6,654 | 5,349 |
| – other financial institutions | 7,338 | 4,626 |
| Amounts sold under repurchase agreements | 2,656 | 983 |
| Issued debts | 2,771 | 1,869 |
| Interest expense on financial liabilities that are not at fair value through profit or loss | 61,727 | 44,938 |

5 Fee and commission income

| | 2012 | 2011 |
|--|---------------|--------|
| Bank cards fees | 5,825 | 4,359 |
| Remittance and settlement fees | 2,211 | 2,042 |
| Agency services fees | 3,924 | 3,400 |
| Commissions from credit commitment and loan business | 2,229 | 1,563 |
| Commissions on trust and fiduciary activities | 4,594 | 3,032 |
| Others | 2,384 | 2,528 |
| | 21,167 | 16,924 |

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 RMB6,509 million (2011: RMB5,587 million).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

6 Other net income

| | 2012 | 2011 |
|---|--------------|--------------|
| Trading profits arising from | | |
| – foreign exchange | 1,296 | 1,516 |
| – bonds, derivatives and other trading activities | 425 | 656 |
| Net gains/(losses) on financial instruments designated at fair value through profit or loss | 180 | 27 |
| Net (losses)/gains on disposal of available-for-sale financial assets | 78 | (250) |
| Distributions from investment in funds | 24 | 22 |
| Rental income on operating leases assets | 318 | 281 |
| Gain on disposal of bills | 2,766 | 1,791 |
| Insurance operating income | 414 | 374 |
| Others | 140 | 251 |
| | 5,641 | 4,668 |

7 Operating expenses

| | 2012 | 2011 |
|--|---------------|---------------|
| Staff costs | | |
| – salaries and bonuses (note (i)) | 16,132 | 13,730 |
| – Social insurance and corporate supplementary insurance | 3,507 | 2,917 |
| – others | 4,293 | 3,669 |
| | 23,932 | 20,316 |
| Business tax and surcharges | 7,555 | 6,091 |
| Depreciation | | |
| – Fixed assets and investment properties depreciation | 2,864 | 2,557 |
| – Operating leases of fixed assets depreciation | 60 | 55 |
| Rental expenses | 2,462 | 2,193 |
| Other general and administrative expenses | 11,477 | 9,677 |
| | 48,350 | 40,889 |

Notes:

- (i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 37(c).
- (ii) Auditors' remuneration amounted to RMB14 million for 2012 (2011: RMB13 million).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

8 Directors' and Supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

| | 2012 | | | | |
|--|----------------------------|--|--|--|------------------|
| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 Note (i) | Retirement scheme contributions RMB'000 | Total RMB'000 |
| Executive directors | | | | | |
| Ma Weihua | – | 4,200 | – | 546 | 4,746 |
| Zhang Guanghua | – | 2,730 | – | 355 | 3,085 |
| Li Hao | – | 2,730 | – | 355 | 3,085 |
| Non-executive directors | | | | | |
| Fu Yuning | – | – | – | – | – |
| Wei Jiafu | – | – | – | – | – |
| Li Yinquan | – | – | – | – | – |
| Fu Gangfeng | – | – | – | – | – |
| Hong Xiaoyuan | – | – | – | – | – |
| Xiong Xianliang (iii) | – | – | – | – | – |
| Sun Yueying | – | – | – | – | – |
| Wang Daxiong | – | – | – | – | – |
| Fu Junyuan | – | – | – | – | – |
| Independent non – executive directors and supervisors | | | | | |
| Yi Xiqun | 300 | – | – | – | 300 |
| Wong Kwai Lam | 300 | – | – | – | 300 |
| Yan Lan | 300 | – | – | – | 300 |
| Pan Chengwei (iii) | 125 | – | – | – | 125 |
| Edward Chow Kwong Fai (iv) | 175 | – | – | – | 175 |
| Pan Yingli | 300 | – | – | – | 300 |
| Guo Xuemeng (iii) | 125 | – | – | – | 125 |
| Liu Hongxia (iv) | 175 | – | – | – | 175 |
| Han Mingzhi | – | 2,940 | – | 382 | 3,322 |
| An Luming (iii) | – | – | – | – | – |
| Zhu Genlin | – | – | – | – | – |
| Hu Xupeng (iv) | – | – | – | – | – |
| Wen Jianguo | – | – | – | – | – |
| Liu Zhengxi (iii) | – | – | – | – | – |
| Li Jiangning (iv) | – | – | – | – | – |
| Pan Ji | 300 | – | – | – | 300 |
| Peng Zhijian | 50 | – | – | – | 50 |
| Yang Zongjian | – | 1,093 | 702 | 233 | 2,028 |
| Zhou Qizheng | – | 1,068 | 695 | 229 | 1,992 |
| | 2,150 | 14,761 | 1,397 | 2,100 | 20,408 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

8 Directors' and Supervisors' emoluments (continued)

Notes:

- (i) The total remuneration before tax for the full-time executive directors and senior management personnel of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.
- (ii) Apart from the above emoluments, the Bank has also offered H-Share Appreciation Rights Scheme phase I, phase II, phase III, phase IV and phase V to its senior management ("the Scheme") on 30 October 2007, 7 November 2008, 16 November 2009 and 18 February 2011 and 4 May 2012 respectively. In 2012, none of the granted share appreciation rights were exercised. Details of this Scheme are set out in note 37(d).
- (iii) On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Appointment of Additional Equity Directors, and gave consent to the appointment of Xiong Xianliang as member of the Company's eighth board of directors.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of Independent Non-Executive Directors, and gave consent to the appointment of Pan Chengwei as independent non-executive director of the Company's eighth board of directors.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of Independent Non-Executive Directors, and gave consent to the appointment of Guo Xueming as independent non-executive director of the Company's eighth board of directors.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of the Supervisory Committee, and gave consent to the appointment of An Luming as member of the Company's eighth supervisory committee.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of the Supervisory Committee, and gave consent to the appointment of Liu Zhengxi as member of the Company's eighth supervisory committee.

- (iv) During the reporting period, Edward Chow Kwong Fai and Liu Hongxia retired as the Company's independent non-executive directors upon expiry of their term of office.

During the reporting period, Hu Xupeng and Li Jiangning retired as the Company's supervisors due to the change of job assignment.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

8 Directors' and Supervisors' emoluments (continued)

| | 2011 | | | | | | |
|--|-----------------|---|-----------------------|---------------------------------|---------|-----------------------|---------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total | Discretionary bonuses | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | Note | | | | |
| Executive directors | | | | | | | |
| Ma Weihua | – | 4,200 | – | 1,154 | 5,354 | 1,829 | 7,183 |
| Zhang Guanghua | – | 2,730 | – | 767 | 3,497 | 1,189 | 4,686 |
| Li Hao | – | 2,730 | – | 744 | 3,474 | 1,189 | 4,663 |
| Non-executive directors | | | | | | | |
| Fu Yuning | – | – | – | – | – | – | – |
| Wei Jiafu | – | – | – | – | – | – | – |
| Li Yinquan | – | – | – | – | – | – | – |
| Fu Gangfeng | – | – | – | – | – | – | – |
| Hong Xiaoyuan | – | – | – | – | – | – | – |
| Sun Yueying | – | – | – | – | – | – | – |
| Wang Daxiong | – | – | – | – | – | – | – |
| Fu Junyuan | – | – | – | – | – | – | – |
| Independent non – executive directors and supervisors | | | | | | | |
| Wu Sijie (ii) | 175 | – | – | – | 175 | – | 175 |
| Yi Xiqun | 300 | – | – | – | 300 | – | 300 |
| Wong Kwai Lam (i) | 125 | – | – | – | 125 | – | 125 |
| Yan Lan | 300 | – | – | – | 300 | – | 300 |
| Liu Yongzhang (ii) | 250 | – | – | – | 250 | – | 250 |
| Edward Chow Kwong Fai | 300 | – | – | – | 300 | – | 300 |
| Pan Yingli (i) | 50 | – | – | – | 50 | – | 50 |
| Liu Hongxia | 300 | – | – | – | 300 | – | 300 |
| Han Mingzhi | – | 2,520 | – | 711 | 3,231 | 915 | 4,146 |
| Zhu Genlin | – | – | – | – | – | – | – |
| Hu Xupeng | – | – | – | – | – | – | – |
| Wen Jianguo | – | – | – | – | – | – | – |
| Li Jiangning | – | – | – | – | – | – | – |
| Shi Shunhua (ii) | – | 782 | – | 102 | 884 | – | 884 |
| Shao Ruiqing (ii) | 125 | – | – | – | 125 | – | 125 |
| Pan Ji (i) | 175 | – | – | – | 175 | – | 175 |
| Peng Zhijian (i) | – | – | – | – | – | – | – |
| Yang Zongjian | – | 1,092 | 702 | 585 | 2,379 | – | 2,379 |
| Zhou Qizheng | – | 1,067 | 695 | 582 | 2,344 | – | 2,344 |
| | 2,100 | 15,121 | 1,397 | 4,645 | 23,263 | 5,122 | 28,385 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

8 Directors' and Supervisors' emoluments (continued)

- (i) On 30 May 2011, the Company's 2010 general meeting of shareholders considered and approved the Resolution on the Change of Independent Non-Executive Directors, and gave consent to the appointment of Wong Kwai Lam as independent non-executive director of the Company's eighth board of directors.

On 30 May 2011, the Company's 2010 general meeting of shareholders considered and approved the Resolution on the Appointment of an Additional External Supervisor, and gave consent to the appointment of Pan Ji as external supervisor of the Company.

On 9 September 2011, the Company's 2011 first extraordinary general meeting of shareholders considered and approved the Resolution on the Appointment of an Additional Independent Director of China Merchants Bank, and gave consent to the appointment of Pan Yingli as independent director of the Company's eighth board of directors.

On 9 September 2011, the Company's 2011 first extraordinary general meeting of shareholders considered and approved the Resolution on the Appointment of an Additional External Supervisor of China Merchants Bank, and gave consent to the appointment of Peng Zhijian as external supervisor of the Company's eighth supervisory committee.

- (ii) During the reporting period, Wu Sijie retired as the Company's independent non-executive director upon expiry of their term of office.

During the reporting period, Liu Yongzhang retired as the Company's independent non-executive director due to the change of job assignment.

During the reporting period, Shi Shunhua and Shao Ruiqing retired as the Company's supervisors due to the change of job assignment.

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

| RMB | 2012 | 2011 (Note) |
|-----------------------|-----------|----------------|
| Nil – 500,000 | 25 | 23 |
| 500,001 – 1,000,000 | – | 1 |
| 1,500,001 – 2,000,000 | 1 | – |
| 2,000,001 – 2,500,000 | 1 | 2 |
| 3,000,000 – 3,500,000 | 3 | – |
| 4,000,001 – 4,500,000 | – | 1 |
| 4,500,001 – 5,000,000 | 1 | 2 |
| 7,000,001 – 7,500,000 | – | 1 |
| | 31 | 30 |

None of the Directors and Supervisors received any inducements, compensation for loss of office or waived any emoluments during the year.

Note: On 6 July 2012, the Board of Directors approved the discretionary bonuses of the Bank's executive directors and senior management personnel for 2011. Disclosures in 2011 (note 8, 9 & 55(g)) had been adjusted correspondingly.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

9 Individuals with highest emoluments

Of the 5 individuals with the highest emoluments for the year ended 31 December 2012, 4 (2011: 3) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

| | 2012 RMB'000 | 2011 RMB'000 (Note 8) |
|--|-----------------|-----------------------------|
| Salaries and other emoluments | 15,989 | 14,700 |
| Discretionary bonuses (note 8(i)) | – | 6,402 |
| Contributions to defined contribution retirement schemes | 1,979 | 4,091 |
| | 17,968 | 25,193 |

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

| RMB | 2012 | 2011 (Note 8) |
|-----------------------|----------|------------------|
| 3,000,001 – 3,500,000 | 3 | – |
| 3,500,001 – 4,000,000 | 1 | – |
| 4,000,001 – 4,500,000 | – | 2 |
| 4,500,001 – 5,000,000 | 1 | 2 |
| 7,000,001 – 7,500,000 | – | 1 |

10 Loans to directors, supervisors and officers

Loans to Directors, Supervisors and Officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

| | 2012 | 2011 |
|--|-----------|------|
| Aggregate amount of relevant loans made by the Group outstanding at year end | 31 | 39 |
| Maximum aggregate amount of relevant loans made by the Group outstanding during the year | 41 | 47 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

11 Impairment losses

| | 2012 | 2011 |
|--|-------|-------|
| Loans and advances (Note 19(c)) | 5,491 | 8,199 |
| Placement with banks and other financial institution | (2) | 77 |
| Investments | | |
| – available-for-sale investments | 26 | 68 |
| – held-to-maturity debt securities | 2 | 4 |
| – investment receivable | 1 | 6 |
| Other assets | 65 | (4) |
| | 5,583 | 8,350 |

12 Income tax

(a) Income tax in the consolidated statement of comprehensive income represents:

| | 2012 | 2011 |
|------------------|--------|---------|
| Current tax | | |
| – Mainland China | 14,306 | 11,895 |
| – Hong Kong | 387 | 318 |
| – Overseas | 49 | 19 |
| Subtotal | 14,742 | 12,232 |
| Deferred tax | (455) | (1,237) |
| Total | 14,287 | 10,995 |

(b) A reconciliation of income tax expense in the consolidated statement of comprehensive income and that calculated at the applicable tax rate is as follows:

| | 2012 | 2011 |
|--|---------|--------|
| Profit before tax | 59,564 | 47,122 |
| Notional tax on profit before tax, calculated at the statutory tax rate of 25% (2011: 25%) | 14,891 | 11,781 |
| Add/(less) the tax effect of the following items: | | |
| – Non-deductible expenses | 689 | 278 |
| – Non-taxable income | (1,264) | (625) |
| – Different income tax rates in other areas | (29) | (355) |
| – Effect of change in tax rate on opening deferred tax balances | – | (84) |
| Actual income tax expense | 14,287 | 10,995 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

12 Income tax (continued)**(b) A reconciliation of income tax expense in the consolidated statement of comprehensive income and that calculated at the applicable tax rate is as follows:** (continued)

Note:

- (i) The income tax rates applicable to the Bank's operations in Shenzhen Special Economic Zone is 25% (2011: 24%) during the year.
- (ii) The provision for Hong Kong profit tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits from Hong Kong operations for the year.
- (iii) Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

| | 2012 | | | 2011 | | |
|--------------------------------------|-------------------|-------------|-------------------|-------------------|---------------|-------------------|
| | Before-tax amount | Tax benefit | Net-of-tax amount | Before-tax amount | Tax (expense) | Net-of-tax amount |
| Exchange differences | (115) | – | (115) | (624) | – | (624) |
| Available-for-sale financial assets: | | | | | | |
| – net movement in fair value reserve | (164) | 44 | (120) | 1,957 | (489) | 1,468 |
| Cash flow hedge: | | | | | | |
| – net movement in hedging reserve | (719) | 180 | (539) | 367 | (92) | 275 |
| Other comprehensive income | (998) | 224 | (774) | 1,700 | (581) | 1,119 |

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

| | 2012 | 2011 |
|---|-------|-------|
| Cash flow hedge: | | |
| Effective portion of changes in fair value of hedging instruments | (539) | 275 |
| Net movement in the hedging reserve during the period recognised in other comprehensive income | (539) | 275 |
| Available-for-sale financial assets: | | |
| Changes in fair value recognised during the period | (57) | 1,175 |
| Reclassification adjustments for amounts transferred to profit or loss: | | |
| – (gains)/losses on disposal | (63) | 293 |
| Net movement in the fair value reserve during the period recognised in other comprehensive income | (120) | 1,468 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

14 Earnings per share

Movements of the share capital are included in Note 40 of the financial statements.

(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:

| | 2012 | 2011 |
|---|---------------|--------|
| Net profit | 45,273 | 36,129 |
| Weighted average number of shares in issue (in million) | 21,577 | 21,577 |
| Basic earnings per share (in RMB) | 2.10 | 1.67 |

(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 after adjusting for the effect of all dilutive potential shares, calculated as follows:

| | 2012 | 2011 |
|--|---------------|--------|
| Net profit | 45,273 | 36,129 |
| Diluted net profit | 45,273 | 36,129 |
| Weighted average number of shares in issue (in million) | 21,577 | 21,577 |
| Weighted average number of shares in issue after dilution (in million) | 21,577 | 21,577 |
| Diluted earnings per share (in RMB) | 2.10 | 1.67 |

15 Balances with central bank

| | Group | | Bank | |
|--|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Statutory deposit reserve funds (note (i)) | 407,897 | 360,890 | 406,520 | 359,692 |
| Surplus deposit reserve funds (note (ii)) | 48,086 | 35,597 | 45,288 | 33,335 |
| Fiscal deposits | 2,690 | 1,092 | 2,690 | 1,092 |
| | 458,673 | 397,579 | 454,498 | 394,119 |

Notes:

- (i) Statutory deposit reserve funds are deposited with the People's Bank of China as required and are not available for the group's daily operations. The statutory deposit reserve funds are calculated at 18% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2012 (2011: 19% and 5% for eligible RMB deposits and foreign currency deposits). 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.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

16 Balances with banks and other financial institutions

(a) Analysed by nature of counterparties

| | Group | | Bank | |
|--|----------------|--------|----------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Balances with banks | 280,753 | 63,083 | 274,497 | 59,694 |
| Balances with other financial institutions | 183 | 55 | 183 | 55 |
| | 280,936 | 63,138 | 274,680 | 59,749 |
| Less: Impairment allowances | | | | |
| – banks | (62) | (88) | (62) | (88) |
| – other financial institutions | (4) | (4) | (4) | (4) |
| | (66) | (92) | (66) | (92) |
| | 280,870 | 63,046 | 274,614 | 59,657 |

(b) Analysed by geographical location

| | Group | | Bank | |
|--|----------------|--------|----------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Balances with | | | | |
| – banks in the Mainland | 260,688 | 39,299 | 255,364 | 36,823 |
| – other financial institutions in the Mainland | 183 | 55 | 183 | 55 |
| | 260,871 | 39,354 | 255,547 | 36,878 |
| Balances with | | | | |
| – banks outside the Mainland | 20,065 | 23,784 | 19,133 | 22,871 |
| | 280,936 | 63,138 | 274,680 | 59,749 |
| Less: Impairment allowances | | | | |
| – banks | (62) | (88) | (62) | (88) |
| – other financial institutions | (4) | (4) | (4) | (4) |
| | (66) | (92) | (66) | (92) |
| | 280,870 | 63,046 | 274,614 | 59,657 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

16 Balances with banks and other financial institutions (continued)

(c) Movements of allowances for impairment losses

| | Group and Bank | |
|---|----------------|------|
| | 2012 | 2011 |
| As at 1 January | 92 | 28 |
| Charge for the year | (26) | 66 |
| Recoveries of previously written off | – | (2) |
| As at 31 December | 66 | 92 |
| Impaired balances with banks and other financial institutions and impairment allowances | | |
| Gross impaired balances with banks and other financial institutions | 66 | 92 |
| Impairment allowances | (66) | (92) |
| Net balances | – | – |

(d) Impaired balances with banks and other financial institutions and allowances

| | Group | | Bank | |
|---|-------|-------|-------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Gross impaired balances with banks and other financial institutions as a percentage of total balances with banks and other financial institutions | 0.02% | 0.15% | 0.02% | 0.15% |

17 Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

| | Group | | Bank | |
|--------------------------------|---------|---------|--------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Money market placements | | | | |
| – banks | 63,935 | 105,165 | 46,496 | 83,171 |
| – other financial institutions | 39,514 | 26,220 | 39,514 | 26,220 |
| | 103,449 | 131,385 | 86,010 | 109,391 |
| Less: Impairment allowances | | | | |
| – banks | (29) | (4) | (29) | (4) |
| | 103,420 | 131,381 | 85,981 | 109,387 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

17 Placements with banks and other financial institutions *(continued)***(b) Analysed by remaining maturity**

| | Group | | Bank | |
|----------------------------------|----------------|---------|---------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Maturing | | | | |
| – within one month | 31,400 | 46,377 | 17,728 | 34,024 |
| – between one month and one year | 61,998 | 82,078 | 58,236 | 72,437 |
| – after one year | 10,022 | 2,926 | 10,017 | 2,926 |
| | 103,420 | 131,381 | 85,981 | 109,387 |

(c) Analysed by geographical location

| | Group | | Bank | |
|--|----------------|---------|---------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Placements with | | | | |
| – banks in the Mainland | 24,561 | 84,587 | 21,803 | 71,612 |
| – other financial institutions in the Mainland | 39,514 | 26,220 | 39,514 | 26,220 |
| | 64,075 | 110,807 | 61,317 | 97,832 |
| Placements with | | | | |
| – banks outside the Mainland | 39,374 | 20,578 | 24,693 | 11,559 |
| | 103,449 | 131,385 | 86,010 | 109,391 |
| Less: Impairment allowances | | | | |
| – banks | (29) | (4) | (29) | (4) |
| | 103,420 | 131,381 | 85,981 | 109,387 |

18 Amounts held under resale agreements**(a) Analysed by nature of counterparties**

| | Group and Bank | |
|--------------------------------------|----------------|--------|
| | 2012 | 2011 |
| Amounts held under resale agreements | | |
| – banks | 93,482 | 69,550 |
| – other financial institutions | 13,483 | 4,425 |
| | 106,965 | 73,975 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

18 Amounts held under resale agreements *(continued)*

(b) Analysed by remaining maturity

| | Group and Bank | |
|----------------------------------|----------------|--------|
| | 2012 | 2011 |
| Maturing | | |
| – within one months | 79,433 | 53,671 |
| – between one month and one year | 25,926 | 20,304 |
| – after one year | 1,606 | – |
| | 106,965 | 73,975 |

(c) Analysed by geographical location

| | Group and Bank | |
|--|----------------|--------|
| | 2012 | 2011 |
| Amounts held under resale agreements | | |
| – banks in the Mainland | 93,482 | 69,550 |
| – other financial institutions in the Mainland | 13,483 | 4,425 |
| | 106,965 | 73,975 |

(d) Analysed by assets types

| | Group and Bank | |
|--------------------------|----------------|--------|
| | 2012 | 2011 |
| Bonds issued by | | |
| – PRC government | 2,866 | 3,658 |
| – issued by the PBOC | – | 817 |
| – issued by policy banks | 11,644 | 11,639 |
| – others | 77,388 | 41,673 |
| | 91,898 | 57,787 |
| Loans | 532 | 2,700 |
| Bills | 935 | 13,488 |
| Others | 13,600 | – |
| | 106,965 | 73,975 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers**(a) Loans and advances to customers**

| | Group | | Bank | |
|---------------------------------------|------------------|-----------|------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Corporate loans | 1,152,837 | 994,041 | 1,033,545 | 903,991 |
| Discounted bills | 64,842 | 75,826 | 55,097 | 68,966 |
| Retail loans | 686,784 | 571,208 | 671,900 | 556,935 |
| Gross loans and advances to customers | 1,904,463 | 1,641,075 | 1,760,542 | 1,529,892 |
| Less: impairment allowances | | | | |
| – individually-assessed | (4,995) | (5,125) | (4,921) | (5,018) |
| – collectively-assessed | (36,143) | (31,579) | (35,218) | (30,961) |
| | (41,138) | (36,704) | (40,139) | (35,979) |
| Net loans and advances to customers | 1,863,325 | 1,604,371 | 1,720,403 | 1,493,913 |

(b) Analysis of loans and advances to customers**(i) Analysed by legal form of borrowers:**

| | Group | | Bank | |
|--|------------------|-----------|------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Domestic enterprises: | | | | |
| State-owned enterprises | 134,108 | 239,251 | 126,779 | 234,401 |
| Joint-stock enterprises | 123,101 | 95,914 | 112,980 | 88,484 |
| Other limited liability enterprises | 427,601 | 289,696 | 392,122 | 268,862 |
| Others | 213,423 | 151,463 | 213,256 | 150,700 |
| | 898,233 | 776,324 | 845,137 | 742,447 |
| Foreign-invested enterprises | 141,214 | 127,121 | 135,032 | 122,488 |
| Enterprises operating in the Mainland | 1,039,447 | 903,445 | 980,169 | 864,935 |
| Enterprises operating outside the Mainland | 113,390 | 90,596 | 53,376 | 39,056 |
| Corporate loans | 1,152,837 | 994,041 | 1,033,545 | 903,991 |
| Discounted bills | 64,842 | 75,826 | 55,097 | 68,966 |
| Retail loans | 686,784 | 571,208 | 671,900 | 556,935 |
| Gross loans and advances to customers | 1,904,463 | 1,641,075 | 1,760,542 | 1,529,892 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

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

(ii) Analysed by industry sector:

Operation in Mainland China

| | Group | | Bank | |
|--|------------------|-----------|------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Manufacturing and processing | 355,619 | 299,734 | 337,883 | 285,600 |
| Wholesale and retail | 198,376 | 154,953 | 196,905 | 153,777 |
| Transportation, storage and postal services | 135,998 | 135,958 | 128,116 | 130,983 |
| Production and supply of electric power, gas and water | 78,551 | 64,470 | 64,572 | 56,587 |
| Property development | 67,496 | 79,453 | 66,195 | 78,575 |
| Construction | 59,654 | 43,273 | 56,684 | 41,184 |
| Mining | 54,501 | 35,481 | 45,484 | 31,156 |
| Leasing and commercial services | 34,886 | 37,328 | 33,590 | 36,013 |
| Water, environment and public utilities management | 29,772 | 33,752 | 29,348 | 33,208 |
| Telecommunications, computer services and software | 12,348 | 9,874 | 12,029 | 9,732 |
| Others | 30,621 | 24,110 | 28,684 | 23,123 |
| Corporate loans | 1,057,822 | 918,386 | 999,490 | 879,938 |
| Discounted bills | 64,842 | 75,826 | 55,097 | 68,966 |
| Credit cards | 106,189 | 72,964 | 106,189 | 72,964 |
| Retail housing mortgage loans | 328,199 | 315,760 | 328,131 | 315,696 |
| Retail operating loans | 180,706 | 89,174 | 177,139 | 86,446 |
| Others | 60,574 | 81,998 | 60,441 | 81,829 |
| Retail loans | 675,668 | 559,896 | 671,900 | 556,935 |
| Gross loans and advances to customers | 1,798,332 | 1,554,108 | 1,726,487 | 1,505,839 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

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

(ii) Analysed by industry sector: (continued)

