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 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Merchants Bank Co., Ltd. (the "Company") hereby announces the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2012. This announcement, containing the full text of the 2012 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company's 2012 Interim Report will in due course be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at (www.hkex.com.hk) and the Company at (www.cmbchina.com).

Publication of Results Announcement

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

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

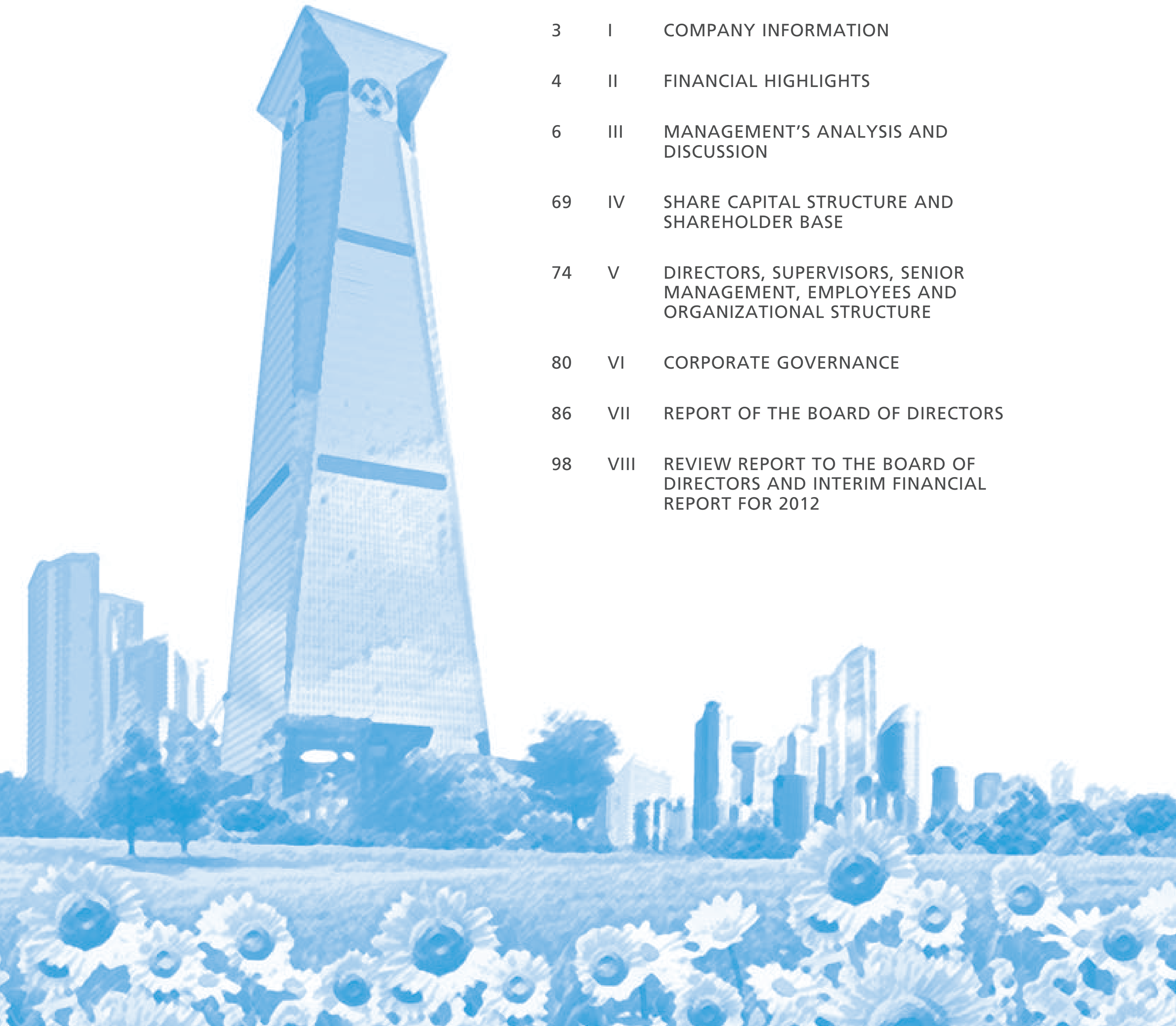
By Order of the Board
China Merchants Bank Co., Ltd.
Fu Yuning
Chairman

17 August 2012

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.

WE ARE HERE JUST FOR YOU

CONTENTS



Important Notice

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

The 35th meeting of the Eighth Session of the Board of Directors of the Company was held in Taiyuan on 17 August 2012. The meeting was presided by Fu Yuning, Chairman of the Board of Directors. 16 out of 18 eligible Directors attended the meeting in person. Wang Daxiong (Director) attended the meeting by way of telephone conference. Fu Junyuan (Director) appointed Li Yinquan (Director) to vote on his behalf respectively. 18 votes were valid. 6 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

The Company's 2012 interim financial report is unaudited. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

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

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

Disclaimers

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, so do not place undue reliance on such statements. 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.

I Company Information

1 Company Profile

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.