Operation outside Mainland China

| | Group | | Bank | |
|---|----------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Property development | 34,455 | 33,365 | 7,763 | 7,156 |
| Wholesale and retail | 28,064 | 14,538 | 14,532 | 4,509 |
| Manufacturing | 10,041 | 8,238 | 4,096 | 3,667 |
| Transportation and transportation equipment | 7,066 | 4,992 | 3,127 | 2,947 |
| Financial concerns | 6,554 | 5,392 | 241 | 243 |
| Information technology | 200 | 852 | 22 | 613 |
| Recreational activities | 26 | 30 | – | – |
| Others | 8,609 | 8,248 | 4,274 | 4,918 |
| Corporate loans | 95,015 | 75,655 | 34,055 | 24,053 |
| Credit cards | 330 | 341 | – | – |
| Retail housing mortgage loans | 7,547 | 7,880 | – | – |
| Retail operating loans | 1,306 | 1,255 | – | – |
| Others | 1,933 | 1,836 | – | – |
| Retail loans | 11,116 | 11,312 | – | – |
| Gross loans and advances to customers | 106,131 | 86,967 | 34,055 | 24,053 |

Notes: At 31 December 2012, 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 2011).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

(c) Movements of allowances for impairment losses

| Group | | | | |
|---|--|---|---|--------|
| 2012 | | | | |
| | Loans and advances for which impairment losses are collectively assessed | Impaired loans and advances | | Total |
| | | For which impairment losses are collectively assessed | For which impairment losses are individually assessed | |
| At 1 January | 30,190 | 1,389 | 5,125 | 36,704 |
| Charge for the year (Note 11) | 4,046 | 707 | 1,523 | 6,276 |
| Releases for the year (Note 11) | (17) | (1) | (767) | (785) |
| Unwinding of discount | – | (1) | (214) | (215) |
| Recoveries of loans and advances previously written off | – | 15 | 50 | 65 |
| Write-offs | – | (168) | (723) | (891) |
| Transfers | – | – | 13 | 13 |
| Exchange difference | (17) | – | (12) | (29) |
| At 31 December | 34,202 | 1,941 | 4,995 | 41,138 |

| Group | | | | |
|---|--|---|---|--------|
| 2011 | | | | |
| | Loans and advances for which impairment losses are collectively assessed | Impaired loans and advances | | Total |
| | | For which impairment losses are collectively assessed | For which impairment losses are individually assessed | |
| At 1 January | 22,026 | 1,353 | 5,912 | 29,291 |
| Charge for the year (Note 11) | 8,258 | 31 | 759 | 9,048 |
| Releases for the year (Note 11) | (20) | (2) | (827) | (849) |
| Unwinding of discount | – | (1) | (135) | (136) |
| Recoveries of loans and advances previously written off | – | 27 | 38 | 65 |
| Write-offs | – | (19) | (564) | (583) |
| Exchange difference | (74) | – | (58) | (132) |
| At 31 December | 30,190 | 1,389 | 5,125 | 36,704 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)**(c) Movements of allowances for impairment losses** (continued)

| Bank | | | | |
|---|--|---|---|--------|
| 2012 | | | | |
| | Loans and advances for which impairment losses are collectively assessed | Impaired loans and advances | | Total |
| | | For which impairment losses are collectively assessed | For which impairment losses are individually assessed | |
| At 1 January | 29,572 | 1,389 | 5,018 | 35,979 |
| Charge for the year | 3,721 | 701 | 1,485 | 5,907 |
| Releases for the year | – | – | (737) | (737) |
| Unwinding of discount | – | – | (211) | (211) |
| Recoveries of loans and advances previously written off | – | 14 | 50 | 64 |
| Write-offs | – | (163) | (686) | (849) |
| Transfers | – | – | 13 | 13 |
| Exchange difference | (16) | – | (11) | (27) |
| At 31 December | 33,277 | 1,941 | 4,921 | 40,139 |

| Bank | | | | |
|---|--|---|---|--------|
| 2011 | | | | |
| | Loans and advances for which impairment losses are collectively assessed | Impaired loans and advances | | Total |
| | | For which impairment losses are collectively assessed | For which impairment losses are individually assessed | |
| At 1 January | 21,644 | 1,352 | 5,805 | 28,801 |
| Charge for the year | 7,996 | 25 | 701 | 8,722 |
| Releases for the year | – | – | (819) | (819) |
| Unwinding of discount | – | – | (125) | (125) |
| Recoveries of loans and advances previously written off | – | 26 | 35 | 61 |
| Write-offs | – | (14) | (526) | (540) |
| Exchange difference | (68) | – | (53) | (121) |
| At 31 December | 29,572 | 1,389 | 5,018 | 35,979 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

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

| Group | | | | | | |
|---|---|---|---|-----------|--|---|
| 2012 | | | | | | |
| | Loans and advances for which impairment losses are collectively assessed (Note (i)) | Impaired loans and advances | | | Gross impaired loans and advances as a % of gross loans and advances | Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii)) |
| | | For which impairment losses are collectively assessed (Note (ii)) | For which impairment losses are individually assessed (note (ii)) | Total | | |
| Gross loans and advances to | | | | | | |
| – financial institutions | 20,859 | – | 1 | 20,860 | 0.00 | – |
| – non-financial institution customers | 1,872,070 | 3,215 | 8,318 | 1,883,603 | 0.61 | 1,870 |
| | 1,892,929 | 3,215 | 8,319 | 1,904,463 | 0.61 | 1,870 |
| Less: | | | | | | |
| Allowances for impairment losses on loans and advances to | | | | | | |
| – financial institutions | (25) | – | (1) | (26) | | |
| – non-financial institution customers | (34,177) | (1,941) | (4,994) | (41,112) | | |
| | (34,202) | (1,941) | (4,995) | (41,138) | | |
| Net loans and advances to | | | | | | |
| – financial institutions | 20,834 | – | – | 20,834 | | |
| – non-financial institution customers | 1,837,893 | 1,274 | 3,324 | 1,842,491 | | |
| | 1,858,727 | 1,274 | 3,324 | 1,863,325 | | |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

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

| Group | | | | | | |
|---|--|---|--|-----------|--|--|
| 2011 | | | | | | |
| | 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)) | 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 | 19,637 | – | 6 | 19,643 | 0.03 | – |
| – non-financial institution customers | 1,612,303 | 1,713 | 7,416 | 1,621,432 | 0.56 | 1,521 |
| | 1,631,940 | 1,713 | 7,422 | 1,641,075 | 0.56 | 1,521 |
| Less: | | | | | | |
| Allowances for impairment losses on loans and advances to | | | | | | |
| – financial institutions | (15) | – | (6) | (21) | | |
| – non-financial institution customers | (30,175) | (1,389) | (5,119) | (36,683) | | |
| | (30,190) | (1,389) | (5,125) | (36,704) | | |
| Net loans and advances to | | | | | | |
| – financial institutions | 19,622 | – | – | 19,622 | | |
| – non-financial institution customers | 1,582,128 | 324 | 2,297 | 1,584,749 | | |
| | 1,601,750 | 324 | 2,297 | 1,604,371 | | |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

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

| | Bank | | | | 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)) |
|---|---|---|---|-----------|--|---|
| | 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)) | For which impairment losses are individually assessed (note (ii)) | Total | | |
| Gross loans and advances to | | | | | | |
| – financial institutions | 4,708 | – | 1 | 4,709 | 0.02 | – |
| – non-financial institution customers | 1,744,446 | 3,208 | 8,179 | 1,755,833 | 0.65 | 1,774 |
| | 1,749,154 | 3,208 | 8,180 | 1,760,542 | 0.65 | 1,774 |
| Less: | | | | | | |
| Allowances for impairment losses on loans and advances to | | | | | | |
| – financial institutions | (13) | – | (1) | (14) | | |
| – non-financial institution customers | (33,264) | (1,941) | (4,920) | (40,125) | | |
| | (33,277) | (1,941) | (4,921) | (40,139) | | |
| Net loans and advances to | | | | | | |
| – financial institutions | 4,695 | – | – | 4,695 | | |
| – non-financial institution customers | 1,711,182 | 1,267 | 3,259 | 1,715,708 | | |
| | 1,715,877 | 1,267 | 3,259 | 1,720,403 | | |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

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

| | | | | Bank | | |
|---|---|---|---|-----------|--|---|
| | | | | 2011 | | |
| | Loans and advances for which impairment losses are collectively assessed (Note (i)) | Impaired loans and advances | | Total | Gross impaired loans and advances as a % of gross loans and advances | Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii)) |
| | | For which impairment losses are collectively assessed (Note (ii)) | For which impairment losses are individually assessed (note (ii)) | | | |
| Gross loans and advances to | | | | | | |
| – financial institutions | 8,836 | – | 6 | 8,842 | 0.07 | – |
| – non-financial institution customers | 1,512,166 | 1,705 | 7,179 | 1,521,050 | 0.58 | 1,358 |
| | 1,521,002 | 1,705 | 7,185 | 1,529,892 | 0.58 | 1,358 |
| Less: | | | | | | |
| Allowances for impairment losses on loans and advances to | | | | | | |
| – financial institutions | (8) | – | (6) | (14) | | |
| – non-financial institution customers | (29,564) | (1,389) | (5,012) | (35,965) | | |
| | (29,572) | (1,389) | (5,018) | (35,979) | | |
| Net loans and advances to | | | | | | |
| – financial institutions | 8,828 | – | – | 8,828 | | |
| – non-financial institution customers | 1,482,602 | 316 | 2,167 | 1,485,085 | | |
| | 1,491,430 | 316 | 2,167 | 1,493,913 | | |

Notes:

- (i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.
- (ii) Impaired loans and advances include loans for which objective evidence of impairment has been identified:
- collectively: that is portfolios of homogeneous loans; or
 - individually.
- (iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (continued)

(e) Finance leases and hire purchase contracts

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

| | Group | | | |
|---|---|---------------------------------------|---|---------------------------------------|
| | 2012 | | 2011 | |
| | 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 | 20,773 | 23,602 | 15,251 | 16,950 |
| After 1 year but within 5 years | 31,486 | 34,791 | 19,034 | 21,104 |
| After 5 years | 2,397 | 2,677 | 1,236 | 1,453 |
| | 54,656 | 61,070 | 35,521 | 39,507 |
| Impairment allowances: | | | | |
| – individually assessed | (20) | (20) | (3) | (3) |
| – collectively assessed | (781) | (781) | (476) | (476) |
| Unearned future income on finance lease | – | (6,414) | – | (3,986) |
| Net investment in finance leases and hire purchase contracts | 53,855 | 53,855 | 35,042 | 35,042 |

As at 31 December 2012, the Bank's net investments in finance leases and hire purchase contracts included in "Loans and advances" were nil (2011: Nil).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

20 Interest receivable

| | Group | | Bank | |
|---------------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Debt securities | 6,885 | 5,432 | 6,772 | 5,329 |
| Loans and advances to customers | 4,537 | 3,966 | 4,399 | 3,868 |
| Others | 1,587 | 1,454 | 1,175 | 1,166 |
| | 13,009 | 10,852 | 12,346 | 10,363 |

21 Investments

| | Note | Group | | Bank | |
|---|-------|----------------|---------|----------------|---------|
| | | 2012 | 2011 | 2012 | 2011 |
| Financial assets at fair value through profit or loss | 21(a) | 25,489 | 15,530 | 22,058 | 11,067 |
| Derivative financial assets | 53(h) | 1,975 | 1,887 | 1,866 | 1,664 |
| Available-for-sale investments | 21(b) | 285,344 | 275,860 | 274,812 | 262,457 |
| Held-to-maturity debt securities | 21(c) | 175,417 | 145,586 | 172,994 | 143,398 |
| Receivables | 21(d) | 32,221 | 22,085 | 33,426 | 23,300 |
| | | 520,446 | 460,948 | 505,156 | 441,886 |

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

| | Note | Group | | Bank | |
|--|------|---------------|--------|---------------|--------|
| | | 2012 | 2011 | 2012 | 2011 |
| Trading financial assets | (i) | 19,139 | 12,401 | 16,201 | 8,625 |
| Financial assets designated at fair value through profit or loss | (ii) | 6,350 | 3,129 | 5,857 | 2,442 |
| | | 25,489 | 15,530 | 22,058 | 11,067 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

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

| | Group | | Bank | |
|---|--------|--------|--------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| (i) Trading assets | | | | |
| <i>Listed</i> | | | | |
| In the Mainland | | | | |
| – PRC government bonds | 1,221 | 1,111 | 1,221 | 1,111 |
| – bonds issued by the PBOC | 23 | 33 | 23 | 33 |
| – bonds issued by policy banks | 2,931 | 470 | 2,931 | 470 |
| – bonds issued by commercial banks and other financial institutions | 11,012 | 1,101 | 11,012 | 1,101 |
| – other debt securities | 276 | 5,274 | 276 | 5,274 |
| – investments in funds | 3 | – | – | – |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 428 | 387 | 428 | 387 |
| – other debt securities | 596 | 374 | 248 | 188 |
| – equity investments | 157 | 21 | – | – |
| – investments in funds | 10 | – | – | – |
| | 16,657 | 8,771 | 16,139 | 8,564 |
| <i>Unlisted</i> | | | | |
| In the Mainland | | | | |
| – PRC government bonds | – | 2 | – | – |
| – bonds issued by commercial banks and other financial institutions | 16 | 26 | – | – |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 62 | 157 | 62 | 61 |
| – other debt securities | 2,390 | 3,436 | – | – |
| – investment in funds | 14 | 9 | – | – |
| | 2,482 | 3,630 | 62 | 61 |
| | 19,139 | 12,401 | 16,201 | 8,625 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

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

| | Group | | Bank | |
|--|--------|--------|--------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| (ii) Financial assets designated at fair value through profit or loss | | | | |
| <i>Listed</i> | | | | |
| In the Mainland | | | | |
| – PRC government bonds | 298 | – | 298 | – |
| – bonds issued by policy banks | 949 | 601 | 949 | 601 |
| – bonds issued by commercial banks and other financial institutions | 3,639 | 1,240 | 3,639 | 1,240 |
| – other debt securities | 284 | 46 | 284 | 46 |
| Outside the Mainland | | | | |
| – bonds issued by policy banks | 66 | 68 | – | – |
| – bonds issued by commercial banks and other financial institutions | 332 | 325 | – | – |
| – other debt securities | 466 | 386 | 371 | 230 |
| | 6,034 | 2,666 | 5,541 | 2,117 |
| <i>Unlisted</i> | | | | |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | – | 138 | – | – |
| – other debt securities | 316 | 325 | 316 | 325 |
| | 316 | 463 | 316 | 325 |
| | 6,350 | 3,129 | 5,857 | 2,442 |
| Financial assets at fair value through profit or loss | | | | |
| Issued by: | | | | |
| Sovereigns | 3,893 | 4,468 | 1,542 | 1,144 |
| Banks and other financial institutions | 19,537 | 4,892 | 19,087 | 4,248 |
| Public sector entities | 4 | 4 | – | – |
| Corporates | 2,055 | 6,166 | 1,429 | 5,675 |
| | 25,489 | 15,530 | 22,058 | 11,067 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

(b) Available-for-sale investments

| | Group | | Bank | |
|---|---------|---------|---------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| <i>Listed</i> | | | | |
| In the Mainland | | | | |
| – PRC government bonds | 29,829 | 24,434 | 29,829 | 24,434 |
| – bonds issued by the PBOC | 5,928 | 15,245 | 5,928 | 15,245 |
| – bonds issued by policy banks | 39,270 | 46,139 | 37,789 | 44,665 |
| – bonds issued by commercial banks and other financial institutions | 98,525 | 94,640 | 97,044 | 93,165 |
| – other debt securities | 85,815 | 74,252 | 85,815 | 74,043 |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 3,188 | 2,654 | 2,214 | 1,476 |
| – other debt securities | 3,718 | 2,090 | 2,896 | 871 |
| – equity investments | 612 | 539 | 303 | 206 |
| – investments in funds | 18 | 15 | – | – |
| | 266,903 | 260,008 | 261,818 | 254,105 |
| <i>Unlisted</i> | | | | |
| In the Mainland | | | | |
| – bonds issued by policy banks | – | 10 | – | – |
| – bonds issued by commercial banks and other financial institutions | 701 | 705 | 600 | 600 |
| – equity investments | 643 | 669 | 434 | 434 |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 6,298 | 8,380 | 1,583 | 1,371 |
| – other debt securities | 10,721 | 6,029 | 10,369 | 5,939 |
| – equity investments | 78 | 59 | 8 | 8 |
| | 18,441 | 15,852 | 12,994 | 8,352 |
| | 285,344 | 275,860 | 274,812 | 262,457 |
| Issued by: | | | | |
| Sovereigns | 46,909 | 40,309 | 46,748 | 40,309 |
| Banks and other financial institutions | 149,255 | 159,136 | 140,176 | 147,523 |
| Corporates | 89,180 | 76,415 | 87,888 | 74,625 |
| | 285,344 | 275,860 | 274,812 | 262,457 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

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

| | Group | | Bank | |
|---|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| <i>Listed</i> | | | | |
| In the Mainland | | | | |
| – PRC government bonds | 74,780 | 67,998 | 74,780 | 67,998 |
| – bonds issued by the PBOC | 15,373 | 15,359 | 15,373 | 15,359 |
| – bonds issued by policy banks | 10,503 | 10,345 | 10,503 | 10,345 |
| – bonds issued by commercial banks and other financial institutions | 68,479 | 47,715 | 68,479 | 47,715 |
| – other debt securities | 2,869 | 933 | 2,869 | 933 |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 610 | 1,446 | 388 | 565 |
| – other debt securities | 1,317 | 1,038 | 563 | 562 |
| | 173,931 | 144,834 | 172,955 | 143,477 |
| Less: Impairment allowances | (81) | (80) | (81) | (80) |
| | 173,850 | 144,754 | 172,874 | 143,397 |
| <i>Unlisted</i> | | | | |
| In the Mainland | | | | |
| – Other debt securities | 120 | – | 120 | – |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 1,355 | 713 | – | 1 |
| – other debt securities | 185 | 213 | – | – |
| | 1,660 | 926 | 120 | 1 |
| Less: Impairment allowances | (93) | (94) | – | – |
| | 1,567 | 832 | 120 | 1 |
| | 175,417 | 145,586 | 172,994 | 143,398 |
| Issued by: | | | | |
| Sovereigns | 90,444 | 83,406 | 90,200 | 83,402 |
| Banks and other financial institutions | 80,789 | 60,063 | 79,306 | 58,563 |
| Public sector entities | 10 | 9 | – | – |
| Corporates | 4,174 | 2,108 | 3,488 | 1,433 |
| | 175,417 | 145,586 | 172,994 | 143,398 |
| Fair value of listed debt securities | 173,941 | 146,739 | 172,979 | 145,411 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

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

Movements of allowances for impairment losses

| | Group | | Bank | |
|-----------------------|-------|------|------|------|
| | 2012 | 2011 | 2012 | 2011 |
| As at 1 January | 174 | 180 | 80 | 80 |
| Charge for the year | 7 | 4 | 7 | 4 |
| Releases for the year | (5) | – | (5) | – |
| Exchange difference | (2) | (10) | (1) | (4) |
| As at 31 December | 174 | 174 | 81 | 80 |

(d) Receivables

| | Group | | Bank | |
|---|--------|--------|--------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| <i>Unlisted</i> | | | | |
| In the Mainland | | | | |
| – PRC government bonds | 1,769 | 3,714 | 1,769 | 3,714 |
| – bonds issued by commercial banks and other financial institutions | 11,360 | 7,220 | 11,360 | 7,220 |
| – other debt securities | 19,093 | 11,152 | 19,093 | 11,152 |
| Outside the Mainland | | | | |
| – bonds issued by commercial banks and other financial institutions | 62 | 62 | 1,267 | 1,277 |
| | 32,284 | 22,148 | 33,489 | 23,363 |
| Less: Impairment allowances | (63) | (63) | (63) | (63) |
| | 32,221 | 22,085 | 33,426 | 23,300 |
| Issued by: | | | | |
| Sovereigns | 1,769 | 3,714 | 1,769 | 3,714 |
| Banks and other financial institutions | 11,359 | 7,220 | 12,564 | 8,435 |
| Corporates | 19,093 | 11,151 | 19,093 | 11,151 |
| | 32,221 | 22,085 | 33,426 | 23,300 |

Notes to the Financial Statements
(Expressed in millions of Renminbi unless otherwise stated)**21 Investments** (continued)**(d) Receivables** (continued)**Movements of allowances for impairment losses**

| | Group and Bank | |
|---------------------|----------------|------|
| | 2012 | 2011 |
| As at 1 January | 63 | 60 |
| Charge for the year | 1 | 6 |
| Exchange difference | (1) | (3) |
| As at 31 December | 63 | 63 |

Receivables are unlisted bearer's national bonds issued by the PRC government and other debt investments.

(e) Trading liabilities

| | Group | | Bank | |
|--|------------|------|------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Short positions in exchange fund bill and notes at fair value: | | | | |
| – listed | – | 12 | – | – |
| – unlisted | – | 348 | – | – |
| Short positions in equity securities at fair value | | | | |
| – listed | 25 | – | – | – |
| Short positions in funds at fair value | | | | |
| – listed | 16 | – | – | – |
| Short positions in paper precious metals at fair value | 243 | – | 243 | – |
| | 284 | 360 | 243 | – |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

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

| | Group | | Bank | |
|---|-------|-------|-------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| <i>Unlisted</i> | | | | |
| In the Mainland | | | | |
| – Paper precious metals from other bank | 3,056 | – | 3,056 | – |
| Outside the Mainland | | | | |
| – certificates of deposit issued | 3,514 | 4,364 | 3,056 | 3,558 |
| | 6,570 | 4,364 | 6,112 | 3,558 |

As at the end of reporting period, the difference between the fair value of the Group's and the Bank's financial liabilities at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2012 and 2011.

(g) Fair values of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs, either directly (i. e., quoted prices) or indirectly (i. e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)**(g) Fair values of financial instruments** (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

| | 2012 | | | | | | | |
|---|-----------|---------|---------|---------|----------|---------|---------|---------|
| | The Group | | | | The Bank | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Trading assets | | | | | | | | |
| – Debt securities | 3,078 | 15,877 | – | 18,955 | 457 | 15,744 | – | 16,201 |
| – Positive fair values of derivatives | – | 1,975 | – | 1,975 | – | 1,866 | – | 1,866 |
| – Equity investments | 157 | – | – | 157 | – | – | – | – |
| – Investment in funds | 10 | 17 | – | 27 | – | – | – | – |
| | 3,245 | 17,869 | – | 21,114 | 457 | 17,610 | – | 18,067 |
| Financial assets designated at fair value through profit or loss | | | | | | | | |
| – Debt securities | 493 | 5,661 | 196 | 6,350 | – | 5,661 | 196 | 5,857 |
| Available-for-sale financial assets | | | | | | | | |
| – Debt securities | 10,369 | 273,624 | – | 283,993 | 5,207 | 268,860 | – | 274,067 |
| – Equity investments | 645 | 40 | – | 685 | 303 | – | – | 303 |
| – Investments in funds | 18 | – | – | 18 | – | – | – | – |
| | 11,032 | 273,664 | – | 284,696 | 5,510 | 268,860 | – | 274,370 |
| | 14,770 | 297,194 | 196 | 312,160 | 5,967 | 292,131 | 196 | 298,294 |
| Liabilities | | | | | | | | |
| Trading liabilities | | | | | | | | |
| – Short position in paper precious metals at fair value | – | 243 | – | 243 | – | 243 | – | 243 |
| – Short position in equity securities at fair value | 16 | 9 | – | 25 | – | – | – | – |
| – Short position in funds at fair value | 16 | – | – | 16 | – | – | – | – |
| – Negative fair value of derivatives | – | 2,745 | – | 2,745 | – | 2,673 | – | 2,673 |
| | 32 | 2,997 | – | 3,029 | – | 2,916 | – | 2,916 |
| Financial liabilities designated at fair value through profit or loss | | | | | | | | |
| – Paper precious metals from other financial institutions | – | 3,056 | – | 3,056 | – | 3,056 | – | 3,056 |
| – Certificates of deposit issued | – | 458 | 3,056 | 3,514 | – | – | 3,056 | 3,056 |
| | – | 3,514 | 3,056 | 6,570 | – | 3,056 | 3,056 | 6,112 |
| | 32 | 6,511 | 3,056 | 9,599 | – | 5,972 | 3,056 | 9,028 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

(g) Fair values of financial instruments (continued)

| | 2011 | | | | | | | |
|---|-----------|---------|---------|---------|----------|---------|---------|---------|
| | The Group | | | | The Bank | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Trading assets | | | | | | | | |
| – Debt securities | 3,736 | 8,635 | – | 12,371 | 182 | 8,443 | – | 8,625 |
| – Positive fair values of derivatives | – | 1,887 | – | 1,887 | – | 1,664 | – | 1,664 |
| – Equity investments | 21 | – | – | 21 | – | – | – | – |
| – Investment in funds | 9 | – | – | 9 | – | – | – | – |
| | 3,766 | 10,522 | – | 14,288 | 182 | 10,107 | – | 10,289 |
| Financial assets designated at fair value through profit or loss | | | | | | | | |
| – Debt securities | 687 | 2,117 | 325 | 3,129 | – | 2,117 | 325 | 2,442 |
| Available-for-sale financial assets | | | | | | | | |
| – Debt securities | 13,476 | 261,102 | – | 274,578 | 3,757 | 258,052 | – | 261,809 |
| – Equity investments | 357 | 223 | – | 580 | – | 206 | – | 206 |
| – Investments in funds | 15 | – | – | 15 | – | – | – | – |
| | 13,848 | 261,325 | – | 275,173 | 3,757 | 258,258 | – | 262,015 |
| | 18,301 | 273,964 | 325 | 292,590 | 3,939 | 270,482 | 325 | 274,746 |
| Liabilities | | | | | | | | |
| Trading liabilities | | | | | | | | |
| – Treasury bills (including Exchange Fund Bills) | 360 | – | – | 360 | – | – | – | – |
| – Negative fair value of derivatives | – | 1,459 | 10 | 1,469 | – | 1,310 | – | 1,310 |
| | 360 | 1,459 | 10 | 1,829 | – | 1,310 | – | 1,310 |
| Financial liabilities designated at fair value through profit or loss | | | | | | | | |
| – Certificates of deposit issued | – | 806 | 3,558 | 4,364 | – | – | 3,558 | 3,558 |
| | 360 | 2,265 | 3,568 | 6,193 | – | 1,310 | 3,558 | 4,868 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)**(g) Fair values of financial instruments** (continued)

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

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| | The Group | | |
|---|--|--|-------|
| | Trading assets – Positive fair value of derivatives | Financial assets designated at fair value through profit or loss – debt securities | Total |
| Assets | | | |
| At 1 January 2012 | – | 325 | 325 |
| Payment on maturity | – | (129) | (129) |
| Changes in fair value recognised in the consolidated statement of comprehensive income: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | 2 | 2 |
| – Exchange difference | – | (2) | (2) |
| At 31 December 2012 | – | 196 | 196 |
| Total gains or losses for the year included in the consolidated statement of comprehensive income for assets held at the end of the reporting period recorded in: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | 17 | 17 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

(g) Fair values of financial instruments (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

| | The Group | | |
|--|---|--|---------|
| | Trading liabilities – negative value derivatives | Financial liabilities designated at fair value through profit or loss – certificates of deposit issued | Total |
| Liabilities | | | |
| At 1 January 2012 | 10 | 3,558 | 3,568 |
| Issues | – | 852 | 852 |
| Payment on maturity | – | (1,381) | (1,381) |
| Changes in fair value recognised in the consolidated statement of comprehensive income: | | | |
| – Net trading income | (10) | 47 | 37 |
| – Exchange difference | – | (20) | (20) |
| At 31 December 2012 | – | 3,056 | 3,056 |
| Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in: | | | |
| – Net trading income | – | (140) | (140) |

Notes to the Financial Statements
(Expressed in millions of Renminbi unless otherwise stated)**21 Investments** (continued)**(g) Fair values of financial instruments** (continued)**(i) Valuation of financial instruments with significant unobservable inputs** (continued)

| | The Bank | | Total |
|--|---|--|-------|
| | Trading assets – Positive fair value of derivatives | Financial assets designated at fair value through profit or loss – debt securities | |
| Assets | | | |
| At 1 January 2012 | – | 325 | 325 |
| Payment on maturity | – | (129) | (129) |
| Changes in fair value recognised in the statement of comprehensive income: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | 2 | 2 |
| – Exchange difference | – | (2) | (2) |
| At 31 December 2012 | – | 196 | 196 |
| Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | 17 | 17 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

(g) Fair values of financial instruments (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

| | The Bank | | |
|---|---|--|---------|
| | Trading liabilities – Negative value derivatives | Financial liabilities designated at fair value through profit or loss – certificates of deposit issued | Total |
| Liabilities | | | |
| At 1 January 2012 | – | 3,558 | 3,558 |
| Issues | – | 852 | 852 |
| Payment on maturity | – | (1,381) | (1,381) |
| Changes in fair value recognised in the statement of comprehensive income: | | | |
| – Net trading income | – | 47 | 47 |
| – Exchange difference | – | (20) | (20) |
| At 31 December 2012 | – | 3,056 | 3,056 |
| Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in: | | | |
| – Net trading income | – | (140) | (140) |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)**(g) Fair values of financial instruments** (continued)**(i) Valuation of financial instruments with significant unobservable inputs** (continued)

| | The Group | | |
|--|--|--|-------|
| | Trading assets – Positive fair value of derivatives | Financial assets designated at fair value through profit or loss – debt securities | Total |

Assets

| | | | |
|--|-----|-------|-------|
| At 1 January 2011 | 1 | 483 | 484 |
| Purchases | – | 39 | 39 |
| Payment on maturity | (1) | (212) | (213) |
| Changes in fair value recognised in the consolidated statement of comprehensive income: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | 28 | 28 |
| – Exchange difference | – | (13) | (13) |
| At 31 December 2011 | – | 325 | 325 |

Total gains or losses for the year
included in the consolidated statement
of comprehensive income for assets
held at the end of the reporting
period recorded in:

| | | | |
|--|---|---|---|
| – Net income from financial instruments designated at fair value through profit and loss | – | 7 | 7 |
|--|---|---|---|

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

(g) Fair values of financial instruments (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

| | The Group | | |
|--|---|--|-------|
| | Trading liabilities – negative value derivatives | Financial liabilities designated at fair value through profit or loss – certificates of deposit issued | Total |

Liabilities

| | | | |
|---|-------|-------|-------|
| At 1 January 2011 | 146 | 1,021 | 1,167 |
| Issues | – | 3,183 | 3,183 |
| Payment on maturity | (1) | (622) | (623) |
| Changes in fair value recognised in the consolidated statement of comprehensive income: | | | |
| – Net trading income | (132) | (11) | (143) |
| – Exchange difference | (3) | (13) | (16) |

| | | | |
|---------------------|----|-------|-------|
| At 31 December 2011 | 10 | 3,558 | 3,568 |
|---------------------|----|-------|-------|

| | | | |
|---|----|------|------|
| Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in: | | | |
| – Net trading income | 17 | (31) | (14) |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)**(g) Fair values of financial instruments** (continued)**(i) Valuation of financial instruments with significant unobservable inputs** (continued)

| | | The Bank | |
|--|---|--|-------|
| | Trading assets – Positive fair value of derivatives | Financial assets designated at fair value through profit or loss – debt securities | Total |

Assets

| | | | |
|--|-----|-------|-------|
| At 1 January 2011 | 1 | 482 | 483 |
| Payment on maturity | (1) | (134) | (135) |
| Changes in fair value recognised in the statement of comprehensive income: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | (11) | (11) |
| – Exchange difference | – | (12) | (12) |
| At 31 December 2011 | – | 325 | 325 |

| | | | |
|--|---|---|---|
| Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in: | | | |
| – Net income from financial instruments designated at fair value through profit and loss | – | 7 | 7 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)

(g) Fair values of financial instruments (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

| | The Bank | | |
|--|---|--|-------|
| | Trading liabilities – Negative value derivatives | Financial liabilities designated at fair value through profit or loss – certificates of deposit issued | Total |

Liabilities

| | | | |
|---|-----|-------|-------|
| At 1 January 2011 | 1 | 1,021 | 1,022 |
| Issues | – | 3,183 | 3,183 |
| Payment on maturity | (1) | (622) | (623) |
| Changes in fair value recognised in the statement of comprehensive income: | | | |
| – Net trading income | – | (11) | (11) |
| – Exchange difference | – | (13) | (13) |
| At 31 December 2011 | – | 3,558 | 3,558 |
| Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in: | | | |
| – Net trading income | – | (31) | (31) |

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

21 Investments (continued)**(g) Fair values of financial instruments** (continued)**(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions** (continued)

| | The Group | | The Bank | |
|---|--------------------------|----------------|--------------------------|----------------|
| | 2012 | | 2012 | |
| | Effect on profit or loss | | Effect on profit or loss | |
| | Favourable | (Unfavourable) | Favourable | (Unfavourable) |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 20 | (20) | 20 | (20) |
| Financial liabilities designated at fair value through profit or loss | | | | |
| – Certificates of deposit issued | 306 | (306) | 306 | (306) |

| | The Group | | The Bank | |
|---|--------------------------|----------------|--------------------------|----------------|
| | 2011 | | 2011 | |
| | Effect on profit or loss | | Effect on profit or loss | |
| | Favourable | (Unfavourable) | Favourable | (Unfavourable) |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 33 | (33) | 33 | (33) |
| Trading liabilities | | | | |
| – Negative fair value of derivatives | 1 | (1) | – | – |
| Financial liabilities designated at fair value through profit or loss | | | | |
| – Certificates of deposit issued | 356 | (356) | 356 | (356) |
| | 357 | (357) | 356 | (356) |

(h) (i) CIGNA & CMC Life Insurance Company Limited

On 5 May 2008, the Bank entered into an equity transfer agreement with Shenzhen Dingzun Investment Advisory Company (“Dingzun”) to acquire 50% equity interests in CIGNA & CMC Life Insurance, for a total consideration of RMB141.9 million. As at 31 December 2012, the work related to the acquisition project was in progress.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

22 Investments in subsidiaries

| | Bank | |
|--------------------------|----------------|---------|
| | 2012 | 2011 |
| Unlisted shares, at cost | 36,333 | 34,333 |
| Less: Impairment loss | (1,768) | (1,768) |
| | 34,565 | 32,565 |

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

| Name of company | Place of incorporation and operation | Particulars of the issued and paid up capital (in millions) | % of ownership held by the Bank | Principal activities |
|--|--------------------------------------|---|---------------------------------|-----------------------------|
| CMB International Capital Corporation Limited (note (i)) | Hong Kong | HK\$250 | 100% | Financial advisory services |
| CMB Finance Lease Company Limited (note (ii)) | Shanghai | RMB4,000 | 100% | Finance lease |
| Wing Lung Bank Limited (note (iii)) | Hong Kong | HK\$1,161 | 100% | Banking |

- (i) CMB International Capital Corporation Limited, formerly known as Jiangnan Finance Company Limited is the Bank's wholly-owned subsidiary approved by the People's Bank of China ("PBOC") through its Yin Fu [1998] No. 405, and was renamed as CMBICC on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30.
- (ii) CMB Financial Leasing Company Limited is a wholly-owned subsidiary of the Bank approved by the CBRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In March 2012, China Merchants Bank made an additional capital contribution of RMB2 billion to CMBFLC.
- (iii) Wing Lung Bank, Limited is a wholly owned subsidiary of the Bank acquired in 2008 by way of agreement. The acquisition was completed on 15 January 2009. Wing Lung Bank had withdrawn from listing on the Hong Kong Stock Exchange as of 16 January 2009.

Notes to the Financial Statements
(Expressed in millions of Renminbi unless otherwise stated)

23 Interest in associates

| | Group | | Bank | |
|--------------------------------------|-------|------|------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Unlisted shares, at cost | – | – | 191 | 191 |
| Share of net assets | 177 | 184 | – | – |
| Goodwill | 114 | 114 | – | – |
| | 291 | 298 | 191 | 191 |
| Less: Impairment allowance (Note 11) | (1) | (1) | – | – |
| | 290 | 297 | 191 | 191 |

The following list contains only the particulars of associates as of 31 December 2012, which are unlisted corporate entities and principally affected the results or assets of the Group:

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

Summary financial information on associates (China Merchants Fund)

| | Assets | Liabilities | Equity | Revenues | Profit |
|----------------------------|--------|-------------|--------|----------|--------|
| 2012 | | | | | |
| 100 per cent | 902 | 238 | 664 | 581 | 138 |
| Group's effective interest | 301 | 80 | 172 | 171 | 29 |
| 2011 | | | | | |
| 100 per cent | 863 | 228 | 635 | 602 | 171 |
| Group's effective interest | 288 | 76 | 179 | 188 | 47 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

23 Interest in associates (continued)

Summary financial information on associates (Others)

| | Assets | Liabilities | Equity | Revenues | Profit |
|----------------------------|-----------|-------------|-----------|-----------|----------|
| 2012 | | | | | |
| 100 per cent | 86 | 69 | 17 | 15 | 7 |
| Group's effective interest | 24 | 19 | 5 | 4 | 2 |
| 2011 | | | | | |
| 100 per cent | 85 | 70 | 15 | 15 | 7 |
| Group's effective interest | 23 | 19 | 4 | 4 | 2 |

24 Interest in jointly controlled entities

| | Group and Bank | |
|-------------------------------------|----------------|------|
| | 2012 | 2011 |
| Share of net assets | 153 | 128 |
| Loan to jointly controlled entities | 12 | 31 |
| | 165 | 159 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

24 Interest in jointly controlled entities (continued)

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

| Name of jointly controlled entities | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital (in thousands) | Proportion of ownership interest | | | Principal activity |
|--|---------------------------------------|--------------------------------------|--|----------------------------------|------------------|------------------------|--|
| | | | | Group's effective interest | Held by the Bank | Held by the subsidiary | |
| Bank Consortium Holding Limited (note (i)) | Incorporated with limited liabilities | 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 with limited liabilities | Hong Kong | HK\$10,024 | 2.88% | – | 20.00% | Provision of ATM network services |
| Hong Kong Life Insurance Limited | Incorporated with limited liabilities | Hong Kong | HK\$420,000 | 16.67% | – | 16.67% | Life insurance business |
| BC Reinsurance Limited | Incorporated with limited liabilities | Hong Kong | HK\$200,000 | 21.00% | – | 21.00% | Reinsurance business |
| i-Tech Solutions Limited | Incorporated with limited liabilities | Hong Kong | HK\$6,000 | 50.00% | – | 50.00% | Electronic document processing |

Summary financial information on jointly controlled entities:

| | Assets | Liabilities | Equity | Revenues | Profit |
|----------------------------|--------------|--------------|--------------|--------------|------------|
| 2012 | | | | | |
| 100 per cent | 6,498 | 5,366 | 1,132 | 1,679 | 194 |
| Group's effective interest | 1,058 | 905 | 153 | 273 | 33 |
| 2011 | | | | | |
| 100 per cent | 5,397 | 4,410 | 987 | 1,364 | 111 |
| Group's effective interest | 858 | 730 | 128 | 213 | 14 |

Notes:

- (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.
- (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 holds 20% of the entity's common share and is entitled to 2.88% of the paid dividends.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

25 Fixed assets

2012

| | Group | | | | | | |
|----------------------------------|-----------------------|-----------------------------|-----------------------|---------------------------|--------------------------|---------------------------------|--------|
| | Land and buildings | Construction in progress | Computer equipment | Leasehold improvements | Aircrafts and vessels | Motor vehicles and others | Total |
| Cost: | | | | | | | |
| At 1 January 2012 | 10,704 | 4,023 | 4,388 | 4,081 | 1,001 | 4,629 | 28,826 |
| Additions | 501 | 2,654 | 986 | 858 | 156 | 783 | 5,938 |
| Reclassification and transfers | 2,642 | (3,201) | 6 | 253 | 231 | 24 | (45) |
| Disposals/write-offs | (116) | – | (231) | (88) | – | (345) | (780) |
| Exchange difference | (26) | – | (1) | (1) | 1 | (10) | (37) |
| At 31 December 2012 | 13,705 | 3,476 | 5,148 | 5,103 | 1,389 | 5,081 | 33,902 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2012 | 2,808 | – | 3,191 | 2,047 | 54 | 3,226 | 11,326 |
| Depreciation | 608 | – | 681 | 846 | 60 | 621 | 2,816 |
| Reclassification and transfers | 1 | – | (1) | – | – | 1 | 1 |
| Disposals/write-offs | (26) | – | (227) | (25) | – | (336) | (614) |
| Exchange difference | (4) | – | (1) | (2) | – | (12) | (19) |
| At 31 December 2012 | 3,387 | – | 3,643 | 2,866 | 114 | 3,500 | 13,510 |
| Net book value: | | | | | | | |
| At 31 December 2012 | 10,318 | 3,476 | 1,505 | 2,237 | 1,275 | 1,581 | 20,392 |
| At 1 January 2012 | 7,896 | 4,023 | 1,197 | 2,034 | 947 | 1,403 | 17,500 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

25 Fixed assets (continued)

2011

| | Group | | | | | | |
|----------------------------------|-----------------------|-----------------------------|-----------------------|---------------------------|--------------------------|---------------------------------|--------|
| | Land and buildings | Construction in progress | Computer equipment | Leasehold improvements | Aircrafts and vessels | Motor vehicles and others | Total |
| Cost: | | | | | | | |
| At 1 January 2011 | 9,291 | 3,798 | 5,947 | 3,426 | 1,052 | 2,249 | 25,763 |
| Additions | 120 | 1,632 | 718 | 763 | – | 561 | 3,794 |
| Reclassification and transfers | 1,467 | (1,407) | (2,074) | 17 | – | 2,074 | 77 |
| Disposals/write-offs | (35) | – | (201) | (114) | (51) | (250) | (651) |
| Exchange difference | (139) | – | (2) | (11) | – | (5) | (157) |
| At 31 December 2011 | 10,704 | 4,023 | 4,388 | 4,081 | 1,001 | 4,629 | 28,826 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2011 | 2,355 | – | 4,392 | 1,345 | 1 | 1,219 | 9,312 |
| Depreciation | 467 | – | 642 | 719 | 55 | 617 | 2,500 |
| Reclassification and transfers | 24 | – | (1,641) | – | – | 1,641 | 24 |
| Disposals/write-offs | (14) | – | (200) | (10) | – | (251) | (475) |
| Exchange difference | (24) | – | (2) | (7) | (2) | – | (35) |
| At 31 December 2011 | 2,808 | – | 3,191 | 2,047 | 54 | 3,226 | 11,326 |
| Net book value: | | | | | | | |
| At 31 December 2011 | 7,896 | 4,023 | 1,197 | 2,034 | 947 | 1,403 | 17,500 |
| At 1 January 2011 | 6,936 | 3,798 | 1,555 | 2,081 | 1,051 | 1,030 | 16,451 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

25 Fixed assets (continued)

2012

| | Bank | | | | | | |
|----------------------------------|-----------------------|-----------------------------|-----------------------|---------------------------|--------------------------|---------------------------------|--------|
| | Land and buildings | Construction in progress | Computer equipment | Leasehold improvements | Aircrafts and vessels | Motor vehicles and others | Total |
| Cost: | | | | | | | |
| At 1 January 2012 | 7,825 | 3,792 | 4,252 | 3,980 | – | 4,590 | 24,439 |
| Additions | 501 | 2,653 | 962 | 793 | – | 773 | 5,682 |
| Reclassification and transfers | 2,634 | (2,970) | 6 | 253 | – | 24 | (53) |
| Disposals/write-offs | (116) | – | (224) | (78) | – | (340) | (758) |
| Exchange difference | (3) | – | – | – | – | (10) | (13) |
| At 31 December 2012 | 10,841 | 3,475 | 4,996 | 4,948 | – | 5,037 | 29,297 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2012 | 2,345 | – | 3,125 | 2,002 | – | 3,206 | 10,678 |
| Depreciation | 465 | – | 652 | 823 | – | 615 | 2,555 |
| Reclassification and transfers | (1) | – | (1) | – | – | 1 | (1) |
| Disposals/write-offs | (26) | – | (220) | (17) | – | (334) | (597) |
| Exchange difference | (2) | – | – | – | – | (12) | (14) |
| At 31 December 2012 | 2,781 | – | 3,556 | 2,808 | – | 3,476 | 12,621 |
| Net book value: | | | | | | | |
| At 31 December 2012 | 8,060 | 3,475 | 1,440 | 2,140 | – | 1,561 | 16,676 |
| At 1 January 2012 | 5,480 | 3,792 | 1,127 | 1,978 | – | 1,384 | 13,761 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

25 Fixed assets (continued)

2011

| | Bank | | | | | | |
|----------------------------------|-----------------------|-----------------------------|-----------------------|---------------------------|--------------------------|---------------------------------|--------|
| | Land and buildings | Construction in progress | Computer equipment | Leasehold improvements | Aircrafts and vessels | Motor vehicles and others | Total |
| Cost: | | | | | | | |
| At 1 January 2011 | 6,399 | 3,798 | 5,832 | 3,318 | – | 2,212 | 21,559 |
| Additions | 120 | 1,401 | 690 | 753 | – | 554 | 3,518 |
| Reclassification and transfers | 1,352 | (1,407) | (2,074) | 17 | – | 2,074 | (38) |
| Disposals/write-offs | (34) | – | (198) | (107) | – | (247) | (586) |
| Exchange difference | (12) | – | 2 | (1) | – | (3) | (14) |
| At 31 December 2011 | 7,825 | 3,792 | 4,252 | 3,980 | – | 4,590 | 24,439 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2011 | 2,037 | – | 4,356 | 1,302 | – | 1,203 | 8,898 |
| Depreciation | 324 | – | 608 | 704 | – | 611 | 2,247 |
| Reclassification and transfers | 6 | – | (1,641) | – | – | 1,641 | 6 |
| Disposals/write-offs | (14) | – | (198) | (5) | – | (247) | (464) |
| Exchange difference | (8) | – | – | 1 | – | (2) | (9) |
| At 31 December 2011 | 2,345 | – | 3,125 | 2,002 | – | 3,206 | 10,678 |
| Net book value: | | | | | | | |
| At 31 December 2011 | 5,480 | 3,792 | 1,127 | 1,978 | – | 1,384 | 13,761 |
| At 1 January 2011 | 4,362 | 3,798 | 1,476 | 2,016 | – | 1,009 | 12,661 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

25 Fixed assets (continued)

(a) Analysed by remaining terms of leases

The net book value of land and buildings at the end of the reporting period is analysed by the remaining terms of the leases as follows:

| | Group | | Bank | |
|--------------------------------------|--------|-------|-------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Held in Mainland China | | | | |
| – long leases (over 50 years) | 306 | 318 | 304 | 316 |
| – medium-term leases (10 – 50 years) | 7,727 | 5,133 | 7,727 | 5,131 |
| | 8,033 | 5,451 | 8,031 | 5,447 |
| Held in Hong Kong | | | | |
| – long leases (over 50 years) | 1,173 | 1,258 | – | – |
| – medium-term leases (10 – 50 years) | 1,090 | 1,164 | 29 | 33 |
| | 2,263 | 2,422 | 29 | 33 |
| Held in Overseas | | | | |
| – freehold | 22 | 23 | – | – |
| | 10,318 | 7,896 | 8,060 | 5,480 |

- (b) As at 31 December 2012, the Board of Directors considered that there was no impairment loss on fixed assets (2011: nil).
- (c) As at 31 December 2012, ownership documentation for the Group's properties with a net carrying value of RMB826 million (2011: RMB532 million) was being finalised.
- (d) As at 31 December 2012, the Group has no significant unused fixed assets (2011: nil).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

26 Investment properties

| | Group | | Bank | |
|---------------------------------|-------|-------|------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Cost: | | | | |
| At 1 January | 2,175 | 2,334 | 487 | 449 |
| Transfers | 45 | (77) | 53 | 38 |
| Exchange difference | (13) | (82) | – | – |
| At 31 December | 2,207 | 2,175 | 540 | 487 |
| Accumulated depreciation | | | | |
| At 1 January | 465 | 388 | 189 | 174 |
| Depreciation | 108 | 112 | 25 | 21 |
| Transfers | (1) | (24) | 1 | (6) |
| Exchange difference | (3) | (11) | – | – |
| At 31 December | 569 | 465 | 215 | 189 |
| Net book value: | | | | |
| At 31 December | 1,638 | 1,710 | 325 | 298 |
| At 1 January | 1,710 | 1,946 | 298 | 275 |

(a) Analysed by remaining terms of leases

The net book value of investment properties at the end of the reporting period is analysed by the remaining terms of the leases as follows:

| | Group | | Bank | |
|--------------------------------------|-------|-------|------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Held in Mainland China | | | | |
| – long leases (over 50 years) | – | – | – | – |
| – medium-term leases (10 – 50 years) | 349 | 322 | 325 | 298 |
| | 349 | 322 | 325 | 298 |
| Held in Hong Kong | | | | |
| – long leases (over 50 years) | 1 | 1 | – | – |
| – medium-term leases (10 – 50 years) | 1,288 | 1,387 | – | – |
| | 1,289 | 1,388 | – | – |
| | 1,638 | 1,710 | 325 | 298 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

26 Investment properties (continued)

- (b) Investment properties of the Group mainly represent WLB leasing properties and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2012, fair value of these properties was RMB3.44 billion (2011: RMB2.60 billion). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

| | Group | | Bank | |
|---------------------------------|-------|------|------|------|
| | 2012 | 2011 | 2012 | 2011 |
| 1 year or less | 130 | 140 | 53 | 64 |
| 5 years or less but over 1 year | 121 | 97 | 59 | 59 |
| Over 5 years | 1 | 1 | 1 | 1 |
| | 252 | 238 | 113 | 124 |

27 Intangible assets

2012

| | Group | | | |
|------------------------|----------------|----------|--------------|-------|
| | Land use right | Software | Core deposit | Total |
| Cost/Valuation: | | | | |
| At 1 January 2012 | 1,009 | 1,230 | 1,064 | 3,303 |
| Additions | 130 | 426 | – | 556 |
| Exchange difference | (1) | – | (8) | (9) |
| At 31 December 2012 | 1,138 | 1,656 | 1,056 | 3,850 |
| Amortisation: | | | | |
| At 1 January 2012 | 121 | 455 | 122 | 698 |
| Additions | 24 | 240 | 38 | 302 |
| Exchange difference | – | – | (1) | (1) |
| At 31 December 2012 | 145 | 695 | 159 | 999 |
| Net book value: | | | | |
| At 31 December 2012 | 993 | 961 | 897 | 2,851 |
| At 1 January 2012 | 888 | 775 | 942 | 2,605 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

27 Intangible assets (continued)

2011

| | Group | | | |
|------------------------|----------------|----------|--------------|-------|
| | Land use right | Software | Core deposit | Total |
| Cost/Valuation: | | | | |
| At 1 January 2011 | 1,100 | 855 | 1,114 | 3,069 |
| Additions | 57 | 375 | – | 432 |
| Write-offs | (139) | – | – | (139) |
| Exchange difference | (9) | – | (50) | (59) |
| At 31 December 2011 | 1,009 | 1,230 | 1,064 | 3,303 |
| Amortisation: | | | | |
| At 1 January 2011 | 156 | 205 | 88 | 449 |
| Additions | 22 | 257 | 40 | 319 |
| Write-offs | (56) | (7) | – | (63) |
| Exchange difference | (1) | – | (6) | (7) |
| At 31 December 2011 | 121 | 455 | 122 | 698 |
| Net book value: | | | | |
| At 31 December 2011 | 888 | 775 | 942 | 2,605 |
| At 1 January 2011 | 944 | 650 | 1,026 | 2,620 |

2012

| | Bank | | |
|------------------------|----------------|----------|-------|
| | Land use right | Software | Total |
| Cost/Valuation: | | | |
| At 1 January 2012 | 804 | 1,225 | 2,029 |
| Additions | 130 | 424 | 554 |
| Write-offs | – | – | – |
| At 31 December 2012 | 934 | 1,649 | 2,583 |
| Amortisation: | | | |
| At 1 January 2012 | 109 | 454 | 563 |
| Additions | 20 | 240 | 260 |
| Write-offs | – | – | – |
| At 31 December 2012 | 129 | 694 | 823 |
| Net book value: | | | |
| At 31 December 2012 | 805 | 955 | 1,760 |
| At 1 January 2012 | 695 | 771 | 1,466 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

27 Intangible assets (continued)

2011

| | Bank | | |
|------------------------|----------------|----------|-------|
| | Land use right | Software | Total |
| Cost/Valuation: | | | |
| At 1 January 2011 | 886 | 853 | 1,739 |
| Additions | 57 | 372 | 429 |
| Write-offs | (139) | – | (139) |
| At 31 December 2011 | 804 | 1,225 | 2,029 |
| Amortisation: | | | |
| At 1 January 2011 | 147 | 204 | 351 |
| Additions | 18 | 257 | 275 |
| Write-offs | (56) | (7) | (63) |
| At 31 December 2011 | 109 | 454 | 563 |
| Net book value: | | | |
| At 31 December 2011 | 695 | 771 | 1,466 |
| At 1 January 2011 | 739 | 649 | 1,388 |

28 Goodwill

| | Group | |
|-----------------------|--------|--------|
| | 2012 | 2011 |
| Cost | 10,177 | 10,177 |
| Less: Impairment loss | (579) | (579) |
| At 31 December | 9,598 | 9,598 |

On 30 September 2008, the Bank acquired a 53.12% equity interest in Wing Lung Bank. On the acquisition date, the fair value of Wing Lung Bank's identifiable net assets was RMB12.898 billion, of which the Bank accounted for RMB6.851 billion. A sum of RMB10.177 billion being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Wing Lung Bank is a licensed bank incorporated in Hong Kong which provides various personal and commercial banking products and services.

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), Wing Lung Bank which was acquired on 30 September 2008.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

28 Goodwill (continued)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of Wing Lung Bank. A pre-tax discount rate of 12% (2011: 12%) was used.

29 Deferred tax assets/liabilities

| | Group | | Bank | |
|--------------------------|--------------|-------|--------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Deferred tax assets | 4,987 | 4,337 | 4,838 | 4,207 |
| Deferred tax liabilities | (827) | (864) | – | – |
| Total | 4,160 | 3,473 | 4,838 | 4,207 |

(a) Nature of deferred tax assets and liabilities

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

| | Group | | | |
|--|---|--|---|--|
| | 2012 | | 2011 | |
| | Deductible/ (taxable) temporary difference | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary difference | Deferred tax assets/ (liabilities) |
| Deferred tax assets | | | | |
| Impairment losses on loans and advance to customers and other assets | 14,167 | 3,549 | 16,280 | 3,973 |
| Investment revaluation reserve | 56 | 15 | (158) | (35) |
| Deductible salary expenses | 4,401 | 1,100 | 2,294 | 559 |
| Others | 1,367 | 323 | (627) | (160) |
| | 19,991 | 4,987 | 17,789 | 4,337 |
| Deferred tax liabilities | | | | |
| Impairment losses on loans and advance to customers and other assets | 114 | 19 | 68 | 11 |
| Investment revaluation reserve | 19 | 3 | 51 | 9 |
| Others | (5,145) | (849) | (3,657) | (884) |
| | (5,012) | (827) | (3,538) | (864) |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

29 Deferred tax assets/liabilities (continued)

(a) Nature of deferred tax assets and liabilities (continued)

| | Bank | | | |
|--|---|--|---|--|
| | 2012 | | 2011 | |
| | Deductible/ (taxable) temporary difference | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary difference | Deferred tax assets/ (liabilities) |
| Deferred tax assets | | | | |
| Impairment losses on loans and advance to customers and other assets | 13,873 | 3,468 | 16,040 | 3,909 |
| Investment revaluation reserve | 62 | 16 | (144) | (35) |
| Deductible salary expenses | 4,303 | 1,076 | 2,290 | 558 |
| Others | 1,112 | 278 | (923) | (225) |
| | 19,350 | 4,838 | 17,263 | 4,207 |
| Deferred tax liabilities | | | | |
| Impairment losses on loans and advance to customers and other assets | — | — | — | — |
| Investment revaluation reserve | — | — | — | — |
| Others | — | — | — | — |
| | — | — | — | — |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

29 Deferred tax assets/liabilities (continued)**(b) Movements of deferred tax**

| | Group | | | | |
|---|---|--------------------------------------|----------------------------------|---------|-------|
| | Impairment losses on loans and advances to customers and other assets | Investment revaluation reserve | Deductible salary expenses | Others | Total |
| At 1 January 2012 | 3,984 | (26) | 559 | (1,044) | 3,473 |
| Recognised in the consolidated statement of comprehensive income | (416) | – | 541 | 330 | 455 |
| – due to timing differences | (416) | – | 541 | 330 | 455 |
| Recognised in reserves | – | 44 | – | 180 | 224 |
| – due to timing differences | – | 44 | – | 180 | 224 |
| Due to exchange difference | – | – | – | 8 | 8 |
| At 31 December 2012 | 3,568 | 18 | 1,100 | (526) | 4,160 |
| At 1 January 2011 | 2,902 | 463 | 307 | (890) | 2,782 |
| Recognised in the consolidated statement of comprehensive income | 1,084 | – | 252 | (99) | 1,237 |
| – due to timing differences | 1,008 | – | 244 | (99) | 1,153 |
| – due to income tax rate change | 76 | – | 8 | – | 84 |
| Recognised in reserves | – | (489) | – | (92) | (581) |
| – due to timing differences | – | (501) | – | (92) | (593) |
| – due to income tax rate change | – | 12 | – | – | 12 |
| Due to exchange difference | (2) | – | – | 37 | 35 |
| At 31 December 2011 | 3,984 | (26) | 559 | (1,044) | 3,473 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

29 Deferred tax assets/liabilities (continued)

(b) Movements of deferred tax (continued)

| | Bank | | | | |
|--|---|--------------------------------|----------------------------|--------|-------|
| | Impairment losses on loans and advances to customers and other assets | Investment revaluation reserve | Deductible salary expenses | Others | Total |
| At 1 January 2012 | 3,909 | (35) | 558 | (225) | 4,207 |
| Recognised in the consolidated statement of comprehensive income | (441) | – | 518 | 323 | 400 |
| – due to timing differences | (441) | – | 518 | 323 | 400 |
| Recognised in reserves | – | 51 | – | 180 | 231 |
| – due to timing differences | – | 51 | – | 180 | 231 |
| At 31 December 2012 | 3,468 | 16 | 1,076 | 278 | 4,838 |
| At 1 January 2011 | 2,846 | 460 | 307 | (19) | 3,594 |
| Recognised in the consolidated statement of comprehensive income | 1,063 | – | 251 | (114) | 1,200 |
| – due to timing differences | 987 | – | 243 | (114) | 1,116 |
| – due to income tax rate change | 76 | – | 8 | – | 84 |
| Recognised in reserves | – | (495) | – | (92) | (587) |
| – due to timing differences | – | (507) | – | (92) | (599) |
| – due to income tax rate change | – | 12 | – | – | 12 |
| At 31 December 2011 | 3,909 | (35) | 558 | (225) | 4,207 |

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. As a result of New Tax Law, the income tax rate applicable to the Bank's business is 25%, the income tax rate for the Bank's business in Shenzhen has gradually increased to the standard rate of 25% (being 22% in 2010, 24% in 2011 and 25% in 2012).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

30 Other assets

| | Group | | Bank | |
|---|--------------|-------|--------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Amounts pending for settlement | 1,536 | 818 | 947 | 68 |
| Reposessed assets (note (a)) | 61 | 41 | 61 | 41 |
| Prepaid lease payments | 710 | 534 | 701 | 526 |
| Deposits | 168 | 150 | 152 | 138 |
| Prepayment for lease improvement and other miscellaneous items | 393 | 232 | 213 | 168 |
| Premium receivables | 142 | 155 | — | — |
| Recoverable from reinsurers | 233 | 223 | — | — |
| Retirement benefit scheme (note 37(b)(ii)) | 160 | 168 | — | — |
| Accounts receivable certificate of deposit issued | 1,246 | — | 1,246 | — |
| Others | 4,199 | 3,567 | 3,767 | 3,009 |
| Total | 8,848 | 5,888 | 7,087 | 3,950 |

(a) Reposessed assets

| | Group and Bank | |
|-----------------------------|----------------|-------|
| | 2012 | 2011 |
| Residential properties | 662 | 646 |
| Others | 312 | 268 |
| Total | 974 | 914 |
| Less: Impairment allowances | (913) | (873) |
| Net reposessed assets | 61 | 41 |

Note:

- (i) In 2012, the Group has disposed reposessed assets with total cost of RMB7.11 million (2011: RMB125 million).
- (ii) The Group plan to dispose the reposessed assets by auction, bid and transfer.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

31 Deposits from banks and other financial institutions

| | Group | | Bank | |
|--|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Deposits from banks | | | | |
| – In the Mainland | 106,635 | 79,937 | 101,060 | 77,121 |
| – Outside Mainland | 6,400 | 4,220 | 6,417 | 4,952 |
| Deposits from other financial institutions | | | | |
| – In the Mainland | 145,657 | 121,542 | 145,657 | 121,541 |
| | 258,692 | 205,699 | 253,134 | 203,614 |

32 Placements from banks and other financial institutions

| | Group | | Bank | |
|----------------------------|----------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Banks in the Mainland | 99,079 | 53,265 | 59,517 | 26,034 |
| Banks outside the Mainland | 10,736 | 14,219 | 6,914 | 8,862 |
| | 109,815 | 67,484 | 66,431 | 34,896 |

33 Amounts sold under repurchase agreements

(a) Analysed by geographical location

| | Group | | Bank | |
|---|----------------|--------|----------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Balances under repurchase | | | | |
| – banks in agreement the Mainland | 157,753 | 35,390 | 157,753 | 35,390 |
| – other financial institution in the Mainland | 200 | 6,674 | – | 3,674 |
| | 157,953 | 42,064 | 157,753 | 39,064 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

33 Amounts sold under repurchase agreements *(continued)*

(b) Analysed by assets type

| | Group | | Bank | |
|---|----------------|--------|----------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Securities | | | | |
| – PRC government bonds | 7,134 | 1,797 | 7,134 | 1,797 |
| – Bonds issued by policy banks | 36,832 | 3,498 | 36,832 | 3,498 |
| – Bonds issued by commercial banks and other financial institutions | 104,825 | 29,217 | 104,825 | 29,217 |
| – Other debt securities | – | 315 | – | 315 |
| | 148,791 | 34,827 | 148,791 | 34,827 |
| Discounted bills | 8,962 | 4,237 | 8,962 | 4,237 |
| Loans | 200 | 3,000 | – | – |
| | 157,953 | 42,064 | 157,753 | 39,064 |

34 Deposits from customers

| | Group | | Bank | |
|---------------------|------------------|-----------|------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Corporate customers | | | | |
| – Demand deposits | 797,577 | 754,904 | 788,136 | 746,275 |
| – Time deposits | 809,364 | 661,866 | 774,568 | 629,368 |
| | 1,606,941 | 1,416,770 | 1,562,704 | 1,375,643 |
| Retail customers | | | | |
| – Demand deposits | 524,970 | 456,688 | 503,224 | 437,954 |
| – Time deposits | 400,533 | 346,602 | 360,546 | 313,340 |
| | 925,503 | 803,290 | 863,770 | 751,294 |
| | 2,532,444 | 2,220,060 | 2,426,474 | 2,126,937 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

34 Deposits from customers (continued)

(a) Guarantee deposits and margins received

Customers' deposits include deposit of guarantee as follows:

| | Group | | Bank | |
|---|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Guarantee for acceptance bills | 140,429 | 104,997 | 140,291 | 104,875 |
| Guarantee for loans | 24,531 | 18,548 | 18,913 | 15,088 |
| Guarantee for issuing letters of credit | 24,097 | 19,557 | 24,091 | 19,553 |
| Deposit for letters of guarantee | 20,811 | 19,152 | 20,687 | 18,801 |
| Others | 22,507 | 21,654 | 22,464 | 21,654 |
| | 232,375 | 183,908 | 226,446 | 179,971 |

35 Interest payable

| | Group | | | |
|-----------------------------|-------------------|------------------------|---------------------|----------------|
| | 2012 | | | |
| | Beginning balance | Provision in this year | Payment in the year | Ending balance |
| Issued debt securities | 585 | 2,755 | (2,054) | 1,286 |
| Customer deposit and others | 15,495 | 59,013 | (51,729) | 22,779 |
| | 16,080 | 61,768 | (53,783) | 24,065 |

| | Group | | | |
|-----------------------------|-------------------|------------------------|---------------------|----------------|
| | 2011 | | | |
| | Beginning balance | Provision in this year | Payment in the year | Ending balance |
| Issued debt securities | 548 | 1,858 | (1,821) | 585 |
| Customer deposit and others | 9,821 | 43,069 | (37,395) | 15,495 |
| | 10,369 | 44,927 | (39,216) | 16,080 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

35 Interest payable (continued)

| Bank | | | | |
|-----------------------------|-------------------|------------------------|---------------------|----------------|
| 2012 | | | | |
| | Beginning balance | Provision in this year | Payment in the year | Ending balance |
| Issued debt securities | 584 | 2,491 | (1,816) | 1,259 |
| Customer deposit and others | 14,838 | 55,668 | (48,484) | 22,022 |
| | 15,422 | 58,159 | (50,300) | 23,281 |

| Bank | | | | |
|-----------------------------|-------------------|------------------------|---------------------|----------------|
| 2011 | | | | |
| | Beginning balance | Provision in this year | Payment in the year | Ending balance |
| Issued debt securities | 547 | 1,707 | (1,670) | 584 |
| Customer deposit and others | 9,566 | 40,709 | (35,437) | 14,838 |
| | 10,113 | 42,416 | (37,107) | 15,422 |

36 Debt issued

| Group | | | Bank | |
|----------------------------------|--------------|--------|--------|--------|
| Note | 2012 | 2011 | 2012 | 2011 |
| Certificates of deposit issued | 13,013 | 14,980 | 7,426 | 5,564 |
| Subordinated notes issued | 36(a) 44,124 | 31,187 | 41,683 | 29,971 |
| Long-term debt securities issued | 36(b) 19,974 | — | 19,974 | — |
| | 77,111 | 46,167 | 69,083 | 35,535 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

36 Debt issued (continued)

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

| Particulars | Terms | Date of issue | Annual fixed interest rate (%) | Nominal value (in RMB million) | Carrying amount | |
|--------------------------------|------------|------------------|---|-----------------------------------|-----------------|--------|
| | | | | | 2012 | 2011 |
| Fixed rate notes (note (i)) | 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 | 18,994 | 18,985 |
| Fixed rate notes (note (i)) | 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 | 6,990 | 6,989 |
| Floating rate notes (note (i)) | 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 | 3,999 | 3,997 |
| Fixed rate notes (note (ii)) | 180 months | 28 December 2012 | 5.20 (for the first years) 5.20 (from 11 years onwards, if the notes are not called by the Bank) | 11,700 | 11,700 | – |
| | | | | | 41,683 | 29,971 |

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

| Particulars | Terms | Date of issue | Annual fixed interest rate (%) | Nominal value (in million) | Carrying amount | |
|------------------------------|------------|------------------|---|-------------------------------|-----------------|--------|
| | | | | | 2012 | 2011 |
| Fixed rate notes | 144 months | 28 December 2009 | 5.70 | HK\$1,500 | 1,206 | 1,216 |
| Fixed to floating rate notes | 120 months | 6 November 2012 | 3.5 (for the first 5 years); T*+2.8% (from 6 years onwards, if the notes are not called by the Bank) | US\$200 | 1,235 | – |
| | | | | | 44,124 | 31,187 |

* R represents the 1-year fixed deposit rate ("Rate") promulgated by PBOC. The Rate on 4 September 2008, 2009, 2010, 2011 and 2012 was 4.14%, 2.25%, 2.25%, 3.50% and 3.00%. T represents the 5 years US Treasury rate.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

36 Debt issued (continued)**(a) Subordinated notes issued** (continued)

Note:

- (i) The CBRC and PBOC approved the Bank's issuance of RMB30 billion subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26 billion fixed rate notes and RMB4 billion floating rate notes on 4 September 2008 to institutional investors on the China Interbank Bond Market. The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.
- (ii) The CBRC and PBOC approved the Bank's issuance of RMB11.7 billion subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No.703 entitled "The Approval of the issuance subordinated bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.91 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11.7 billion fixed rate notes on 28 December 2012 to institutional investors on the China Interbank Bond Market. The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

(b) Long-term debt securities

As at the balance sheet date, long-term debt securities issued by the Bank were as follows:

| Particulars | Terms | Date of issue | Fixed annual interest rate (%) | Nominal value (in RMB million) | Carrying amount 31 December 2012 |
|-------------|-----------|---------------|--------------------------------|--------------------------------|----------------------------------|
| 12 CMB 01 | 60 months | 14 March 2012 | 4.15 | 6,500 | 6,492 |
| 12 CMB 02 | 60 months | 14 March 2012 | R*+0.95 | 13,500 | 13,482 |
| | | | | | 19,974 |

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

The CBRC and PBOC approved the Bank's issuance of RMB20 billion long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No.557 entitled "The Approval of the issuance of long-term debt securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6.5 billion fixed rate debt and RMB13.5 billion floating rate debt on 14 March 2012 on the China Interbank Bond Market.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme

(a) Salaries and welfare payable

| Group | | | | |
|--|-------------------|--------------------|--------------------------------|----------------|
| 2012 | | | | |
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Salary and bonus | 2,189 | 12,132 | (11,732) | 2,589 |
| Welfare expense | 38 | 43 | (44) | 37 |
| Social insurance and corporate supplementary insurance | 258 | 3,507 | (3,428) | 337 |
| Housing reserve | 73 | 1,174 | (1,157) | 90 |
| Trade union and employee education expenses | 744 | 697 | (455) | 986 |
| Others | 18 | (1) | – | 17 |
| Including: Cash settled share-based transactions | 18 | (1) | – | 17 |
| | 3,320 | 17,552 | (16,816) | 4,056 |

| Group | | | | |
|--|-------------------|--------------------|--------------------------------|----------------|
| 2011 | | | | |
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Salary and bonus | 1,873 | 13,730 | (13,414) | 2,189 |
| Welfare expense | 39 | 27 | (28) | 38 |
| Social insurance and corporate supplementary insurance | 703 | 2,532 | (2,977) | 258 |
| Housing reserve | 50 | 1,002 | (979) | 73 |
| Trade union and employee education expenses | 538 | 593 | (387) | 744 |
| Others | 17 | 1 | – | 18 |
| Including: Cash settled share-based transactions | 17 | 1 | – | 18 |
| | 3,220 | 17,885 | (17,785) | 3,320 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)**(a) Salaries and welfare payable (continued)**

| | Bank | | | |
|--|-------------------|--------------------|-------------------------------|----------------|
| | 2012 | | | |
| | Beginning balance | Change in the year | Payment/transfers in the year | Ending balance |
| Salary and bonus | 1,960 | 11,411 | (11,068) | 2,303 |
| Welfare expense | 38 | – | (1) | 37 |
| Social insurance and corporate supplementary insurance | 256 | 3,489 | (3,408) | 337 |
| Housing reserve | 73 | 1,169 | (1,152) | 90 |
| Trade union and employee education expenses | 740 | 693 | (451) | 982 |
| Others | 18 | (1) | – | 17 |
| Including: Cash settled share-based transactions | 18 | (1) | – | 17 |
| | 3,085 | 16,761 | (16,080) | 3,766 |

| | Bank | | | |
|--|-------------------|--------------------|-------------------------------|----------------|
| | 2011 | | | |
| | Beginning balance | Change in the year | Payment/transfers in the year | Ending balance |
| Salary and bonus | 1,670 | 13,107 | (12,817) | 1,960 |
| Welfare expense | 39 | – | (1) | 38 |
| Social insurance and corporate supplementary insurance | 702 | 2,515 | (2,961) | 256 |
| Housing reserve | 50 | 999 | (976) | 73 |
| Trade union and employee education expenses | 535 | 591 | (386) | 740 |
| Others | 17 | 1 | – | 18 |
| Including: Cash settled share-based transactions | 17 | 1 | – | 18 |
| | 3,013 | 17,213 | (17,141) | 3,085 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)

(b) Retirement benefits

(i) Defined contribution schemes

In accordance with the regulations in the PRC, the Group participates in statutory retirement schemes organised by the municipal and provincial governments for its employees (endowment insurance). The Group's contributions to the schemes are determined by local governments and vary at a range of 10% to 35% (2011: 8% to 35%) of the staff salaries.

In addition to the above statutory retirement schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance). The Group's annual contributions to this plan are determined based on 8.33% of the staff salaries since 1 January 2004.

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(ii) Defined benefit schemes

The Group operates a retirement benefit scheme and a pension scheme (collectively known as "Defined benefit scheme") for the staff of a subsidiary of the Bank. The contributions of the Defined benefit scheme are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Defined benefit scheme. The Defined benefit scheme provides benefits based on members' final salary.

The latest actuarial valuation of the Defined benefit scheme was performed in accordance with IAS 19 issued by the IASB as at 31 December 2012 by professional actuarial firm Towers Watson Hong Kong Limited. The present values of the defined benefit obligation and current service cost of the Defined benefit scheme are calculated based on the projected unit credit method.

The amounts recognised in the statement of financial position as at 31 December 2012 are analysed as follows:

| | The Group | |
|---|--------------|-------|
| | 2012 | 2011 |
| Fair value of Defined benefit scheme assets | 418 | 397 |
| Present value of the funded defined benefit obligation | (384) | (382) |
| Unrecognised actuarial losses | 126 | 153 |
| Net asset recognised in the statement of financial position | 160 | 168 |

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Defined benefit scheme is expected to pay in 2013.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme *(continued)***(b) Retirement benefits** *(continued)***(ii) Defined benefit schemes** *(continued)*

The amounts recognised in the statement of comprehensive income are as follows:

| | The Group | |
|--|-----------|------|
| | 2012 | 2011 |
| Current service cost | (15) | (13) |
| Interest cost | (6) | (9) |
| Expected return on Defined benefit scheme assets | 25 | 26 |
| Net actuarial losses | (11) | — |
| Net income for the year included in retirement benefit costs | (7) | 4 |

The actual gains on Defined benefit scheme assets for the year ended 31 December 2012 was RMB48 million (2011: actual losses RMB36 million).

The movements in the defined benefit obligation during the year are as follows:

| | The Group | |
|--|-----------|------|
| | 2012 | 2011 |
| Present value of obligation at 1 January | 382 | 318 |
| Current service cost | 15 | 13 |
| Interest cost | 6 | 9 |
| Actual benefits paid | (24) | (21) |
| Actuarial losses | 5 | 63 |
| Actual obligation at 31 December | 384 | 382 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)

(b) Retirement benefits (continued)

(ii) Defined benefit schemes (continued)

The movements in the fair value of the Defined benefit scheme assets during the year are as follows:

| | The Group | |
|--|-------------|------|
| | 2012 | 2011 |
| Fair value of Defined benefit scheme assets at 1 January | 397 | 455 |
| Expected return on Defined benefit scheme assets | 25 | 26 |
| Actual benefits paid | (24) | (21) |
| Actuarial gains/(losses) | 20 | (63) |
| Fair value of Defined benefit scheme assets at 31 December | 418 | 397 |

The major categories of the Defined benefit scheme assets are as follows:

| | The Group | | | |
|----------|------------|-------------|------|------|
| | 2012 | | 2011 | |
| | | % | | % |
| Equities | 277 | 66.3 | 247 | 62.2 |
| Bonds | 70 | 16.7 | 79 | 19.9 |
| Cash | 71 | 17.0 | 71 | 17.9 |
| Total | 418 | 100 | 397 | 100 |

No deposit with the Bank was included in the amount of Defined benefit scheme assets (2011: Nil).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme *(continued)***(b) Retirement benefits** *(continued)***(ii) Defined benefit schemes** *(continued)*

The principal actuarial assumptions adopted in the valuation are as follows:

| | The Group | |
|--|------------|------|
| | 2012 | 2011 |
| | % | % |
| Discount rate | | |
| – Retirement benefit scheme | 0.7 | 1.5 |
| – Pension scheme | 0.1 | 0.5 |
| Long-term average return on Defined benefit scheme assets | | |
| – Retirement benefit scheme | 6.5 | 6.5 |
| – Pension scheme | 1.5 | 1.5 |
| Long-term average rate of salary increase for the defined benefit scheme of the Scheme | 5.0 | 5.0 |
| Pension increase rate for the defined benefit pension scheme | 3.0 | 3.0 |

There was no curtailment or settlement impact for the year ended 31 December 2012 (2011: Nil).

(iii) Supplementary retirement scheme

Supplementary retirement scheme was an annuity contract purchased from independent life insurance company by the Bank to provide supplementary defined contribution retirement benefits to its full time employees. It was a voluntary payment and the Bank has no further obligations to make future contributions. In 2012, the Bank purchased annuity contracts of RMB2,800 million (2011: RMB2,500 million).

The Group has no other material obligations for the payment of other post retirement benefits other than the contributions described above.

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the net profit for the year as approved by the board of directors.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)

(d) Cash settled share-based transactions

The Bank has H-share Appreciation Rights Scheme phase I, phase II, phase III, phase IV and phase V for the Senior Management ("the Scheme") which was adopted on 30 October 2007, 7 November 2008, 16 November 2009, 18 February 2011 and 4 May 2012 respectively whereby the directors of the Bank are authorised, at their discretion, to invite the Senior Management of the Bank to take up options at nil consideration to subscribe for shares of the Group. The options vest after 2 years or 3 years from the date of grant and are then exercisable within a period of 8 years or 7 years. Each of the share appreciation right is linked to one H-share.

(i) **All share appreciation rights shall be paid in cash. The terms and conditions of the scheme are listed below:**

| | Number of unexercised options at the end of 2011 (in millions) Note (i) | Exercise conditions | Contract period of options |
|-------------------------------------|--|--------------------------------|-------------------------------|
| Options granted on 30 October 2007 | 1.337 | 2 years after date of grant | 10 years |
| Options granted on 7 November 2008 | 1.368 | 2 years after date of grant | 10 years |
| Options granted on 16 November 2009 | 1.690 | 2 years after date of grant | 10 years |
| Options granted on 18 February 2011 | 1.890 | 3 years after date of grant | 10 years |
| Options granted on 4 May 2012 | 1.860 | 3 years after date of grant | 10 years |

Note (i): In 2009, the Bank paid dividends for 2008, 3 bonus shares for every 10 shares. As a result, the number of H-share appreciation rights for phase I granted in 2007 increased from 1.29 million to 1.68 million; and the number of H-share appreciation rights for phase II granted in 2008 increased from 1.32 million to 1.72 million.

At the third meeting of the eighth board of directors of the Bank in 2010, it was agreed that the senior management, on their own initiative, would waive 25% of the H-share appreciation rights for both phases I and II to be effective in 2010, and these appreciation rights would be cancelled. The number of H-share appreciation rights for phase I granted by the Bank in 2007 thus decreased from 1.68 million to 1.26 million; and that for phase II granted in 2008 decreased from 1.72 million to 1.29 million.

Note (ii): The Bank placed 1.3 H-shares for every 10 H-shares in 2010. As a result, the number of the Bank's H-share appreciation rights granted in 2007 was adjusted from 1.26 million to 1.34 million; that for 2008 was adjusted from 1.29 million to 1.37 million; and that for 2009 was adjusted from 1.59 million to 1.69 million.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)**(d) Cash settled share-based transactions** (continued)**(ii) The number and weighted average exercise prices of share options are as follows:**

| | 2012 | | 2011 | |
|---|--|--------------------------------|--|--------------------------------|
| | Weighted average exercise price (HK\$) | Number of options (in million) | Weighted average exercise price (HK\$) | Number of options (in million) |
| Outstanding as at the beginning of the year | 19.14 | 6.29 | 19.10 | 4.40 |
| Granted during the year | 16.13 | 1.86 | 19.24 | 1.89 |
| Outstanding at the end of the year | 17.79 | 8.15 | 19.14 | 6.29 |
| Exercisable at the end of the year | 18.24 | 3.21 | 19.10 | 0.45 |

The options outstanding at 31 December 2012 had an weighted average exercise price of HK\$17.79 (2011: HK\$19.14) and a weighted average remaining contractual life of 7.22 years (2011: 7.59 years).

Pursuant to the requirements set out in the Scheme, if any dividends were distributed, capital reserve was converted into shares, share split or dilution, an adjustment to the exercise price is applied.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

| | 2012 | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | Phase I | Phase II | Phase III | Phase IV | Phase V |
| Fair value at measurement date (in RMB) | 1.19 | 7.64 | 2.90 | 3.35 | 4.01 |
| Share price (in HK\$) | 17 | 17 | 17 | 17 | 17 |
| Exercise price (in HK\$) | 27.02 | 8.05 | 19.54 | 18.38 | 16.13 |
| Expected volatility | 26% | 26% | 26% | 26% | 26% |
| Option life (year) | 4.83 | 5.83 | 6.83 | 8.17 | 9.33 |
| Expected dividends rate | 3.33% | 3.33% | 3.33% | 3.33% | 3.33% |
| Risk-free interest rate | 2.85% | 2.85% | 2.85% | 2.85% | 2.85% |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)

(d) Cash settled share-based transactions (continued)

(iii) Fair value of share options and assumptions (continued)

| | 2011 | | | |
|---|---------|----------|-----------|----------|
| | Phase I | Phase II | Phase III | Phase IV |
| Fair value at measurement date (in RMB) | 3.99 | 8.51 | 5.91 | 6.50 |
| Share price (in HK\$) | 15.70 | 15.70 | 15.70 | 15.70 |
| Exercise price (in HK\$) | 28.12 | 9.15 | 20.65 | 19.24 |
| Expected volatility | 47% | 47% | 47% | 47% |
| Option life (year) | 5.83 | 6.83 | 7.83 | 9.17 |
| Expected dividends rate | 2.02% | 2.02% | 2.02% | 2.02% |
| Risk-free interest rate | 3.33% | 3.33% | 3.33% | 3.33% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(iv) The number of share appreciation rights granted to members of senior management:

| | 2012 | | | | | | Total no. of shares (in thousand) |
|-----------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|----------------------------|---|
| | Phase I | Phase II | Phase III | Phase IV | Phase V | | |
| | No. of shares granted | No. of shares granted | No. of shares granted | No. of shares granted | No. of shares exercised | No. of shares exercised | |
| | (in thousand) | (in thousand) | (in thousand) | (in thousand) | (in thousand) | (in thousand) | |
| Ma Wei Hua | 311 | 311 | 320 | 300 | 300 | – | 1,542 |
| Zhang Guang Hua | 155 | 155 | 159 | 195 | 195 | – | 859 |
| Li Hao | 155 | 155 | 159 | 195 | 195 | – | 859 |
| Tang Zhi Hong | 155 | 155 | 159 | 180 | 180 | – | 829 |
| Yin Feng Lan | 155 | 155 | 159 | 180 | 180 | – | 829 |
| Ding Wei | 124 | 155 | 159 | 180 | 180 | – | 798 |
| Tang Xiao Qing | – | – | 159 | 150 | 180 | – | 489 |
| Wang Qing Bin | – | – | 128 | 150 | 180 | – | 458 |
| Xu Lian Feng | 94 | 94 | 96 | 120 | 120 | – | 524 |
| Fan Peng | 94 | 94 | 96 | 120 | – | – | 404 |
| Lan Qi | 94 | 94 | 96 | 120 | 150 | – | 554 |
| Total | 1,337 | 1,368 | 1,690 | 1,890 | 1,860 | – | 8,145 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

37 Staff welfare scheme (continued)**(d) Cash settled share-based transactions (continued)****(iv) The number of share appreciation rights granted to members of senior management: (continued)**

| | 2011 | | | | | |
|-----------------|--|--|--|--|-------------------------|---------------------|
| | Phase I | Phase II | Phase III | Phase IV | No. of shares exercised | Total no. of shares |
| | No. of shares granted (in thousand) | No. of shares granted (in thousand) | No. of shares granted (in thousand) | No. of shares granted (in thousand) | | |
| Ma Wei Hua | 311 | 311 | 320 | 300 | – | 1,242 |
| Zhang Guang Hua | 155 | 155 | 159 | 195 | – | 664 |
| Li Hao | 155 | 155 | 159 | 195 | – | 664 |
| Tang Zhi Hong | 155 | 155 | 159 | 180 | – | 649 |
| Yin Feng Lan | 155 | 155 | 159 | 180 | – | 649 |
| Ding Wei | 124 | 155 | 159 | 180 | – | 618 |
| Tang Xiao Qing | – | – | 159 | 150 | – | 309 |
| Wang Qing Bin | – | – | 128 | 150 | – | 278 |
| Xu Lian Feng | 94 | 94 | 96 | 120 | – | 404 |
| Fan Peng | 94 | 94 | 96 | 120 | – | 404 |
| Lan Qi | 94 | 94 | 96 | 120 | – | 404 |
| Total | 1,337 | 1,368 | 1,690 | 1,890 | – | 6,285 |

Note: In 2012, no members of senior management had exercised any share appreciation rights (2011: Nil).

38 Tax payable

| | Group | | Bank | |
|-------------------------------------|--------------|-------|--------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Income tax | 3,912 | 4,090 | 3,654 | 3,845 |
| Business tax and surcharges payable | 2,198 | 1,974 | 2,184 | 1,962 |
| Individual income tax | 533 | 1,021 | 532 | 1,020 |
| Stamp tax | 11 | 10 | 8 | 6 |
| Housing property tax | 5 | 5 | 5 | 5 |
| Others | 20 | 12 | 18 | 11 |
| | 6,679 | 7,112 | 6,401 | 6,849 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

39 Other liabilities

| | Group | | Bank | |
|-------------------------------------|--------|--------|--------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Salary risk allowances (Note) | 3,000 | 1,800 | 3,000 | 1,800 |
| Clearing and settlement accounts | 5,226 | 812 | 5,226 | 812 |
| Cheques and remittances returned | 195 | 10 | 195 | 10 |
| Payment and collection account | 921 | 851 | 920 | 850 |
| Insurance liabilities | 1,499 | 1,408 | – | – |
| Debt securities acquisition payable | 1,002 | 195 | 999 | 195 |
| Others | 14,628 | 9,842 | 7,669 | 4,961 |
| | 26,471 | 14,918 | 18,009 | 8,628 |

Note: According to CBRC Yin Jian Ban Fa [2009] No.15, the Bank has established salary risk allowances. Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances. As at 31 December 2012, these allowances amounted to RMB3.0 billion (2011: RMB1.8 billion) and were included in "Other liabilities".

40 Share capital

By type of share:

| | Registered capital | |
|---|--------------------|--------|
| | 2012 | 2011 |
| Listed shares | | |
| – A-Shares (without trading moratorium) | 17,666 | 17,666 |
| – H-Shares | 3,911 | 3,911 |
| | 21,577 | 21,577 |

All H-Shares are ordinary shares and rank pari passu with the A-Shares.

| | Capital | |
|---|-------------------------------|--------|
| | No. of shares (in million) | Amount |
| At 1 January 2012 and at 31 December 2012 | 21,577 | 21,577 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

40 Share capital *(continued)*

On 24 February 2006, bonus shares were issued at a ratio of 0.8589 bonus shares for every 10 A-Shares of the Bank by capitalisation of an amount of RMB971 million from the capital reserve. In addition, the Bank issued 938 million A-Shares upon conversion of the convertible bonds of RMB5,169 million during the year ended 31 December 2006, resulting in the increase in share capital and capital reserve of RMB938 million and RMB4,327 million respectively.

On 22 September 2006, a total of 2,200 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK\$8.55 per share as part of the Initial Public Offering.

On 27 September 2006, a total of 220 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK\$8.55 per share as a result of the exercise of the over-allotment option.

As a result of the Initial Public Offering and the exercise of the over-allotment option, a total of 242 million A-Shares, representing 10% of the number of H-Shares issued by the Bank were converted into H-Shares of equivalent value and transferred to Social Security Fund from state-owned shareholders of the Bank at no consideration. These H-Shares were eligible for trading since 5 October 2006.

As a result of the above events in 2006, the Bank's registered and issued capital increased from RMB10,374 million to RMB14,703 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB10 million during the year ended 31 December 2007, resulting in the increase in share capital and capital reserve of RMB2 million and RMB9 million respectively. The Bank's registered and issued capital increased from RMB14,703 million to RMB14,705 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB13 million during the year ended 31 December 2008, resulting in the increase in share capital and capital reserve of RMB2 million and RMB11 million respectively. As a result, the Bank's registered and issued capital increased from RMB14,705 million to RMB14,707 million.

The Bank issued 0.144 million A-Shares upon conversion of the convertible bonds of RMB0.663 million during the year ended 31 December 2009, resulting in the increase in share capital and capital reserve of RMB0.144 million and RMB0.519 million respectively. On 3 July 2009, the Bank transferred its retained profits totalling RMB4,412 million to its share capital, thus increasing its registered capital to RMB19.119 billion, for which KPMG Huazhen issued a capital verification report (KPMG-D (2009) CR No.0001) on 9 July 2009.

For the year ended 31 December 2010, the Bank had placed 2,007,240,869 A-Shares and 449,878,000 H-Shares on the basis of 1.3 shares for every 10 shares held to its shareholders, resulting in an enlarged total share capital of RMB21.577 billion, for which KPMG Huazhen issued a capital verification report KPMG-D (2010) CR No.0001 and KPMG-D (2010) CR No.0002 on 20 April 2010.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

41 Capital reserve

The capital reserve primarily represents share premium and equity component of the convertible bonds issued by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

| | Group | | Bank | |
|-----------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| At 1 January/at 31 December | 37,508 | 37,508 | 46,666 | 46,666 |

42 Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movement of investment revaluation reserve:

| | Group | | Bank | |
|--|-------------|---------|--------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| At 1 January | 157 | (1,311) | 130 | (1,429) |
| Realised gain/(loss) on disposal of available-for-sale financial assets, net of deferred tax | (63) | 293 | (57) | 284 |
| Changes in fair value of available-for-sale financial assets, net of deferred tax | (57) | 1,175 | (119) | 1,275 |
| At 31 December | 37 | 157 | (46) | 130 |

43 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i)(iii).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

44 Surplus reserve

Surplus reserve includes statutory surplus reserve and statutory public welfare fund.

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF and is provided at 10% of the audited profit after tax. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

The purpose of statutory public welfare fund is to provide staff facilities and other staff benefits. It is not distributable other than in liquidation.

| | The Group and Bank | |
|---------------------------|--------------------|--------|
| | 2012 | 2011 |
| At 1 January | 14,325 | 10,880 |
| Statutory surplus reserve | 4,293 | 3,445 |
| At 31 December | 18,618 | 14,325 |

45 Regulatory general reserve

Pursuant to relevant MOF notices, the Bank and the Group's financial services subsidiaries in Mainland China are required to set aside a general reserve to cover potential losses against their assets. Effective from 1 July 2012, the minimum general reserve balance should increase to 1.5% of the ending balance of gross risk-bearing assets with a transition period of five years. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the above requirements as of 31 December 2012.

| | The Group | | The Bank | |
|---------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| At 1 January | 18,794 | 16,812 | 18,571 | 16,700 |
| Statutory general reserve | 20,401 | 1,982 | 20,278 | 1,871 |
| At 31 December | 39,195 | 18,794 | 38,849 | 18,571 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

46 Profit appropriations

(a) Dividends declared and paid

| | 2012 | 2011 |
|---|-------|-------|
| Dividends in respect of the previous year, approved, declared and paid during the year of RMB4.20 per every 10 shares (2011: RMB2.90 per every 10 shares) | 9,062 | 6,257 |

(b) Proposed profit appropriations

| | 2012 | 2011 |
|--|--------|--------|
| Statutory surplus reserve | 4,293 | 3,445 |
| Dividends | | |
| – cash dividend: RMB6.30 (2011: RMB4.20) per every 10 shares | 13,593 | 9,062 |
| Total | 17,886 | 12,507 |

2012 profit appropriation is proposed in accordance with the resolution passed at the meeting of the board of directors held on 28 March 2013 and will be submitted to the 2012 annual general meeting for approval.

47 Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

48 Notes to consolidated cash flow statements

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

| | 2012 | 2011 |
|--|---------|---------|
| Cash and balances with central bank | 60,828 | 46,322 |
| Balance with banks and other financial institutions | 269,902 | 58,220 |
| Placements with banks and other financial institutions | 21,147 | 49,101 |
| Amounts held under resale agreements | 88,920 | 57,369 |
| – Debt security investments | 12,058 | 8,139 |
| | 452,855 | 219,151 |

(b) Significant non-cash transactions

There are no other significant non-cash transactions during the year.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

49 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.

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:

– Wholesale 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, treasury business operating in the regional market (such as fund transfers between its branches and other banking institutions, and discounted bill business in the regional market) and other investment service.

– Retail banking

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

– Treasury business

It covers interbank and capital market activities and proprietary trading.

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates. 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 allocation of capital operation profit is based on assumptions and estimates. The management amended these assumptions and estimates according to the actual situation.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

49 Operating segments (continued)

(a) Segment results, assets and liabilities

| | The Group | | | | | | | | | |
|---|-------------------|------------------|----------------|----------------|-------------------|----------------|---------------|---------------|------------------|------------------|
| | Corporate banking | | Retail banking | | Treasury business | | Others | | Total | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| External net interest income | 46,228 | 39,300 | 27,278 | 21,491 | 14,397 | 14,962 | 471 | 554 | 88,374 | 76,307 |
| Internal net interest income/(expense) | 10,417 | 11,595 | 7,703 | 5,926 | (17,123) | (16,675) | (997) | (846) | - | - |
| Net interest income | 56,645 | 50,895 | 34,981 | 27,417 | (2,726) | (1,713) | (526) | (292) | 88,374 | 76,307 |
| Net fee and commission income | 7,086 | 6,031 | 11,631 | 8,888 | 790 | 461 | 232 | 248 | 19,739 | 15,628 |
| Other net income/(expense) | 4,432 | 4,735 | 868 | 637 | (174) | (989) | 101 | (89) | 5,227 | 4,294 |
| Insurance operating income | - | - | 7 | 11 | - | - | 407 | 363 | 414 | 374 |
| Operating income/(expense) | 68,163 | 61,661 | 47,487 | 36,953 | (2,110) | (2,241) | 214 | 230 | 113,754 | 96,603 |
| Operating expenses | | | | | | | | | | |
| - depreciation | (1,166) | (1,113) | (1,576) | (1,567) | (7) | (28) | (175) | (223) | (2,924) | (2,931) |
| - others | (19,826) | (16,559) | (24,633) | (20,628) | (614) | (435) | (353) | (336) | (45,426) | (37,958) |
| Charge for insurance claims | - | - | - | - | - | - | (321) | (305) | (321) | (305) |
| | (20,992) | (17,672) | (26,209) | (22,195) | (621) | (463) | (849) | (864) | (48,671) | (41,194) |
| Reportable segment profit before impairment losses | 47,171 | 43,989 | 21,278 | 14,758 | (2,731) | (2,704) | (635) | (634) | 65,083 | 55,409 |
| Impairment losses | (2,981) | (7,482) | (2,571) | (670) | (28) | (138) | (3) | (60) | (5,583) | (8,350) |
| Share of profit of associates and jointly controlled entities | - | - | - | - | - | - | 64 | 63 | 64 | 63 |
| Reportable segment profit/(loss) before tax | 44,190 | 36,507 | 18,707 | 14,088 | (2,759) | (2,842) | (574) | (631) | 59,564 | 47,122 |
| Capital expenditure (note) | 2,799 | 1,853 | 3,623 | 2,304 | 1 | 37 | 76 | 32 | 6,499 | 4,226 |
| Reportable segment assets | 1,717,302 | 1,400,446 | 908,877 | 726,250 | 726,161 | 624,272 | 34,372 | 24,050 | 3,386,712 | 2,775,018 |
| Reportable segment liabilities | 1,891,311 | 1,629,388 | 976,572 | 847,357 | 299,671 | 124,683 | 20,888 | 13,333 | 3,188,442 | 2,614,761 |
| Interest in associates and jointly controlled entities | - | - | - | - | - | - | 455 | 456 | 455 | 456 |

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

Notes to the Financial Statements
(Expressed in millions of Renminbi unless otherwise stated)**49 Operating segments** *(continued)***(b) Reconciliations of reportable segment revenues, profit or loss, assets, liabilities and other material items**

| | The Group | |
|--|------------------|-----------|
| | 2012 | 2011 |
| Revenues | | |
| Total revenues for reportable segments | 113,754 | 96,603 |
| Other revenues | — | — |
| Consolidated revenue | 113,754 | 96,603 |
| Profit | | |
| Total profit or loss for reportable segments | 59,564 | 47,122 |
| Other profit | — | — |
| Consolidated profit before income tax | 59,564 | 47,122 |
| Assets | | |
| Total assets for reportable segments | 3,386,712 | 2,775,018 |
| Goodwill | 9,598 | 9,598 |
| Intangible assets | 897 | 942 |
| Deferred tax assets | 4,987 | 4,337 |
| Other unallocated assets | 6,025 | 5,076 |
| Consolidated total assets | 3,408,219 | 2,794,971 |
| Liabilities | | |
| Total liabilities for reportable segments | 3,188,442 | 2,614,761 |
| Current taxation | 3,912 | 4,090 |
| Deferred tax liabilities | 827 | 864 |
| Other unallocated liabilities | 14,531 | 10,246 |
| Consolidated total liabilities | 3,207,712 | 2,629,961 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

49 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 and Taiwan.

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

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

- “Headquarter” refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarter, credit card centres and small enterprise finance centres, etc;
- “Yangtze River Delta region” refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;
- “Bohai Rim region” refers to branches in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;
- “Pearl River Delta and West Coast region” refers to branches in Guangdong province and Fujian province;
- “Northeast region” refers to branches in Liaoning province, Heilongjiang province and Jilin province;
- “Central region” refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;
- “Western region” refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;
- “Overseas” refers to overseas branches in Hong Kong, New York and representative offices in London, United States of America and Taiwan; and
- “Subsidiaries” refers to subsidiaries wholly owned by the Group as a controlling shareholder, including Wing Lung Bank, CMB International and CMB Financial Leasing.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

49 Operating segments (continued)**(c) Geographical segments** (continued)

| Geographical information | The Group | | | | | | | | | |
|---|-------------|-----------|-------------------|-----------|--------|---------|---------|--------|--------------------|--------|
| | Total asset | | Total liabilities | | Profit | | Income | | Non-current assets | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Headquarter | 1,275,164 | 1,059,543 | 1,138,797 | 951,393 | (881) | (6,743) | 12,798 | 10,052 | 16,864 | 16,005 |
| Yangtze River Delta region | 447,120 | 393,691 | 436,498 | 383,458 | 14,172 | 13,643 | 23,464 | 21,401 | 2377 | 2,446 |
| Bohai Rim region | 310,429 | 274,620 | 301,591 | 266,715 | 11,798 | 10,545 | 18,687 | 16,015 | 2,184 | 1,572 |
| Pearl River Delta and West Coast region | 460,229 | 322,628 | 450,917 | 314,040 | 12,423 | 11,372 | 20,463 | 17,930 | 1,719 | 1,726 |
| Northeast region | 119,457 | 108,851 | 117,013 | 106,714 | 3,257 | 2,849 | 5,832 | 4,898 | 1,072 | 712 |
| Central region | 242,866 | 190,155 | 237,551 | 185,660 | 7,105 | 5,997 | 12,312 | 10,065 | 1,795 | 1,286 |
| Western region | 273,931 | 223,127 | 267,868 | 217,964 | 8,117 | 6,887 | 13,863 | 11,315 | 2,187 | 1,642 |
| Overseas | 76,043 | 53,225 | 75,700 | 52,954 | 568 | 456 | 948 | 683 | 57 | 24 |
| Subsidiaries | 202,980 | 169,131 | 181,777 | 151,063 | 3,005 | 2,116 | 5,387 | 4,244 | 6,384 | 6,456 |
| Total | 3,408,219 | 2,794,971 | 3,207,712 | 2,629,961 | 59,564 | 47,122 | 113,754 | 96,603 | 34,639 | 31,869 |

50 Assets pledged as security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

| | Group | | Bank | |
|---------------------------------------|---------|--------|---------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Secured liabilities | 157,953 | 42,064 | 157,753 | 39,064 |
| Assets pledged | | | | |
| – Available-for-sale financial assets | 80,495 | 13,716 | 80,495 | 13,716 |
| – Held-to-maturity debt securities | 52,845 | 20,974 | 52,845 | 20,974 |
| – Trading assets | 15,930 | 511 | 15,930 | 511 |
| – Other assets | 9,162 | 7,237 | 8,962 | 4,237 |
| | 158,432 | 42,438 | 158,232 | 39,438 |

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

51 Contingent liabilities and commitments

(a) Credit commitments

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

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

| | Group | | Bank | |
|---|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Contractual amount | | | | |
| Irrevocable guarantees | 118,288 | 112,147 | 117,840 | 111,506 |
| Irrevocable letters of credit | 104,420 | 81,063 | 104,245 | 80,899 |
| Bills of acceptances | 301,399 | 251,656 | 300,850 | 251,255 |
| Irrevocable loan commitments | | | | |
| – with an original maturity of under one year | 2,949 | 1,685 | 186 | 930 |
| – with an original maturity of one year or over | 30,872 | 33,036 | 23,931 | 26,686 |
| Credit card commitments | 160,995 | 131,479 | 154,592 | 125,089 |
| Shipping guarantees | 2 | 19 | – | 16 |
| Others | 6,392 | 4,790 | 6,392 | 4,790 |
| | 725,317 | 615,875 | 708,036 | 601,171 |

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,080,611 million at 31 December 2012 (2011: RMB1,708,561 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

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

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

| | Group | | Bank | |
|---|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Credit risk weighted amounts of contingent liabilities and commitments | | | | |
| Contingent liabilities and commitments | 300,994 | 250,446 | 297,302 | 247,714 |

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.

(b) Capital commitments

Authorised capital commitments were as follows:

| | Group | | Bank | |
|-------------------------------------|------------|-------|------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| For purchase of fixed assets: | | | | |
| – Contracted for | 657 | 1,048 | 544 | 962 |
| – Authorised but not contracted for | 121 | 117 | 41 | 100 |
| | 778 | 1,165 | 585 | 1,062 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

51 Contingent liabilities and commitments *(continued)*

(c) Operating lease commitments

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

| | Group | | Bank | |
|---------------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Within 1 year | 1,597 | 1,598 | 1,547 | 1,558 |
| After 1 year but within 5 years | 7,120 | 6,250 | 7,037 | 6,186 |
| After 5 years | 2,907 | 2,490 | 2,901 | 2,478 |
| | 11,624 | 10,338 | 11,485 | 10,222 |

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

(d) Outstanding litigations

At 31 December 2012, the Group was a defendant in certain pending litigations with gross claims of RMB665 million (2011: RMB508 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 financial statements.

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the 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 end of the reporting period:

| | Group and Bank | |
|------------------------|----------------|--------|
| | 2012 | 2011 |
| Redemption obligations | 11,430 | 11,472 |

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

52 Transactions on behalf of customers**(a) Entrusted lending business**

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances by the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

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

At the end of the reporting period, the entrusted assets and liabilities were as follows:

| | Group and Bank | |
|-----------------|----------------|---------|
| | 2012 | 2011 |
| Entrusted loans | 89,104 | 123,116 |
| Entrusted funds | 89,104 | 123,116 |

(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 investment 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 statement of comprehensive income as commission income.

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

52 Transactions on behalf of customers *(continued)*

(b) Wealth management services *(continued)*

At the end of the reporting period, funds received from customers under wealth management services were as follows:

| | Group | | Bank | |
|--|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Funds received from customers under wealth management services | 369,903 | 221,008 | 369,893 | 221,008 |

53 Risk management

(a) Credit risk

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management *(continued)***(a) Credit risk** *(continued)*

In respect of the loan portfolio, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a seven-grade loan classification basis. 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 (excellent, good, general mention, special mention, substandard, doubtful and loss). 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, post-lending monitoring and collateral requirements.

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

Analyses of loans and advances by industry, customer type and nature are stated in Note 19.

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.

(i) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held, irrevocable loan commitments or other credit enhancements is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

| | Group | | Bank | |
|--|------------------|-----------|------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Financial guarantees and other credit related contingent liabilities | 530,501 | 712,962 | 529,327 | 711,753 |
| Loan commitments and other credit related commitments | 1,275,427 | 1,874,761 | 1,253,380 | 1,852,394 |
| | 1,805,928 | 2,587,723 | 1,782,707 | 2,564,147 |

The carrying amount of financial instruments best represent the maximum exposure to credit risk on balance sheet.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(a) Credit risk (continued)

(ii) The credit quality of loans and advances to customers can be analysed as follows:

| | Group | | Bank | |
|---|-----------|-----------|-----------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Impaired loans and advances to customers | | | | |
| For which impairment losses are individually assessed | | | | |
| Gross amount | 8,319 | 7,422 | 8,180 | 7,185 |
| Less: impairment allowances | (4,995) | (5,125) | (4,921) | (5,018) |
| Carrying amount | 3,324 | 2,297 | 3,259 | 2,167 |
| For which impairment losses are collectively assessed | | | | |
| Gross amount | 3,215 | 1,713 | 3,208 | 1,705 |
| Less: impairment allowances | (1,941) | (1,389) | (1,941) | (1,389) |
| Carrying amount | 1,274 | 324 | 1,267 | 316 |
| Overdue but not impaired | | | | |
| Within which | | | | |
| – Less than 3 months | 10,391 | 5,759 | 8,446 | 5,093 |
| – 6 months or less but over 3 months | 30 | 4 | 19 | – |
| – 1 year or less but over 6 months | – | 1 | – | – |
| – Over 1 year | 2 | 6 | – | – |
| Gross amount | 10,423 | 5,770 | 8,465 | 5,093 |
| Less: impairment allowances | | | | |
| – collectively assessed | (614) | (395) | (594) | (393) |
| Carrying amount | 9,809 | 5,375 | 7,871 | 4,700 |
| Neither past due nor impaired | | | | |
| Gross amount | 1,882,506 | 1,626,170 | 1,740,689 | 1,515,909 |
| Less: impairment allowances | | | | |
| – collectively assessed | (33,588) | (29,795) | (32,683) | (29,179) |
| Carrying amount | 1,848,918 | 1,596,375 | 1,708,006 | 1,486,730 |
| Total carrying amount | 1,863,325 | 1,604,371 | 1,720,403 | 1,493,913 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)**(a) Credit risk** (continued)**(ii) The credit quality of loans and advances to customers can be analysed as follows:**
(continued)

Loans and advances that would be past due or impaired had the terms been renegotiated amounted to RMB1,060 million as at 31 December 2012 (2011: RMB1,298 million).

(iii) Credit quality of debt investments

At the end of the reporting period, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poors, is as follows:

| | Group | | Bank | |
|------------------------------------|----------------|---------|----------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Individually assessed and impaired | | | | |
| gross amount | 284 | 279 | 191 | 185 |
| Allowance for impairment | | | | |
| carrying amount | (237) | (238) | (144) | (143) |
| Sub-total | 47 | 41 | 47 | 42 |
| Neither overdue nor impaired | | | | |
| AAA | 3,730 | 7,942 | 961 | 1,045 |
| AA- to AA+ (note) | 358,887 | 333,070 | 352,881 | 326,593 |
| A- to A+ | 13,245 | 6,455 | 9,838 | 2,509 |
| Lower than A- | 4,989 | 2,594 | 3,166 | 1,859 |
| | 380,851 | 350,061 | 366,846 | 332,006 |
| Unrated | 136,038 | 107,647 | 135,652 | 107,526 |
| Total | 516,936 | 457,749 | 502,545 | 439,574 |

Note: Included bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB182,940 million (2011: RMB159,540 million (credit quality: AA-)).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(a) Credit risk (continued)

(iv) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

| | Group | | Bank | |
|---|---------------|-------|---------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Estimate of the fair value of collateral and other credit enhancements held against | | | | |
| – Loans and advances to customers | 18,233 | 9,202 | 15,236 | 7,420 |

(b) Market risk

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

The Asset and Liability Management Committee (“ALCO”) of the Group is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Board of Directors is ultimately responsible for monitoring market risk management. The Executive office of the President is authorised by the Board of Directors to make market risk management decisions. The Planning and Finance Department, tasked with the market risk management function, centrally manages the Group’s market risk. As an independent model verification department, the Office for the Implementation of Basel II Capital Accord continues to verify market risk measurement models while the Audit Department regularly conducts market risk management audit.

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

The historical simulation model for the Value-at-risk (“VaR”) analysis is used by the Group to measure and monitor the market risk of its trading portfolio. Gap analysis and scenario analysis are used by the Group to measure and monitor the market risk of its non-trading business. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities, it also regularly conducts stress tests as supplement to the above measurement indicators.

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.

Notes to the Financial Statements

*(Expressed in millions of Renminbi unless otherwise stated)***53 Risk management** *(continued)***(b) Market risk** *(continued)*

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

In 2012, the Group carried out ongoing policy and system enhancement, as well as continued methodology and process upgrade for market risk measurement and controls within existing frameworks. In the fourth quarter of 2012, the Group set up a market risk management department directly under the head office, signalling a marked improvement in upgrading its market risk governance framework.

In 2012, the central bank implemented sound monetary policies and vigorous policy adjustments with cuts in reserve requirement ratios (RRR) and benchmark lending and deposit rates on two occasions amid quickened interest rate liberalisation. Bond markets continued to be bullish against the backdrop of economic downsides and expected policy easing. In the first half of 2012, bond markets continued to perform well thanks to the central bank's ongoing RRR and interest rate cuts. In the third quarter of 2012, bond markets saw sharp downward adjustments as the policy easing fell short of market expectation. In the fourth quarter of 2012, monetary policies remained moderate, whereas stock markets shocks had prompted small corrections in bond markets. After intensive research on and updated tracking of macro-economics, monetary policies, market liquidity and CPI movements at home and abroad, the Group developed corresponding investment strategies. At present, the Group's investment portfolios largely comprise bonds issued by the Chinese government, the People's Bank of China, Chinese policy banks, as well as leading Chinese enterprises, commercial banks and insurance companies with good credit ratings, on back of various favourable market risk indicators.

As Europe remained on track for a crawling recovery, the Group continued to monitor related risks in overseas markets and their spillover effects. From early 2012, the Group has downsized its foreign currency bond investment portfolios, with focus on foreign bonds issued by Chinese enterprises and banks. Despite underperforming economic and financial landscapes outside of China, the Group's foreign currency bond investments have maintained good quality, with exposures to manageable risk.

(c) 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, and manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps) in the management of its own foreign currency asset and liability portfolios. 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 mainly uses the foreign exchange exposure analysis, scenario simulation analysis, stress testing and VaR methods to measure and analyse foreign currency risk. Based on the trend of foreign exchange movements, the Group adjusts its foreign exchange exposure to mitigate foreign currency risk.

In 2012, the Group continued to upgrade its interest rate risk measurement by using the correlation approach as reference for monitoring foreign exchange exposures, while proactively adjusting foreign currency asset-liability structures via FTP. The Group reinforced its consolidated management of interest rate risk by setting interest rate risk limits for subsidiaries.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(c) Currency risk (continued)

The Group monitors daily foreign currency transactions and positions closely. The following tables show the Group's assets and liabilities by major currencies as at each end of the reporting period.

Assets and liabilities by original currency are shown as follows:

| | Group | | | | |
|--|---------------------------|-----------|---------|----------|-----------|
| | 2012 | | | | |
| | Equivalent in RMB million | | | | Total |
| | RMB | US dollar | HKD | Others | |
| Assets | | | | | |
| Cash and balances with central bank | 458,829 | 7,547 | 4,406 | 633 | 471,415 |
| Amounts due from banks and other financial institutions | 423,293 | 33,372 | 8,721 | 25,869 | 491,255 |
| Loans and advances to customers | 1,665,467 | 126,644 | 66,884 | 4,330 | 1,863,325 |
| Investments | 482,522 | 18,613 | 16,475 | 2,836 | 520,446 |
| Other assets | 42,020 | 1,723 | 16,227 | 1,808 | 61,778 |
| | 3,072,131 | 187,899 | 112,713 | 35,476 | 3,408,219 |
| Liabilities | | | | | |
| Amounts due to banks and other financial institutions | 492,218 | 27,868 | 4,992 | 1,382 | 526,460 |
| Deposits from customers | 2,272,864 | 140,615 | 80,714 | 38,251 | 2,532,444 |
| Financial liabilities at fair value through profit or loss | 2,396 | 5,391 | 1,812 | – | 9,599 |
| Debts issued | 66,279 | 8,069 | 2,763 | – | 77,111 |
| Other liabilities | 48,804 | 8,135 | 4,443 | 716 | 62,098 |
| | 2,882,561 | 190,078 | 94,724 | 40,349 | 3,207,712 |
| Net on-balance sheet position | 189,570 | (2,179) | 17,989 | (4,873) | 200,507 |
| Off-balance sheet position: | | | | | |
| Credit commitments (note) | 757,300 | 95,047 | 15,432 | 1,331 | 869,110 |
| Derivatives: | | | | | |
| – forward purchase | 85,637 | 118,443 | 8,573 | 25,550 | 238,203 |
| – forward sales | (102,603) | (100,370) | (3,461) | (15,667) | (222,101) |
| – net option position | – | (89) | 68 | 65 | 44 |
| | (16,966) | 17,984 | 5,180 | 9,948 | 16,146 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)**(c) Currency risk** (continued)

Assets and liabilities by original currency are shown as follows: (continued)

| | Group | | | | |
|--|---------------------------|---------------|--------------|--------------|----------------|
| | 2011 | | | | |
| | Equivalent in RMB million | | | | Total |
| | RMB | US dollar | HKD | Others | |
| Assets | | | | | |
| Cash and balances with central bank | 401,018 | 2,045 | 1,854 | 3,387 | 408,304 |
| Amounts due from banks and other financial institutions | 212,531 | 15,535 | 9,922 | 30,414 | 268,402 |
| Loans and advances to customers | 1,446,998 | 27,949 | 62,987 | 66,437 | 1,604,371 |
| Investments | 428,197 | 8,088 | 12,628 | 12,035 | 460,948 |
| Other assets | 33,943 | 2,047 | 16,076 | 880 | 52,946 |
| | 2,522,687 | 55,664 | 103,467 | 113,153 | 2,794,971 |
| Liabilities | | | | | |
| Amounts due to banks and other financial institutions | 302,525 | 6,982 | 981 | 4,759 | 315,247 |
| Deposits from customers | 2,012,624 | 28,363 | 82,403 | 96,670 | 2,220,060 |
| Financial liabilities at fair value through profit or loss | 915 | 531 | 3,428 | 1,319 | 6,193 |
| Debts issued | 34,330 | 4,823 | 6,966 | 48 | 46,167 |
| Other liabilities | 37,397 | 163 | 3,816 | 918 | 42,294 |
| | 2,387,791 | 40,862 | 97,594 | 103,714 | 2,629,961 |
| Net on-balance sheet position | 134,896 | 14,802 | 5,873 | 9,439 | 165,010 |
| Off-balance sheet position: | | | | | |
| Credit commitments (note) | 595,694 | 96,064 | 16,926 | 5,114 | 713,798 |
| Derivatives: | | | | | |
| – forward purchase | 125,440 | 77,167 | 13,631 | 12,077 | 228,315 |
| – forward sales | (114,542) | (93,880) | (893) | (5,220) | (214,535) |
| – net option position | – | (53) | (7) | 60 | – |
| | 10,898 | (16,766) | 12,731 | 6,917 | 13,780 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(c) Currency risk (continued)

Assets and liabilities by original currency are shown as follows: (continued)

| | Bank | | | | |
|--|---------------------------|-----------|--------|----------|-----------|
| | 2012 | | | | |
| | Equivalent in RMB million | | | | Total |
| | RMB | US dollar | HKD | Others | |
| Assets | | | | | |
| Cash and balances with central bank | 457,263 | 7,484 | 1,446 | 450 | 466,643 |
| Amounts due from banks and other financial institutions | 419,661 | 23,382 | 4,658 | 19,859 | 467,560 |
| Loans and advances to customers | 1,595,321 | 110,205 | 10,901 | 3,976 | 1,720,403 |
| Investments | 477,632 | 14,257 | 11,919 | 1,348 | 505,156 |
| Other assets | 42,637 | 910 | 32,699 | 1,542 | 77,788 |
| | 2,992,514 | 156,238 | 61,623 | 27,175 | 3,237,550 |
| Liabilities | | | | | |
| Amounts due to banks and other financial institutions | 447,604 | 24,083 | 4,584 | 1,047 | 477,318 |
| Deposits from customers | 2,254,344 | 123,363 | 22,537 | 26,230 | 2,426,474 |
| Financial liabilities at fair value through profit or loss | 2,397 | 5,312 | 1,319 | – | 9,028 |
| Debts issued | 63,226 | 4,300 | 1,557 | – | 69,083 |
| Other liabilities | 42,237 | 7,693 | 891 | 636 | 51,457 |
| | 2,809,808 | 164,751 | 30,888 | 27,913 | 3,033,360 |
| Net on-balance sheet position | 182,706 | (8,513) | 30,735 | (738) | 204,190 |
| Off-balance sheet position: | | | | | |
| Credit commitments (note) | 756,686 | 92,569 | 4,935 | 1,246 | 855,436 |
| Derivatives: | | | | | |
| – forward purchase | 84,557 | 113,259 | 5,746 | 20,666 | 224,228 |
| – forward sales | (100,106) | (91,683) | (963) | (15,381) | (208,133) |
| – net option position | – | (39) | – | 84 | 45 |
| | (15,549) | 21,537 | 4,783 | 5,369 | 16,140 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)**(c) Currency risk** (continued)

Assets and liabilities by original currency are shown as follows: (continued)

| | Bank | | | | |
|--|---------------------------|--------------|---------------|---------------|----------------|
| | 2011 | | | | |
| | Equivalent in RMB million | | | | Total |
| | RMB | US dollar | HKD | Others | |
| Assets | | | | | |
| Cash and balances with central bank | 397,613 | 1,995 | 1,544 | 3,153 | 404,305 |
| Amounts due from banks and other financial institutions | 208,518 | 2,382 | 6,917 | 25,202 | 243,019 |
| Loans and advances to customers | 1,403,072 | 12,448 | 12,350 | 66,043 | 1,493,913 |
| Investments | 423,278 | 1,557 | 9,254 | 7,797 | 441,886 |
| Other assets | 33,645 | 30 | 32,543 | 583 | 66,801 |
| | 2,466,126 | 18,412 | 62,608 | 102,778 | 2,649,924 |
| Liabilities | | | | | |
| Amounts due to banks and other financial institutions | 271,413 | 845 | 871 | 4,445 | 277,574 |
| Deposits from customers | 1,998,525 | 14,324 | 31,147 | 82,941 | 2,126,937 |
| Financial liabilities at fair value through profit or loss | 829 | 302 | 2,426 | 1,311 | 4,868 |
| Debts issued | 30,972 | 165 | 4,350 | 48 | 35,535 |
| Other liabilities | 32,671 | 81 | 373 | 859 | 33,984 |
| | 2,334,410 | 15,717 | 39,167 | 89,604 | 2,478,898 |
| Net on-balance sheet position | 131,716 | 2,695 | 23,441 | 13,174 | 171,026 |
| Off-balance sheet position: | | | | | |
| Credit commitments (note) | 594,736 | 94,293 | 5,557 | 4,989 | 699,575 |
| Derivatives: | | | | | |
| – forward purchase | 120,185 | 72,038 | 8,875 | 7,776 | 208,874 |
| – forward sales | (109,203) | (80,668) | (329) | (5,007) | (195,207) |
| – net option position | – | (54) | – | 54 | – |
| | 10,982 | (8,684) | 8,546 | 2,823 | 13,667 |

Note: Credit commitments generally expire before they are drawn; therefore the above net position (net of pledged deposits) does not represent the future cash flows need.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(c) Currency risk (continued)

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2012 and 31 December 2011, the results of the Group's currency risk sensitivity analysis on the assets and liabilities at the same date.

| | 2012 | | 2011 | |
|--|--|------|--|------|
| | Change in foreign currency exchange rate (in basis point) (100) 100 | | Change in foreign currency exchange rate (in basis point) (100) 100 | |
| Increase/(decrease) in annualised net profit | 23 | (23) | 49 | (49) |

This sensitivity analysis is based on a static foreign currency exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

- (i) the foreign exchange sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange rates against RMB;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and
- (iii) the foreign exchange exposures calculated include spot foreign exchange exposures, forward foreign exchange exposures and options.

Based on the assumptions above, actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(d) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss on the overall income and economic value of bank accounts. The Group's interest rate risk includes benchmark risk, re-pricing risk, yield curve risk and option risk. In particular, benchmark risk and re-pricing risk are the primary risk faced by the group. The overall objective of the Group's interest rate risk management is to meet sound risk preference and achieve steady growth in net interest income and economic value within the tolerance level of interest rate risk.

Notes to the Financial Statements

*(Expressed in millions of Renminbi unless otherwise stated)***53 Risk management** *(continued)***(d) Interest rate risk** *(continued)*

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

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

In 2012, the Group continued with its proactive and forward-looking interest rate risk management and various enhanced on- and off-balance sheet management measures, with extended overall asset duration and shortened overall liability duration according to the Bank business's current risk characteristics. For on-balance sheet activities, major measures included extending loan and bond investment duration, as well as taking initiative to provide floating-rate liabilities. For off-balance sheet activities, more efforts were made to hedge against interest rate risk with non-stop pursuit of new hedging approaches.

In 2012, the Group further improved its consolidated management of interest rate risk by setting interest rate risk limits for subsidiaries.

In 2012, the People's Bank of China lowered RMB benchmark lending and deposit rates twice and revised floating ranges of lending and deposit rates, speeding up interest rate liberalisation. Among others, one-year benchmark deposit rates cumulatively dropped by 50 basis points. Given the Group business's interest rate risk characteristics, the cuts in benchmark lending and deposit rates had some unfavourable impacts on the Group's net interest income, which were, however, mitigated by its proactive interest rate risk management. Prospectively, the Group will further strengthen its interest rate risk management, with a view to achieving steady growth of net interest income and economic value.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(d) Interest rate risk (continued)

The following table indicates the effective interest rates and the expected next pricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the end of reporting period.

| Group | | | | | | | |
|--|-------------------------|------------------|------------------------------------|-------------------------|------------------------|----------------|----------------------|
| 2012 | | | | | | | |
| | Effective interest rate | Total | 3 months or less (include overdue) | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest bearing |
| Assets | | | | | | | |
| Cash and balances with central bank | 1.54% | 471,415 | 456,052 | – | – | – | 15,363 |
| Amounts due from banks and other financial institutions | 3.63% | 491,255 | 407,371 | 69,418 | 12,722 | – | 1,744 |
| Loans and advances to customers (note) | 6.57% | 1,863,325 | 1,060,777 | 706,215 | 64,837 | 31,434 | 62 |
| Investments | 3.75% | 520,446 | 75,244 | 169,297 | 164,022 | 108,469 | 3,414 |
| Other assets | – | 61,778 | – | – | – | – | 61,778 |
| Total assets | | 3,408,219 | 1,999,444 | 944,930 | 241,581 | 139,903 | 82,361 |
| Liabilities | | | | | | | |
| Amounts due to banks and other financial institutions | 3.69% | 526,460 | 446,492 | 78,692 | 300 | 1 | 975 |
| Deposits from customers | 1.93% | 2,532,444 | 1,873,587 | 453,308 | 190,553 | 8,703 | 6,293 |
| Financial liabilities at fair value through profit or loss | 2.87% | 9,599 | 3,727 | 173 | 2,913 | – | 2,786 |
| Debts issued | 4.83% | 77,111 | 8,390 | 17,009 | 31,816 | 19,896 | – |
| Other liabilities | – | 62,098 | 58 | 44 | – | 70 | 61,926 |
| Total liabilities | | 3,207,712 | 2,332,254 | 549,226 | 225,582 | 28,670 | 71,980 |
| Asset-liability gap | | 200,507 | (332,810) | 395,704 | 15,999 | 111,233 | 10,381 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)**(d) Interest rate risk** (continued)

| | | Group | | | | | |
|--|-------------------------|------------------|------------------------------------|-------------------------|------------------------|---------------|----------------------|
| | | 2011 | | | | | |
| | Effective interest rate | Total | 3 months or less (include overdue) | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest bearing |
| Assets | | | | | | | |
| Cash and balances with central bank | 1.52% | 408,304 | 397,579 | – | – | – | 10,725 |
| Amounts due from banks and other financial institutions | 4.00% | 268,402 | 192,672 | 71,262 | 3,285 | – | 1,183 |
| Loans and advances to customers (note) | 6.09% | 1,604,371 | 1,216,053 | 357,105 | 15,650 | 15,478 | 85 |
| Investments | 3.45% | 460,948 | 86,804 | 108,651 | 183,964 | 78,357 | 3,172 |
| Other assets | – | 52,946 | – | – | – | – | 52,946 |
| Total assets | | 2,794,971 | 1,893,108 | 537,018 | 202,899 | 93,835 | 68,111 |
| Liabilities | | | | | | | |
| Amounts due to banks and other financial institutions | 3.30% | 315,247 | 261,265 | 51,777 | 500 | 401 | 1,304 |
| Deposits from customers | 1.64% | 2,220,060 | 1,745,883 | 341,612 | 115,924 | 11,577 | 5,064 |
| Financial liabilities at fair value through profit or loss | 1.57% | 6,193 | 1,927 | 157 | 2,604 | 36 | 1,469 |
| Debts issued | 4.73% | 46,167 | 8,155 | 9,322 | 20,485 | 8,205 | – |
| Other liabilities | – | 42,294 | 97 | 15 | 37 | 50 | 42,095 |
| Total liabilities | | 2,629,961 | 2,017,327 | 402,883 | 139,550 | 20,269 | 49,932 |
| Asset-liability gap | | 165,010 | (124,219) | 134,135 | 63,349 | 73,566 | 18,179 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(d) Interest rate risk (continued)

| Bank | | | | | | | |
|---|-------------------------------|------------------|---|-------------------------------|------------------------------|-----------------|-----------------------------|
| 2012 | | | | | | | |
| | Effective interest rate | Total | 3 months or less (include overdue) | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non- interest bearing |
| Assets | | | | | | | |
| Cash and balances with central bank | 1.54% | 466,643 | 454,498 | – | – | – | 12,145 |
| Amounts due from banks and other financial institutions | 3.76% | 467,560 | 389,255 | 64,693 | 12,722 | – | 890 |
| Loans and advances to customers (note) | 6.75% | 1,720,403 | 973,878 | 652,264 | 63,932 | 30,329 | – |
| Investments | 3.77% | 505,156 | 64,063 | 168,350 | 161,675 | 108,457 | 2,611 |
| Other assets | – | 77,788 | – | – | – | – | 77,788 |
| Total assets | | 3,237,550 | 1,881,694 | 885,307 | 238,329 | 138,786 | 93,434 |
| Liabilities | | | | | | | |
| Amounts due to banks and other financial institutions | 3.60% | 477,318 | 432,977 | 44,040 | 300 | 1 | – |
| Deposits from customers | 1.94% | 2,426,474 | 1,795,304 | 434,391 | 187,728 | 8,703 | 348 |
| Financial liabilities at fair value through profit or loss | 2.87% | 9,028 | 3,728 | 173 | 2,454 | – | 2,673 |
| Debts issued | 5.43% | 69,083 | 5,445 | 15,463 | 29,484 | 18,691 | – |
| Other liabilities | – | 51,457 | – | – | – | – | 51,457 |
| Total liabilities | | 3,033,360 | 2,237,454 | 494,067 | 219,966 | 27,395 | 54,478 |
| Asset-liability gap | | 204,190 | (355,760) | 391,240 | 18,363 | 111,391 | 38,956 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(d) Interest rate risk (continued)

| | | Bank | | | | | |
|--|-------------------------|------------------|------------------------------------|-------------------------|------------------------|---------------|----------------------|
| | | 2011 | | | | | |
| | Effective interest rate | Total | 3 months or less (include overdue) | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest bearing |
| Assets | | | | | | | |
| Cash and balances with central bank | 1.52% | 404,305 | 394,119 | – | – | – | 10,186 |
| Amounts due from banks and other financial institutions | 4.26% | 243,019 | 169,364 | 69,566 | 3,285 | – | 804 |
| Loans and advances to customers (note) | 6.23% | 1,493,913 | 1,137,463 | 326,336 | 15,132 | 14,982 | – |
| Investments | 3.51% | 441,886 | 71,323 | 107,904 | 182,009 | 78,338 | 2,312 |
| Other assets | – | 66,801 | – | – | – | – | 66,801 |
| Total assets | | 2,649,924 | 1,772,269 | 503,806 | 200,426 | 93,320 | 80,103 |
| Liabilities | | | | | | | |
| Amounts due to banks and other financial institutions | 3.25% | 277,574 | 245,295 | 31,378 | 500 | 401 | – |
| Deposits from customers | 1.66% | 2,126,937 | 1,669,689 | 331,797 | 113,529 | 11,577 | 345 |
| Financial liabilities at fair value through profit or loss | 1.57% | 4,868 | 1,224 | 157 | 2,141 | 36 | 1,310 |
| Debts issued | 5.73% | 35,535 | 3,475 | 5,086 | 19,985 | 6,989 | – |
| Other liabilities | – | 33,984 | – | – | – | – | 33,984 |
| Total liabilities | | 2,478,898 | 1,919,683 | 368,418 | 136,155 | 19,003 | 35,639 |
| Asset-liability gap | | 171,026 | (147,414) | 135,388 | 64,271 | 74,317 | 44,464 |

Notes: For loans and advances to customers, the above “3 months or less” category includes overdue amounts as at 31 December 2012 and 31 December 2011 (net of allowances for impairment losses). Overdue amounts represent loans of which the whole or part of the principals was overdue.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(d) Interest rate risk (continued)

The Group uses scenario simulation analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2012 and 31 December 2011, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

| | 2012 | | 2011 | |
|--|--|------|--|------|
| | Change in interest rates (in basis point) | | Change in interest rates (in basis point) | |
| | 25 | (25) | 25 | (25) |
| (Decrease)/increase in annualised net profit | (389) | 389 | (224) | 224 |

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

- (i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;
- (ii) there is a parallel shift in the yield curve and in interest rates; and
- (iii) there are no other changes to the portfolio.

Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(e) Liquidity risk

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

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

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

In 2012, the Group refined its risk limits to strengthen its liquidity risk management system. This laid a solid basis for further improving its management standards in this regard.

In 2012, the Group achieved milestones in consolidated financial statement management of its liquidity risk, with the consolidated interest rate risk management system covering the entire group.

In 2012, China's tightened monetary policies resulted in increasingly squeezed liquidity in the market. Accordingly, the Group adopted a series of measures to actively manage liquidity risk and ensure RMB and foreign currency liquidity. Specifically, the measures include in-depth analyses of policy and market trends, control of asset size, active assumption of managed liabilities, and the optimisation of asset and liability allocation. The measures strengthened real-time control over liquidity for an accurate understanding of market trends, enhanced financing strength, and improved scenarios and methods of stress tests to strengthen the Group's ability in coping with extreme liquidity crunch.

In 2012, PBOC lowered the statutory deposit reserve ratio twice. As at the end of December 2012, 18% (2011: 19%) and 5% (2011: 5%) of eligible RMB and foreign currency deposits respectively were deposited with PBOC as required.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

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

| | 2012 | | | | | | | Total |
|---|------------------------|-------------------|--|---|--|------------------|----------------|------------------|
| | 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 | |
| Cash and balances with central bank (note (i)) | 101,128 | - | - | - | - | - | 370,287 | 471,415 |
| Amounts due from banks and other financial institutions | 27,343 | 348,499 | 35,800 | 66,885 | 12,728 | - | - | 491,255 |
| Loans and advances to customers (note (ii)) | 3,109 | 77,923 | 257,336 | 740,064 | 357,239 | 415,233 | 12,421 | 1,863,325 |
| Investments (note (iii)) | 54 | 14,171 | 20,351 | 111,529 | 229,693 | 141,190 | 3,458 | 520,446 |
| – at fair value through profit or loss | 54 | 1,100 | 1,078 | 1,908 | 17,826 | 3,391 | 2,107 | 27,464 |
| – available-for-sale | - | 12,858 | 15,490 | 79,046 | 141,860 | 34,739 | 1,351 | 285,344 |
| – held-to-maturity | - | 210 | 3,195 | 28,945 | 51,223 | 91,844 | - | 175,417 |
| – receivables | - | 3 | 588 | 1,630 | 18,784 | 11,216 | - | 32,221 |
| Other assets | 8,606 | 1,945 | 2,026 | 3,223 | 4,805 | 879 | 40,294 | 61,778 |
| Total assets | 140,240 | 442,538 | 315,513 | 921,701 | 604,465 | 557,302 | 426,460 | 3,408,219 |
| Amounts due to banks and other financial institutions | 79,386 | 283,116 | 83,320 | 79,129 | 933 | 576 | - | 526,460 |
| Deposits from customers (note (iv)) | 1,333,585 | 266,441 | 272,415 | 458,809 | 200,447 | 747 | - | 2,532,444 |
| Financial liabilities at fair value through profit or loss | 253 | 245 | 3,238 | 173 | 2,913 | - | 2,777 | 9,599 |
| Debt issued | - | 3,035 | 1,151 | 5,344 | 23,457 | 44,124 | - | 77,111 |
| Other liabilities | 26,934 | 12,272 | 4,730 | 7,407 | 7,560 | 1,838 | 1,357 | 62,098 |
| Total liabilities | 1,440,158 | 565,109 | 364,854 | 550,862 | 235,310 | 47,285 | 4,134 | 3,207,712 |
| (Short)/long position | (1,299,918) | (122,571) | (49,341) | 370,839 | 369,155 | 510,017 | 422,326 | 200,507 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

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

| | 2011 | | | | | | | Total |
|---|------------------------|-------------------|--|---|--|------------------|----------------|------------------|
| | 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 | |
| Cash and balances with central bank (note (i)) | 46,322 | – | – | – | – | – | 361,982 | 408,304 |
| Amounts due from banks and other financial institutions | 29,820 | 121,446 | 42,538 | 71,314 | 3,284 | – | – | 268,402 |
| Loans and advances to customers (note (ii)) | 1,005 | 69,730 | 221,977 | 584,024 | 328,130 | 399,304 | 201 | 1,604,371 |
| Investments (note (iii)) | 29 | 13,629 | 14,029 | 69,775 | 247,825 | 112,490 | 3,171 | 460,948 |
| – at fair value through profit or loss | 29 | 934 | 3,773 | 4,074 | 5,388 | 1,331 | 1,888 | 17,417 |
| – available-for-sale | – | 12,517 | 8,874 | 51,455 | 170,390 | 31,341 | 1,283 | 275,860 |
| – held-to-maturity | – | 175 | 567 | 9,435 | 60,527 | 74,882 | – | 145,586 |
| – receivables | – | 3 | 815 | 4,811 | 11,520 | 4,936 | – | 22,085 |
| Other assets | 5,182 | 2,281 | 2,445 | 4,776 | 392 | 1,096 | 36,774 | 52,946 |
| Total assets | 82,358 | 207,086 | 280,989 | 729,889 | 579,631 | 512,890 | 402,128 | 2,794,971 |
| Amounts due to banks and other financial institutions | 87,827 | 66,134 | 108,051 | 51,431 | 513 | 1,291 | – | 315,247 |
| Deposits from customers (note (iv)) | 1,216,417 | 257,267 | 282,925 | 339,227 | 123,762 | 462 | – | 2,220,060 |
| Financial liabilities at fair value through profit or loss | – | 1,385 | 330 | 369 | 2,604 | 36 | 1,469 | 6,193 |
| Debt issued | – | 2,092 | 3,879 | 6,117 | 2,892 | 31,187 | – | 46,167 |
| Other liabilities | 14,981 | 12,192 | 3,688 | 5,546 | 2,564 | 2,394 | 929 | 42,294 |
| Total liabilities | 1,319,225 | 339,070 | 398,873 | 402,690 | 132,335 | 35,370 | 2,398 | 2,629,961 |
| (Short)/long position | (1,236,867) | (131,984) | (117,884) | 327,199 | 447,296 | 477,520 | 399,730 | 165,010 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

Analysis of the Bank's assets and liabilities by remaining maturity is as follows:

| | 2012 | | | | | | | Total |
|---|------------------------|-------------------|--|---|--|------------------|----------------|------------------|
| | 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 | |
| Cash and balances with central bank (note (i)) | 97,733 | - | - | - | - | - | 368,910 | 466,643 |
| Amounts due from banks and other financial institutions | 26,698 | 333,850 | 32,196 | 62,094 | 12,722 | - | - | 467,560 |
| Loans and advances to customers (note (ii)) | 2,224 | 73,300 | 242,354 | 700,181 | 293,111 | 397,101 | 12,132 | 1,720,403 |
| Investments (note (iii)) | - | 12,877 | 18,028 | 110,018 | 220,445 | 141,177 | 2,611 | 505,156 |
| - at fair value through profit or loss | - | 7 | 218 | 1,406 | 17,036 | 3,391 | 1,866 | 23,924 |
| - available-for-sale | - | 12,858 | 15,186 | 78,221 | 133,064 | 34,738 | 745 | 274,812 |
| - held-to-maturity | - | 9 | 2,036 | 28,761 | 50,355 | 91,833 | - | 172,994 |
| - receivables | - | 3 | 588 | 1,630 | 19,990 | 11,215 | - | 33,426 |
| Other assets | 8,336 | 1,246 | 1,343 | 2,515 | 4,563 | 62 | 59,723 | 77,788 |
| Total assets | 134,991 | 421,273 | 293,921 | 874,808 | 530,841 | 538,340 | 443,376 | 3,237,550 |
| Amounts due to banks and other financial institutions | 79,035 | 279,279 | 73,661 | 45,042 | 300 | 1 | - | 477,318 |
| Deposits from customers (note (iv)) | 1,301,898 | 240,019 | 246,295 | 439,892 | 197,623 | 747 | - | 2,426,474 |
| Financial liabilities at fair value through profit or loss | 243 | 245 | 3,238 | 173 | 2,456 | - | 2,673 | 9,028 |
| Debt issued | - | 866 | 592 | 3,581 | 22,361 | 41,683 | - | 69,083 |
| Other liabilities | 27,015 | 11,321 | 3,869 | 5,408 | 3,408 | 436 | - | 51,457 |
| Total liabilities | 1,408,191 | 531,730 | 327,655 | 494,096 | 226,148 | 42,867 | 2,673 | 3,033,360 |
| (Short)/long position | (1,273,200) | (110,457) | (33,734) | 380,712 | 304,693 | 495,473 | 440,703 | 204,190 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

Analysis of the Bank's assets and liabilities by remaining maturity is as follows: (continued)

| | 2011 | | | | | | | Total |
|---|------------------------|-------------------|--|---|--|------------------|----------------|------------------|
| | 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 | |
| Cash and balances with central bank (note (i)) | 43,521 | - | - | - | - | - | 360,784 | 404,305 |
| Amounts due from banks and other financial institutions | 28,883 | 109,318 | 31,966 | 69,568 | 3,284 | - | - | 243,019 |
| Loans and advances to customers (note (ii)) | 83 | 64,630 | 207,360 | 557,410 | 281,301 | 383,036 | 93 | 1,493,913 |
| Investments (note (iii)) | - | 12,320 | 8,608 | 64,216 | 241,990 | 112,441 | 2,311 | 441,886 |
| - at fair value through profit or loss | - | 335 | 1,134 | 3,724 | 4,544 | 1,331 | 1,663 | 12,731 |
| - available-for-sale | - | 11,851 | 6,459 | 47,470 | 164,687 | 31,342 | 648 | 262,457 |
| - held-to-maturity | - | 131 | 200 | 8,210 | 60,025 | 74,832 | - | 143,398 |
| - receivables | - | 3 | 815 | 4,812 | 12,734 | 4,936 | - | 23,300 |
| Other assets | 4,852 | 1,445 | 2,110 | 4,364 | 127 | 35 | 53,868 | 66,801 |
| Total assets | 77,339 | 187,713 | 250,044 | 695,558 | 526,702 | 495,512 | 417,056 | 2,649,924 |
| Amounts due to banks and other financial institutions | 87,814 | 62,403 | 95,065 | 31,378 | 513 | 401 | - | 277,574 |
| Deposits from customers (note (iv)) | 1,188,774 | 230,073 | 256,849 | 329,412 | 121,367 | 462 | - | 2,126,937 |
| Financial liabilities at fair value through profit or loss | - | 1,037 | 186 | 157 | 2,142 | 36 | 1,310 | 4,868 |
| Debt issued | - | 185 | 1,256 | 1,761 | 2,362 | 29,971 | - | 35,535 |
| Other liabilities | 14,895 | 11,248 | 3,138 | 3,796 | 809 | 64 | 34 | 33,984 |
| Total liabilities | 1,291,483 | 304,946 | 356,494 | 366,504 | 127,193 | 30,934 | 1,344 | 2,478,898 |
| (Short)/long position | (1,214,144) | (117,233) | (106,450) | 329,054 | 399,509 | 464,578 | 415,712 | 171,026 |

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 impairment losses.
- (iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Bank'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.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis.

| | 2012 | | | | | | | | |
|--|-----------------|-----------|---------------------|----------------|-----------------------------------|----------------------------------|---------------------------------|---------------|------------|
| | Carrying amount | Total | 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 |
| Non-derivative financial assets | | | | | | | | | |
| Cash and balances with central bank | 471,415 | 471,415 | 101,128 | - | - | - | - | - | 370,287 |
| Amounts due from banks and other financial institutions | 491,255 | 497,266 | 28,505 | 349,094 | 36,442 | 69,074 | 13,992 | - | 159 |
| Loans and advances to customers | 1,863,325 | 2,282,527 | 4,087 | 84,524 | 273,410 | 791,838 | 485,682 | 628,393 | 14,593 |
| Investments | | | | | | | | | |
| – at fair value through profit or loss | 25,489 | 28,980 | 54 | 1,141 | 1,219 | 2,062 | 19,968 | 4,405 | 131 |
| – available-for-sale | 285,344 | 327,015 | - | 13,184 | 16,399 | 82,007 | 167,785 | 46,286 | 1,354 |
| – held-to-maturity | 175,417 | 240,059 | - | 381 | 3,999 | 30,540 | 62,702 | 142,436 | 1 |
| – receivables | 32,221 | 39,247 | - | 6 | 647 | 1,973 | 20,176 | 16,445 | - |
| Other assets | 9,303 | 9,303 | 6,850 | 477 | 311 | 560 | 81 | 51 | 973 |
| | 3,353,769 | 3,895,812 | 140,624 | 448,807 | 332,427 | 978,054 | 770,386 | 838,016 | 387,498 |
| Non-derivative financial liabilities | | | | | | | | | |
| Amounts due to banks and other financial institutions | 526,460 | 533,769 | 79,724 | 284,377 | 85,583 | 82,365 | 1,081 | 639 | - |
| Deposits from customers | 2,532,444 | 2,614,302 | 1,342,212 | 269,335 | 278,983 | 479,333 | 243,291 | 1,148 | - |
| Financial liabilities at fair value through profit or loss | 6,854 | 6,883 | 253 | 251 | 3,242 | 192 | 2,913 | 32 | - |
| Debts issued | 77,111 | 92,466 | - | 3,051 | 1,877 | 8,020 | 31,197 | 48,321 | - |
| Other liabilities | 37,206 | 37,206 | 17,900 | 11,013 | 620 | 1,628 | 3,879 | 809 | 1,357 |
| | 3,180,075 | 3,284,626 | 1,440,089 | 568,027 | 370,305 | 571,538 | 282,361 | 50,949 | 1,357 |
| Gross loan commitments | | 194,816 | 194,816 | - | - | - | - | - | - |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis. (continued)

| | 2011 | | | | | | | | |
|---|--------------------|-----------|------------------------|-------------------|--|---|--|------------------|------------|
| | Carrying amount | Total | 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 |
| Non-derivative financial assets | | | | | | | | | |
| Cash and balances with central bank | 408,304 | 408,304 | 46,322 | – | – | – | – | – | 361,982 |
| Amounts due from banks and other financial institutions | 268,402 | 274,507 | 29,922 | 122,093 | 44,002 | 74,503 | 3,825 | – | 162 |
| Loans and advances to customers | 1,604,371 | 1,982,810 | 1,852 | 74,993 | 236,933 | 625,731 | 445,121 | 590,842 | 7,338 |
| Investments | | | | | | | | | |
| – at fair value through profit or loss | 15,530 | 16,650 | 29 | 965 | 3,862 | 4,180 | 5,917 | 1,696 | 1 |
| – available-for-sale | 275,860 | 321,524 | – | 12,863 | 9,493 | 55,305 | 202,514 | 40,064 | 1,285 |
| – held-to-maturity | 145,586 | 197,652 | – | 298 | 1,035 | 10,688 | 70,189 | 115,441 | 1 |
| – receivables | 22,085 | 25,035 | – | 6 | 842 | 5,023 | 11,951 | 7,213 | – |
| Other assets | 4,827 | 4,827 | 2,948 | 663 | 73 | 297 | 65 | 196 | 585 |
| | 2,744,965 | 3,231,309 | 81,073 | 211,881 | 296,240 | 775,727 | 739,582 | 755,452 | 371,354 |
| Non-derivative financial liabilities | | | | | | | | | |
| Amounts due to banks and other financial institutions | 315,247 | 321,376 | 87,967 | 67,107 | 111,184 | 53,254 | 565 | 1,299 | – |
| Deposits from customers | 2,220,060 | 2,272,274 | 1,222,883 | 259,620 | 289,041 | 351,860 | 148,285 | 585 | – |
| Financial liabilities at fair value through profit or loss | 4,724 | 4,766 | – | 1,385 | 372 | 369 | 2,604 | 36 | – |
| Debts issued | 46,167 | 52,777 | – | 2,103 | 3,928 | 6,858 | 6,372 | 33,516 | – |
| Other liabilities | 25,350 | 25,350 | 7,927 | 13,732 | 45 | 798 | 980 | 1,285 | 583 |
| | 2,611,548 | 2,676,543 | 1,318,777 | 343,947 | 404,570 | 413,139 | 158,806 | 36,721 | 583 |
| Gross loan commitments | | 166,200 | 166,200 | – | – | – | – | – | – |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis.

| | 2012 | | | | | | | | |
|--|--------------------|-----------|------------------------|-------------------|--|---|--|------------------|------------|
| | Carrying amount | Total | 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 |
| Non-derivative financial assets | | | | | | | | | |
| Cash and balances with central bank | 466,643 | 466,643 | 97,733 | - | - | - | - | - | 368,910 |
| Amounts due from banks and other financial institutions | 467,560 | 473,280 | 26,972 | 335,289 | 32,800 | 64,131 | 13,929 | - | 159 |
| Loans and advances to customers | 1,720,403 | 2,125,157 | 3,199 | 79,447 | 258,153 | 748,587 | 414,729 | 607,702 | 13,340 |
| Investments | | | | | | | | | |
| – at fair value through profit or loss | 22,058 | 25,444 | - | 46 | 340 | 1,530 | 19,123 | 4,405 | - |
| – available-for-sale | 274,812 | 315,746 | - | 13,159 | 16,057 | 80,971 | 158,524 | 46,288 | 747 |
| – held-to-maturity | 172,994 | 237,521 | - | 177 | 2,828 | 30,319 | 61,773 | 142,423 | 1 |
| – receivables | 33,426 | 40,452 | - | 6 | 646 | 1,973 | 21,382 | 16,445 | - |
| Other assets | 41,843 | 41,843 | 7,087 | - | - | - | - | - | 34,756 |
| | 3,199,739 | 3,726,086 | 134,991 | 428,124 | 310,824 | 927,511 | 689,460 | 817,263 | 417,913 |
| Non-derivative financial liabilities | | | | | | | | | |
| Amounts due to banks and other financial institutions | 477,318 | 483,328 | 79,419 | 280,468 | 75,815 | 47,262 | 324 | 40 | - |
| Deposits from customers | 2,426,474 | 2,507,690 | 1,310,520 | 242,832 | 252,697 | 460,235 | 240,258 | 1,148 | - |
| Financial liabilities at fair value through profit or loss | 6,355 | 6,380 | 243 | 250 | 3,241 | 191 | 2,455 | - | - |
| Debts issued | 69,083 | 82,368 | - | 871 | 597 | 6,075 | 30,711 | 44,114 | - |
| Other liabilities | 28,176 | 28,176 | 18,009 | 10,167 | - | - | - | - | - |
| | 3,007,406 | 3,107,942 | 1,408,191 | 534,588 | 332,350 | 513,763 | 273,748 | 45,302 | - |
| Gross loan commitments | | 178,709 | 178,709 | - | - | - | - | - | - |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(e) Liquidity risk (continued)

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis. (continued)

| | 2011 | | | | | | | | |
|--|--------------------|-----------|------------------------|-------------------|--|---|--|------------------|------------|
| | Carrying amount | Total | 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 |
| Non-derivative financial assets | | | | | | | | | |
| Cash and balances with central bank | 404,305 | 404,305 | 43,521 | – | – | – | – | – | 360,784 |
| Amounts due from banks and other financial institutions | 243,019 | 249,035 | 28,953 | 109,932 | 33,195 | 72,970 | 3,824 | – | 161 |
| Loans and advances to customers | 1,493,913 | 1,862,292 | 915 | 70,097 | 222,681 | 600,684 | 394,413 | 572,194 | 1,308 |
| Investments | | | | | | | | | |
| – at fair value through profit or loss | 11,068 | 12,068 | – | 363 | 1,204 | 3,798 | 5,007 | 1,696 | – |
| – available-for-sale | 262,457 | 307,102 | – | 12,159 | 7,003 | 51,089 | 196,199 | 40,002 | 650 |
| – held-to-maturity | 143,398 | 195,369 | – | 249 | 656 | 9,427 | 69,649 | 115,387 | 1 |
| – receivables | 23,300 | 26,250 | – | 6 | 842 | 5,023 | 13,166 | 7,213 | – |
| Other assets | 35,452 | 35,452 | 2,697 | – | – | – | – | – | 32,755 |
| | 2,616,912 | 3,091,873 | 76,086 | 192,806 | 265,581 | 742,991 | 682,258 | 736,492 | 395,659 |
| Non-derivative financial liabilities | | | | | | | | | |
| Amounts due to banks and other financial institutions | 277,574 | 283,590 | 87,955 | 63,354 | 98,122 | 33,185 | 565 | 409 | – |
| Deposits from customers | 2,126,937 | 2,178,506 | 1,195,235 | 232,345 | 262,798 | 341,863 | 145,680 | 585 | – |
| Financial liabilities at fair value through profit or loss | 3,558 | 3,600 | – | 1,037 | 228 | 157 | 2,142 | 36 | – |
| Debts issued | 35,535 | 41,144 | – | 190 | 1,276 | 2,360 | 6,657 | 30,661 | – |
| Other liabilities | 18,561 | 18,561 | 8,328 | 10,233 | – | – | – | – | – |
| | 2,462,165 | 2,525,401 | 1,291,518 | 307,159 | 362,424 | 377,565 | 155,044 | 31,691 | – |
| Gross loan commitments | | 152,705 | 152,705 | – | – | – | – | – | – |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management *(continued)*

(f) 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.

(g) Capital management

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

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

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

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

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management *(continued)*

(h) Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the group's derivative financial instruments are traded over the counter.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. Derivative financial instruments include but are not limited to foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, credit default swaps, bond options, equity swaps, interest rates and credit derivatives. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments, which are managed together with financial instruments designated at fair value through profit or loss according to the purposes of holding.

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

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

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(h) Use of derivatives (continued)

| Group | | | | | | | |
|--|---|-----------------------------|----------------------------|-------------------|---------|-------------|-------------|
| 2012 | | | | | | | |
| | 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 | 8,867 | 12,551 | 13,391 | 62 | 34,871 | 152 | (229) |
| Currency derivatives | | | | | | | |
| Spot | 6,093 | – | – | – | 6,093 | 2 | (1) |
| Forwards | 30,173 | 35,731 | 2,442 | – | 68,346 | 673 | (743) |
| Foreign exchange swaps | 86,292 | 2,347 | 4,325 | – | 92,964 | 710 | (991) |
| Options purchased | 1,976 | 363 | – | – | 2,339 | 29 | (3) |
| Options written | 3,573 | 2 | – | – | 3,575 | 2 | (60) |
| | 128,107 | 38,443 | 6,767 | – | 173,317 | 1,416 | (1,798) |
| Other derivatives | | | | | | | |
| Credit default swaps | 1,558 | 414 | – | – | 1,972 | 4 | – |
| Forward rate agreement | 116 | – | – | 944 | 1,060 | 1 | (1) |
| | 1,674 | 414 | – | 944 | 3,032 | 5 | (1) |
| Cash flow hedge derivatives | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 1,246 | 10,207 | 56,900 | – | 68,353 | 322 | (670) |
| Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 748 | 259 | 3,326 | – | 4,333 | 35 | (35) |
| Currency derivatives | | | | | | | |
| Foreign exchanges swaps | 245 | – | – | – | 245 | 14 | (11) |
| Other derivatives | | | | | | | |
| Equity options | 153 | 9 | 40 | – | 202 | 31 | (1) |
| | 1,146 | 268 | 3,366 | – | 4,780 | 80 | (47) |
| Total | | | | | | 1,975 | (2,745) |

(Note 21(a))

Notes to the Financial Statements
(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(h) Use of derivatives (continued)

| | Group | | | | | | |
|--|---|-----------------------------|----------------------------|-------------------|---------|-------------|-------------|
| | 2011 | | | | | | |
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Total | Assets | Liabilities |
| Derivatives held for trading | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 6,204 | 3,051 | 12,241 | 180 | 21,676 | 83 | (84) |
| Currency derivatives | | | | | | | |
| Spot | 8,421 | – | – | – | 8,421 | 26 | (17) |
| Forwards | 49,733 | 41,612 | 8,747 | – | 100,092 | 788 | (748) |
| Foreign exchange swaps | 57,281 | 54,714 | 950 | – | 112,945 | 490 | (425) |
| Options purchased | 3,860 | 34 | – | – | 3,894 | 82 | – |
| Options written | 3,972 | 34 | – | – | 4,006 | – | (84) |
| | 123,267 | 96,394 | 9,697 | – | 229,358 | 1,386 | (1,274) |
| Other derivatives | | | | | | | |
| Equity swaps | – | 12 | – | – | 12 | – | (1) |
| Credit default swaps | – | 126 | 1,762 | – | 1,888 | 6 | (10) |
| Equity options purchased | 45 | – | – | – | 45 | – | – |
| Equity options written | 45 | – | – | – | 45 | – | – |
| | 90 | 138 | 1,762 | – | 1,990 | 6 | (11) |
| Cash flow hedge derivatives | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | – | 7,930 | 15,500 | – | 23,430 | 390 | (19) |
| Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 1,499 | 558 | 1,585 | – | 3,642 | 22 | (79) |
| Currency derivatives | | | | | | | |
| Foreign exchange swaps | – | 86 | – | – | 86 | – | – |
| Other derivatives | | | | | | | |
| Equity options | – | 25 | 23 | – | 48 | – | (2) |
| | 1,499 | 669 | 1,608 | – | 3,776 | 22 | (81) |
| Total | | | | | | 1,887 | (1,469) |

(Note 21(a))

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(h) Use of derivatives (continued)

| | Bank | | | | | | |
|--|---|-----------------------------|----------------------------|-------------------|---------|--------------|----------------|
| | 2012 | | | | | | |
| | 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 | 5,388 | 11,155 | 13,391 | 62 | 29,996 | 143 | (215) |
| Currency derivatives | | | | | | | |
| Spot | 6,093 | – | – | – | 6,093 | 2 | (1) |
| Forwards | 29,345 | 34,663 | 2,442 | – | 66,450 | 661 | (733) |
| Foreign exchange swaps | 76,489 | 70 | 4,325 | – | 80,884 | 674 | (963) |
| Options purchased | 1,976 | 363 | – | – | 2,339 | 29 | (3) |
| Options written | 3,150 | 2 | – | – | 3,152 | – | (60) |
| | 117,053 | 35,098 | 6,767 | – | 158,918 | 1,366 | (1,760) |
| Other derivatives | | | | | | | |
| Credit default swaps | 1,558 | 414 | – | – | 1,972 | 4 | – |
| Forward rate agreement | 116 | – | – | 944 | 1,060 | 1 | (1) |
| | 1,674 | 414 | – | 944 | 3,032 | 5 | (1) |
| Cash flow hedge derivatives | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 1,246 | 10,207 | 56,900 | – | 68,353 | 322 | (670) |
| Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 281 | 259 | 2,887 | – | 3,427 | 16 | (16) |
| Currency derivatives | | | | | | | |
| Foreign exchanges swaps | 245 | – | – | – | 245 | 14 | (11) |
| | 526 | 259 | 2,887 | – | 3,672 | 30 | (27) |
| Total | | | | | | 1,866 | (2,673) |

(Note 21(a))

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)**(h) Use of derivatives** (continued)

| Bank | | | | | | | |
|--|--------------------|-----------------------------|----------------------------|-------------------|---------|-------------|-------------|
| 2011 | | | | | | | |
| Notional amounts with remaining life of | | | | | | Fair values | |
| | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Total | Assets | Liabilities |
| Derivatives held for trading | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 3,473 | 2,649 | 10,991 | 63 | 17,176 | 80 | (73) |
| Currency derivatives | | | | | | | |
| Spot | 8,421 | – | – | – | 8,421 | 26 | (17) |
| Forwards | 41,875 | 38,957 | 8,427 | – | 89,259 | 683 | (661) |
| Foreign exchange swaps | 48,951 | 54,522 | 950 | – | 104,423 | 392 | (401) |
| Options purchased | 3,343 | 34 | – | – | 3,377 | 79 | – |
| Options written | 3,445 | 34 | – | – | 3,479 | – | (81) |
| | 106,035 | 93,547 | 9,377 | – | 208,959 | 1,180 | (1,160) |
| Other derivatives | | | | | | | |
| Equity swaps | – | 12 | – | – | 12 | – | (1) |
| Credit default swaps | – | 126 | 1,762 | – | 1,888 | 6 | (10) |
| | – | 138 | 1,762 | – | 1,900 | 6 | (11) |
| Cash flow hedge derivatives | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | – | 7,930 | 15,500 | – | 23,430 | 390 | (19) |
| Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 1,223 | 407 | 648 | – | 2,278 | 8 | (47) |
| Total | | | | | | 1,664 | (1,310) |
| (Note 21(a)) | | | | | | | |

(Note 21(a))

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management (continued)

(h) Use of 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

| | 2012 | 2011 |
|---------------------------|-------|-------|
| Interest rate derivatives | 2,724 | 575 |
| Currency derivatives | 3,766 | 3,350 |
| Other derivatives | 283 | 264 |
| | 6,773 | 4,189 |

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.

(i) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, deposits and placements with the central banks, banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets mature within 1 year or are already stated at fair value, and therefore their carrying values approximate their fair values.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). Loans and advances are mostly priced at floating rates close to the PBRC rates and repriced at market rates annually at lease, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying values of loans and advances are close to the fair values.

Held-to-maturity debt securities investments are stated at amortised costs less impairment, and the fair values are disclosed in Note 21(c).

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

53 Risk management *(continued)***(i) Fair value information** *(continued)***(ii) Financial liabilities**

Financial liabilities mainly include customer deposits, deposits and placements from banks and other financial institutions, and debts issued by the Bank. The carrying values of financial liabilities approximate their fair values at the end of the reporting period of the year presented, except the financial liabilities set out below:

Carrying value

| | 2012 | 2011 |
|---------------------------|--------|--------|
| Subordinated notes issued | 44,124 | 31,187 |
| Long-term bonds issued | 19,974 | — |
| | 64,098 | 31,187 |

Fair value

| | 2012 | 2011 |
|---------------------------|--------|--------|
| Subordinated notes issued | 44,474 | 30,031 |
| Long-term bonds issued | 19,461 | — |
| | 63,935 | 30,031 |

54 Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(n). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

54 Significant accounting estimates and judgements *(continued)*

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

54 Significant accounting estimates and judgements *(continued)*

(f) Defined benefit scheme

Actuarial assumptions are made in valuing future pension obligations as set out in note 37(b). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

(g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the end of the reporting period. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(h) Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

55 Material related-party transactions

(a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

| Company name | Registered location | Issued and fully paid capital | Proportion of the Bank held by the Company | Proportion of the Company held by the Bank | Business | the relationship with the Bank | Legal form | Legal representative |
|---|---------------------|-------------------------------|--|--|---|--------------------------------------|-----------------------------|----------------------|
| China Merchants Group (CMG) | Beijing | RMB6,300 million | 18.63% (note (i)) | – | Transportation, shipping agency, ware housing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service | Largest shareholder's parent company | Limited company | Fu Yu Ning |
| China Merchants Steam Navigation Company Limited (CMSNCL) | Beijing | RMB200 million | 12.40% (note (ii)) | – | Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services | Largest shareholder | Joint stock limited company | Fu Yu Ning |
| CMB International Capital Corporation Limited (CMBICCL) | Hong Kong | HKD250 million | – | 100% | Financial advisory and services | Subsidiary | Limited company | Wang Qingbin |
| CMB Financial Leasing Corporation Limited (CMBFLCL) | Shanghai | RMB4,000 million | – | 100% | Financial leasing and advisory | Subsidiary | Limited company | Wang Qingbin |
| Winglung Bank Limited (WLB) | Hong Kong | HKD1,161 million | – | 100% | Banking | Subsidiary | Limited company | Ma Weihua |

Note:

- (i) CMG holds 18.63% of the Bank (2011: 18.63%) through its subsidiaries.
- (ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 12.40% of the Bank (2011: 12.40%).

The registered capital of each company

| Connected person | 2012 | 2011 |
|------------------|-------------------------|------------------|
| CMG | RMB6,300,000,000 | RMB6,300,000,000 |
| CMSNCL | RMB200,000,000 | RMB200,000,000 |
| CMBICCL | HKD250,000,000 | HKD250,000,000 |
| CMBFLCL | RMB4,000,000,000 | RMB2,000,000,000 |
| WLB | HKD1,160,950,575 | HKD1,160,950,575 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

55 Material related-party transactions (continued)**(a) Material connected person information** (continued)**The registered capital of each company** (continued)

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

| | CMSNCL | | CMBICCL | | CMBFLCL | | WLB | |
|---------------------|---------------|-------|-------------|--------|---------------|--------|---------------|--------|
| | RMB | % | HKD | % | RMB | % | HKD | % |
| At 1 January 2012 | 2,675,612,600 | 12.40 | 250,000,000 | 100.00 | 2,000,000,000 | 100.00 | 1,160,950,575 | 100.00 |
| Change | - | - | - | - | 2,000,000,000 | - | - | - |
| At 31 December 2012 | 2,675,612,600 | 12.40 | 250,000,000 | 100.00 | 4,000,000,000 | 100.00 | 1,160,950,575 | 100.00 |

(b) Transaction terms and conditions

During the year, 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:

| | 2012 | 2011 |
|---------------------------|----------------------------|---------------------|
| Short-term loans | 5.60% to 6.56% p.a. | 5.35% to 6.56% p.a. |
| Medium to long-term loans | 6.15% to 7.05% p.a. | 5.85% to 7.05% p.a. |
| Saving deposits | 0.35% to 0.50% p.a. | 0.36% to 0.50% p.a. |
| Time deposits | 2.60% to 5.50% p.a. | 2.25% to 5.50% p.a. |

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

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

55 Material related-party transaction *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 18.63% (2011: 18.63%) shares of the Bank as at 31 December 2012 (among them 12.40% shares is held by CMSNCL (2011: 12.40%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

| | Group | | Bank | |
|---------------------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| On-balance sheet: | | | | |
| – Loans and advances | 4,549 | 5,218 | 4,334 | 4,724 |
| – Investments | 2,163 | 877 | 2,162 | 876 |
| – Deposits from customers | 28,009 | 20,763 | 27,964 | 20,585 |
| Off-balance sheet: | | | | |
| – Irrevocable guarantee | 390 | 444 | 390 | 444 |
| – Irrevocable letters of credit | 157 | 16 | 157 | 16 |
| – Bills of acceptances | 197 | 76 | 197 | 76 |
| Average balance of loans and advances | 1,440 | 1,195 | 1,088 | 843 |
| Interest income | 339 | 224 | 324 | 220 |
| Interest expense | 410 | 363 | 408 | 360 |
| Net fees and commission | 241 | 329 | 240 | 323 |
| Net trading gain or loss | 101 | 50 | 101 | 50 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

55 Material related-party transactions (continued)

(d) Companies controlled by directors and supervisors other than those under Note 55(b) above

| | Group | | Bank | |
|---------------------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| On-balance sheet: | | | | |
| – Loans and advances | 2,676 | 3,428 | 1,890 | 2,699 |
| – Investments | 3,990 | 4,415 | 3,990 | 4,415 |
| – Deposits from customers | 14,467 | 16,336 | 14,155 | 16,320 |
| Off-balance sheet: | | | | |
| – Irrevocable guarantee | 502 | 1,275 | 502 | 1,275 |
| – Irrevocable letters of credit | 3 | 81 | 3 | 81 |
| – Bill of acceptances | 490 | 652 | 490 | 652 |
| Average balance of loans and advances | 1,073 | 1,519 | 474 | 920 |
| Interest income | 253 | 186 | 239 | 178 |
| Interest expense | 78 | 169 | 77 | 163 |
| Net fees and commission | 128 | 110 | 116 | 85 |
| Net trading gain or loss | 37 | (18) | 37 | (18) |

(e) Investment in associate and jointly controlled entities other than those under Note 55(b) above

| | Group | | Bank | |
|---------------------------------------|------------|------|------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| On-balance sheet: | | | | |
| – Loans and advances | 12 | 14 | – | – |
| – Deposits from customers | 465 | 375 | 347 | 186 |
| Average balance of loans and advances | 15 | 15 | – | – |
| Interest expense | 6 | 10 | 3 | 7 |
| Net fees and commission | 250 | 122 | 241 | 102 |

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

55 Material related-party transactions (continued)

(f) Subsidiaries

| | 2012 | 2011 |
|------------------------------|-------|-------|
| On-balance sheet | | |
| – Investments | 1,206 | 1,215 |
| – Deposits from customers | 434 | 354 |
| – Deposits with other banks | 1,116 | 1,952 |
| – Placement with other banks | 3,623 | 880 |
| – Deposits from other banks | 3 | 2 |
| – Placement from other banks | 11 | 447 |
| Off-balance sheet | | |
| – Irrevocable guarantee | 117 | – |
| Interest income | 150 | 68 |
| Interest expense | 4 | 25 |
| Net fees and commission | (10) | 8 |
| Net trading gain or loss | 30 | 41 |

(g) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

| | 2012 RMB'000 | 2011 RMB'000 (Note 8) |
|--|-----------------|-----------------------------|
| Salaries and other emoluments | 34,530 | 34,879 |
| Discretionary bonuses (note 8(ii)) | 1,397 | 13,241 |
| Share-based payment | (1,283) | 1,428 |
| Contributions to defined contribution retirement schemes | 4,571 | 9,562 |
| | 39,215 | 59,110 |

The above share-based payments represent the estimated fair value of the share appreciation rights granted (note 37(d)) to senior management under the Bank's H-Share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in note 2(u) (iii); and the amounts have been charged to the consolidated statement of comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(h) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2012 and 31 December 2011.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

56 Non-controlling interests

Non-controlling interests arise from the establishment of respective non-wholly owned subsidiaries by the Bank's subsidiaries, namely WLB and CMBICCL.

57 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements.

| | Effective for accounting periods beginning on or after |
|---|--|
| Amendment to IAS 1, <i>Presentation of financial statements</i> – <i>Presentation of items of other comprehensive income</i> | 1 July 2012 |
| IFRS 10, <i>Consolidated financial statements</i> | 1 January 2013 |
| IFRS 11, <i>Joint arrangement</i> | 1 January 2013 |
| IFRS 12, <i>Disclosure of interests in other entities</i> | 1 January 2013 |
| IFRS 13, <i>Fair value measurement</i> | 1 January 2013 |
| IAS 27 (revised), <i>Separate financial statement</i> | 1 January 2013 |
| IAS 28 (revised), <i>Associates and joint ventures</i> | 1 January 2013 |
| IAS 19, <i>Employee benefits</i> | 1 January 2013 |
| Amendments to IFRS 7, <i>Financial instruments: Disclosures</i> | 1 January 2013 |
| Annual Improvements to IFRSs 2009-2011 Cycle | 1 January 2013 |
| IAS 32, <i>Financial instruments: Presentation</i> | 1 January 2014 |
| IFRS 9, <i>Financial instruments</i> | 1 January 2015 |

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and also covers the related requirements set out in SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 sets out new requirements and guidance on the principle of control, which will require management to exercise judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The Group is currently assessing the impact of this standard on its financial position or performance.

Besides the IFRS 10, the Group is in the process of making assessment of what the impact of other developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for IFRS 9, *Financial instruments*, which may have an impact on the Group's results and financial position. The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Group's results and financial position has not been quantified.

58 Non-adjusting events after the reporting period

Save as otherwise disclosed in Note 46, the Group has no significant discloseable post reporting date event as at the date of approval to the financial statements.

Unaudited Supplementary Financial Information

(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 differ significantly from the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Group and Bank as at 31 December 2012 and 2011 calculated based on PRC GAAP, were as follows:

| | Group | | Bank | |
|---|------------------|-----------|------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Core capital adequacy ratio | 8.49% | 8.22% | 8.86% | 8.74% |
| Capital adequacy ratio | 12.14% | 11.53% | 11.73% | 11.28% |
| Components of capital base | | | | |
| Core capital: | | | | |
| – Paid up ordinary share capital | 21,577 | 21,577 | 21,577 | 21,577 |
| – Reserves | 166,469 | 134,771 | 169,059 | 140,156 |
| Total core capital | 188,046 | 156,348 | 190,636 | 161,733 |
| Supplementary capital: | | | | |
| – General provisions for doubtful debts | 32,846 | 29,251 | 31,931 | 28,641 |
| – Term subordinated bonds | 44,152 | 30,000 | 41,700 | 30,000 |
| – Other supplementary capital | 114 | 255 | 55 | 272 |
| Total supplementary capital | 77,112 | 59,506 | 73,686 | 58,913 |
| Total capital base before deductions | 265,158 | 215,854 | 264,322 | 220,646 |
| Deductions: | | | | |
| – Goodwill | 9,598 | 9,598 | – | – |
| – Investments in unconsolidated subsidiary and others | 1,691 | 1,589 | 35,204 | 33,212 |
| – Investment in commercial real estate | 1,638 | 1,710 | 325 | 298 |
| Total capital base after deductions | 252,231 | 202,957 | 228,793 | 187,136 |
| Risk weighted assets | 2,077,755 | 1,760,884 | 1,951,220 | 1,659,348 |

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(B) Liquidity ratios

| | 2012 | 2011 |
|---|--------------|-------|
| Liquidity ratios | | |
| RMB current assets to RMB current liabilities | 47.5% | 39.5% |
| Foreign currency current assets to foreign currency current liabilities | 60.4% | 78.4% |

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

(C) Currency concentrations other than RMB

| | 2012 | | | |
|--------------------------------|----------------------|-----------------|-----------------|------------------|
| | US Dollars | HK Dollars | Others | Total |
| | (in millions of RMB) | | | |
| Non-structural position | | | | |
| Spot assets | 225,493 | 113,174 | 35,288 | 373,955 |
| Spot liabilities | (190,310) | (94,816) | (40,586) | (325,712) |
| Forward purchases | 118,443 | 8,573 | 25,550 | 152,566 |
| Forward sales | (100,370) | (3,461) | (15,667) | (119,498) |
| Net option position | (89) | 68 | 65 | 44 |
| Net long position | 53,167 | 23,538 | 4,650 | 81,355 |
| Net structural position | 1,295 | 23,882 | 5 | 25,182 |

| | 2011 | | | |
|--------------------------------|----------------------|------------|----------|-----------|
| | US Dollars | HK Dollars | Others | Total |
| | (in millions of RMB) | | | |
| Non-structural position | | | | |
| Spot assets | 139,645 | 67,848 | 22,388 | 229,881 |
| Spot liabilities | (112,789) | (73,580) | (28,980) | (215,349) |
| Forward purchases | 78,072 | 15,761 | 13,320 | 107,153 |
| Forward sales | (96,135) | (1,729) | (6,503) | (104,367) |
| Net option position | (54) | (2) | 56 | — |
| Net long position | 8,739 | 8,298 | 281 | 17,318 |
| Net structural position | 75 | 43,336 | 95 | 43,506 |

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(C) Currency concentrations other than RMB (continued)

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
- Investments in subsidiaries.

(D) 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 areas 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 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.

| | 2012 | | | |
|------------------------------------|--|------------------------|---------|---------|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| Asia Pacific excluding the PRC | 40,807 | 17,062 | 101,967 | 159,836 |
| – of which attributed to Hong Kong | 26,895 | 16,265 | 93,404 | 136,564 |
| Europe | 9,810 | 24 | 1,526 | 11,360 |
| North and South America | 8,823 | 755 | 6,138 | 15,716 |
| | 59,440 | 17,841 | 109,631 | 186,912 |

| | 2011 | | | |
|------------------------------------|--|------------------------|---------|---------|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| Asia Pacific excluding the PRC | 29,668 | 4,516 | 90,614 | 124,798 |
| – of which attributed to Hong Kong | 26,040 | 3,820 | 82,816 | 112,676 |
| Europe | 10,350 | 58 | 423 | 10,831 |
| North and South America | 10,908 | 731 | 9,682 | 21,321 |
| | 50,926 | 5,305 | 100,719 | 156,950 |

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(E) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

| | Group | | | |
|--|-----------|---|-----------|---|
| | 2012 | | 2011 | |
| | 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 | 355,619 | 33 | 299,734 | 29 |
| Wholesale and retail | 198,376 | 48 | 154,953 | 43 |
| Transportation, storage and postal services | 135,998 | 30 | 135,958 | 29 |
| Production and supply of electric power, gas and water | 78,551 | 28 | 64,470 | 24 |
| Property development | 67,496 | 80 | 79,453 | 70 |
| Construction | 59,654 | 34 | 43,273 | 30 |
| Mining | 54,501 | 38 | 35,481 | 28 |
| Leasing and commercial services | 34,886 | 36 | 37,328 | 36 |
| Water, environment and public utilities management | 29,772 | 32 | 33,752 | 36 |
| Telecommunications, computer services and software | 12,348 | 28 | 9,874 | 46 |
| Others | 30,621 | 30 | 24,110 | 29 |
| Corporate loans | 1,057,822 | 38 | 918,386 | 35 |
| Discounted bills | 64,842 | 100 | 75,826 | 100 |
| Credit cards | 106,189 | – | 72,964 | – |
| Retail housing mortgage loans | 328,199 | 100 | 315,760 | 99 |
| Retail operating loans | 180,706 | 86 | 89,174 | 94 |
| Others | 60,574 | 95 | 81,998 | 91 |
| Retail loans | 675,668 | 80 | 559,896 | 84 |
| Gross loans and advances to customers | 1,798,332 | 56 | 1,554,108 | 56 |

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation in Mainland China *(continued)*

| | Bank | | | |
|--|-----------|---|-----------|---|
| | 2012 | | 2011 | |
| | 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 | 337,883 | 29 | 285,600 | 26 |
| Wholesale and retail | 196,905 | 48 | 153,777 | 43 |
| Transportation, storage and postal services | 128,116 | 26 | 130,983 | 27 |
| Production and supply of electric power, gas and water | 64,572 | 13 | 56,587 | 13 |
| Property development | 66,195 | 79 | 78,575 | 70 |
| Construction | 56,684 | 31 | 41,184 | 26 |
| Mining | 45,484 | 26 | 31,156 | 18 |
| Leasing and commercial services | 33,590 | 34 | 36,013 | 35 |
| Water environment and public utilities management | 29,348 | 31 | 33,208 | 34 |
| Telecommunication, computer services and software | 12,029 | 26 | 9,732 | 45 |
| Others | 28,684 | 28 | 23,123 | 27 |
| Corporate loans | 999,490 | 35 | 879,938 | 33 |
| Discounted bills | 55,097 | 100 | 68,966 | 100 |
| Credit cards | 106,189 | – | 72,964 | – |
| Retail housing mortgage loans | 328,131 | 100 | 315,696 | 99 |
| Retail operating loans | 177,139 | 86 | 86,446 | 94 |
| Others | 60,441 | 95 | 81,829 | 91 |
| Retail loans | 671,900 | 80 | 556,935 | 84 |
| Gross loans and advances to customers | 1,726,487 | 54 | 1,505,839 | 55 |

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

| | Group | | | |
|---|---------|---|--------|---|
| | 2012 | | 2011 | |
| | 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 | 34,455 | 55 | 33,365 | 60 |
| Wholesale and retail | 28,064 | 89 | 14,538 | 90 |
| Manufacturing and processing | 10,041 | 67 | 8,238 | 60 |
| Transportation, storage and postal services | 7,066 | 55 | 4,992 | 64 |
| Financial concerns | 6,554 | 23 | 5,392 | 20 |
| Information technology | 200 | 45 | 852 | 72 |
| Recreational activities | 26 | 24 | 30 | 31 |
| Others | 8,609 | 40 | 8,248 | 23 |
| Corporate loans | 95,015 | 63 | 75,655 | 59 |
| Credit cards | 330 | – | 341 | – |
| Retail housing mortgage loans | 7,547 | 100 | 7,880 | 100 |
| Retail operating loans | 1,306 | 100 | 1,255 | 100 |
| Others | 1,933 | 97 | 1,836 | 97 |
| Retail loans | 11,116 | 96 | 11,312 | 96 |
| Gross loans and advances to customers | 106,131 | 66 | 86,967 | 64 |

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China *(continued)*

| | Bank | | | |
|---|--------|---|--------|---|
| | 2012 | | 2011 | |
| | 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 | 7,763 | 28 | 7,156 | 32 |
| Wholesale and retail | 14,532 | 98 | 4,509 | 100 |
| Manufacturing and processing | 4,096 | 77 | 3,667 | 74 |
| Transportation, storage and postal services | 3,127 | 90 | 2,947 | 86 |
| Financial concerns | 241 | – | 243 | – |
| Information technology | 22 | – | 613 | 100 |
| Others | 4,274 | 28 | 4,918 | 14 |
| Corporate loans | 34,055 | 69 | 24,053 | 56 |
| Gross loans and advances to customers | 34,055 | 69 | 24,053 | 56 |

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to consolidated statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

| Group | | | | | | |
|-------------------------------|----------------------------|-----------------------------|--|--|---|---|
| 2012 | | | | | | |
| | Overdue loans and advances | Impaired loans and advances | Individually assessed impairment allowance | Collectively assessed impairment allowance | Impairment losses charged to consolidated statement of comprehensive income during the year | Impaired loans and advances written off during the year |
| Manufacturing and processing | 3,898 | 3,643 | 2,022 | 7,646 | 2,307 | 214 |
| Wholesale and retail | 2,715 | 2,416 | 1,337 | 4,446 | 1,701 | 47 |
| Retail housing mortgage loans | 3,939 | 728 | – | 3,018 | 230 | 6 |

| Group | | | | | | |
|-------------------------------|----------------------------|-----------------------------|--|--|---|---|
| 2011 | | | | | | |
| | Overdue loans and advances | Impaired loans and advances | Individually assessed impairment allowance | Collectively assessed impairment allowance | Impairment losses charged to consolidated statement of comprehensive income during the year | Impaired loans and advances written off during the year |
| Manufacturing and processing | 2,570 | 2,682 | 1,804 | 6,117 | 1,375 | 80 |
| Wholesale and retail | 1,439 | 1,710 | 1,151 | 3,257 | 1,137 | 74 |
| Retail housing mortgage loans | 2,972 | 387 | – | 2,797 | 236 | – |

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are: *(continued)*

| Bank | | | | | | |
|-------------------------------|----------------------------|-----------------------------|--|--|---|---|
| 2012 | | | | | | |
| | Overdue loans and advances | Impaired loans and advances | Individually assessed impairment allowance | Collectively assessed impairment allowance | Impairment losses charged to consolidated statement of comprehensive income during the year | Impaired loans and advances written off during the year |
| Manufacturing and processing | 3,810 | 3,564 | 2,001 | 7,416 | 2,249 | 213 |
| Wholesale and retail | 2,639 | 2,415 | 1,337 | 4,419 | 1,683 | 33 |
| Retail housing mortgage loans | 3,618 | 724 | – | 3,011 | 228 | 6 |
| Retail operation loans | 2,241 | 817 | – | 3,855 | 2,037 | – |

| Bank | | | | | | |
|-------------------------------|----------------------------|-----------------------------|--|--|---|---|
| 2011 | | | | | | |
| | Overdue loans and advances | Impaired loans and advances | Individually assessed impairment allowance | Collectively assessed impairment allowance | Impairment losses charged to consolidated statement of comprehensive income during the year | Impaired loans and advances written off during the year |
| Manufacturing and processing | 2,535 | 2,677 | 1,800 | 5,943 | 1,304 | 74 |
| Wholesale and retail | 1,397 | 1,707 | 1,151 | 3,231 | 1,130 | 74 |
| Retail housing mortgage loans | 2,625 | 383 | – | 2,789 | 231 | – |
| Retail operations loans | 505 | 142 | – | 1,818 | 491 | – |

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(F) Overdue loans and advances to customers

(i) By geographical segments

| | 2012 | 2011 |
|---|--------|-------|
| Headquarter | 2,359 | 1,863 |
| Yangtze River Delta region | 3,776 | 1,610 |
| Bohai Rim region | 917 | 656 |
| Pearl River Delta and West Coast region | 1,464 | 1,038 |
| Northeast region | 373 | 252 |
| Central region | 882 | 946 |
| Western region | 550 | 779 |
| Subsidiaries | 92 | 21 |
| Total | 10,413 | 7,165 |

(ii) By overdue period

| | 2012 | 2011 |
|--|--------|-------|
| Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of: | | |
| – between 3 and 6 months | 1,865 | 589 |
| – between 6 and 12 months | 2,685 | 416 |
| – over 12 months | 5,863 | 6,160 |
| Total | 10,413 | 7,165 |
| As a percentage of total gross loans and advances: | | |
| – between 3 and 6 months | 0.10% | 0.04% |
| – between 6 and 12 months | 0.14% | 0.02% |
| – over 12 months | 0.31% | 0.38% |
| Total | 0.55% | 0.44% |

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

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

(iii) Collateral information

| | 2012 | 2011 |
|---|-------|-------|
| Secured portion of overdue loans and advances | 2,816 | 1,192 |
| Unsecured portion of overdue loans and advances | 7,597 | 5,973 |
| Value of collaterals held against overdue loans and advances | 2,883 | 1,208 |
| Provision of overdue loans and advances for which impairment losses are individually assessed | 4,473 | 4,264 |

(G) Overdue loans and advances to financial institutions

(i) By geographical segments

| | 2012 | 2011 |
|----------------------------|------|------|
| Yangtze River Delta region | 1 | 2 |
| Bohai Rim region | – | 4 |
| | 1 | 6 |

(ii) By overdue period

| | 2012 | 2011 |
|---|------|------|
| 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 | 1 | 6 |
| Total | 1 | 6 |
| As a percentage of total gross loans and advances | | |
| – between 3 and 6 months | – | – |
| – between 6 and 12 months | – | – |
| – over 12 months | – | – |
| Total | – | – |

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(G) Overdue loans and advances to financial institutions *(continued)*

(iii) Collateral information

| | 2012 | 2011 |
|---|------|------|
| Secured portion of overdue loans and advances | – | – |
| Unsecured portion of overdue loans and advances | 1 | 6 |
| Value of collaterals held against overdue loans and advances | – | – |
| Provision of overdue loans and advances for which impairment losses are individually assessed | 1 | 6 |

Note:

The above analysis, (F) and (G), 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 Group 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.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(H) Rescheduled loans and advances to customers

| | 2012 | | 2011 | |
|---|--------------|-------------------------------------|-------|-------------------------------------|
| | | % of total loans and advances | | % of total loans and advances |
| Rescheduled loans and advances to customers | 1,060 | 0.06% | 1,298 | 0.08% |
| Less: | | | | |
| – rescheduled loans and advances but overdue more than 90 days | 553 | 0.03% | 662 | 0.04% |
| Rescheduled loans and advances overdue less than 90 days | 507 | 0.03% | 636 | 0.04% |

There were no rescheduled loans and advances to financial institutions as at 31 December 2012 (2011: RMB1.44 million).

(I) 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 31 December 2012 and 31 December 2011, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) Corporate governance

Board committees

The board of directors has established six committees including the Strategy Committee, Audit committee, Related-party Transaction Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Executive Committee are:

- to formulate the operational goals and medium-to-long term development strategies of the Bank;
- to supervise and review the implementation of the annual operational plan and investment plan;
- to evaluate and monitor the implementation of Board resolutions; and
- to put forth proposals and plans on important issues for discussion and determination by the Board of Directors.

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)

(J) Corporate governance *(continued)*

Board committees *(continued)*

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

- to propose the engagement or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation;
- to be responsible for the liaison between internal auditors and external auditors;
- to review the financial information of the Bank and its disclosure;
- to examine the internal control system of the Bank; and
- to deal with other matters authorised by the Board of Directors.

(iii) Related-Party Transaction Control Committee

Main authorities and duties of the Related-Party Transaction Control Committee are:

- to identify related parties of the Bank according to relevant laws and regulations;
- to inspect, supervise and review material related-party transactions and continuing related-party transactions and to control the risks associated with related-party transaction;
- to review the administrative measures on related-party transactions of the Bank, and to monitor the establishment and improvement of the related-party transactions management system of the Bank; and
- to review the announcement on related-party transaction of the Bank.

(iv) Risk and Capital Management committee

Main authorities and duties of the Risk and Capital management Committee are:

- to monitor the risk control of the Bank's exposures to credit risks, market risks and operational risks, etc. by senior management;
- to conduct regular assessment of the risk position of the Bank and to conduct evaluations of the procedures and performances of internal auditors;
- to put forward proposals on the improvement of the risk management and internal control of the Bank; and
- other matters authorised by Board of Directors.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(J) Corporate governance *(continued)*

Board committees *(continued)*

(v) **Remuneration and Appraisal Committee**

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study the standard for appraising directors and senior management personnel, to conduct appraisals and put forward proposals based on the actual situation of the Bank;
- to study and review the remuneration policies and plans for directors and senior management personnel; and
- any other matters authorised by the Board of Directors.

(vi) **Nomination Committees**

Main authorities and duties of the Nomination Committee are:

- to put forward proposals to the Board on the size and composition of the Board according to the business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for the election of directors and senior management personnel, and propose suggestion to the Board;
- to conduct extensive searches for qualified candidates as directors and senior management personnel;
- to conduct preliminary examination on the qualifications of the candidates for directors and senior management personnel and put forward proposals; and
- any other matters authorised by the Board of Directors.