1.2 Legal Representative: Fu Yuning
Authorized Representatives: Ma Weihua, Li Hao
Secretary of the Board of Directors: Lan Qi
Joint Company Secretaries: Lan Qi, Seng Sze Ka Mee Natalia (FCIS, FCS(PE), FHKIoD)
Securities Representative: Wu Jianbing

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

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

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

1.6 Share Listing:

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

1.7 Domestic Auditor: KPMG Huazhen Certified Public Accountants (special general partnership)
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince’s Building, 10 Chater Road, Central, Hong Kong

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

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

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

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

Mainland China:	*“China Securities Journal”, “Securities Times”, “Shanghai Securities News”* website of Shanghai Stock Exchange (www.sse.com.cn), the Company’s website (www.cmbchina.com)
Hong Kong:	website of the Hong Kong Stock Exchange (www.hkex.com.hk), the Company’s website (www.cmbchina.com)

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

1.12 Other Information about the Company:
Initial registration date: 31 March 1987
Initial registration place: Administration for Industry and Commerce of Shenzhen, Shekou Branch
Registered No. of business license for an enterprise as a legal person: 440301104433862
Taxation Registration No.: Shen Shui Deng Zi 44030010001686X
Organization Code: 10001686-X

II Financial Highlights

2.1 Key Financial Data

Operating Results	January – June 2012	January – June 2011	Changes over the corresponding period of the previous year +/(-)%
	(in millions of RMB)		
Net operating income[(1)]	**57,261**	46,221	23.89
Profit before tax	**30,825**	24,176	27.50
Net profit attributable to the Bank's shareholders	**23,377**	18,600	25.68

Per Share	January – June 2012	January – June 2011	Changes over the corresponding period of the previous year +/(-)%
	(RMB)		
Basic earnings attributable to the Bank's shareholders	**1.08**	0.86	25.58
Diluted earnings attributable to the Bank's shareholders	**1.08**	0.86	25.58
Period-end net assets attributable to the Bank's shareholders	**8.40**	6.74	24.63

Financial Indicators	As at 30 June 2012	As at 31 December 2011	Changes over the end of the previous year +/(-)%
	(in millions of RMB)		
Total assets	**3,322,701**	2,794,971	18.88
of which: total loans and advances to customers	**1,783,903**	1,641,075	8.70
Total liabilities	**3,141,339**	2,629,961	19.44
of which: total deposits from customers	**2,456,436**	2,220,060	10.65
Total equity attributable to the Bank's shareholders	**181,347**	164,997	9.91

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

II Financial Highlights

2.2 Financial Ratios

	January – June 2012 (%)	January – December 2011 (%)	January – June 2011 (%)	Changes over the corresponding period of the previous year +/(-)
Profitability ratios[1]				
Return on average assets (after tax) attributable to the Bank's shareholders	**1.53**	1.39	1.47	Increased by 0.06 percentage point
Return on average equity (after tax) attributable to the Bank's shareholders	**27.00**	24.17	26.62	Increased by 0.38 percentage point
Net interest spread	**2.96**	2.94	2.89	Increased by 0.07 percentage point
Net interest margin	**3.11**	3.06	2.99	Increased by 0.12 percentage point
As percentage of net operating income				
– Net interest income	**76.21**	78.94	77.27	Decreased by 1.06 percentage points
– Net non-interest income	**23.79**	21.06	22.73	Increased by 1.06 percentage points
Cost-to-income ratio (excluding business tax and surcharge)	**32.12**	36.00	32.51	Decreased by 0.39 percentage point

	As at 30 June 2012 (%)	As at 31 December 2011 (%)	As at 30 June 2011 (%)	Changes over the end of the previous year +/(-)
Asset quality ratios				
Non-performing loan ratio	**0.56**	0.56	0.61	–
Non-performing loan allowance coverage ratio[2]	**404.03**	400.13	348.41	Increased by 3.90 percentage points
Allowance-to-loan ratio[3]	**2.24**	2.24	2.13	–
Capital adequacy ratios				
Core capital adequacy ratio	**8.32**	8.22	7.81	Increased by 0.10 percentage point
Capital adequacy ratio	**11.55**	11.53	11.05	Increased by 0.02 percentage point
Total equity to total assets	**5.46**	5.90	5.50	Decreased by 0.44 percentage point

Notes: (1) The ratios are annualized;

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

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

III Management's Analysis and Discussion

3.1 Analysis of General Operating Status

From January to June 2012, despite the complicated and changing external situation, the Group overcame various unfavourable factors to further promote the Second Transformation and achieve a steady improvement in profitability, which were mainly reflected in the following aspects:

Profitability improved steadily, but at a gradually decelerating pace. In the first half of 2012, the Group accomplished a net profit attributable to shareholders of the Bank of RMB23.377 billion, representing an increase of RMB4.777 billion or 25.68% as compared with the same period of the previous year. The net profit grew steadily but at a rate of 6.48 percentage points lower than 32.16% for the first quarter of 2012. In the first half of 2012, the Group realized a net interest income of RMB43.641 billion and a net non-interest income of RMB13.620 billion, representing an increase of RMB7.925 billion or 22.19%, an increase of RMB3.115 billion or 29.65% as compared with the same period of the previous year respectively. Annualized ROAA and ROAE attributable to the shareholders of the Bank were 1.53% and 27.00%, representing an increase from 1.39% and 24.17% for 2011 respectively.

The scale of assets and liabilities expanded rapidly. As at the end of June 2012, the Group's total assets amounted to RMB3,322.701 billion, representing an increase of RMB527.730 billion or 18.88%, as compared with the beginning of the year. Total loans and advances amounted to RMB1,783.903 billion, representing an increase of RMB142.828 billion or 8.70%, as compared with the beginning of the year. Total deposits from customers amounted to RMB2,456.436 billion, representing an increase of RMB236.376 billion or 10.65%, as compared with the beginning of the year.

The quality of our assets remained sound while the allowance coverage ratio improved further. As at the end of June 2012, the Group had a balance of non-performing loans of RMB9.903 billion, representing an increase of RMB730 million as compared with the beginning of the year. The non-performing loan ratio was 0.56%, which was on a par with that at the beginning of the year. Non-performing loan allowance coverage ratio was 404.03%, representing an increase of 3.90 percentage points as compared with the beginning of the year.

III Management's Analysis and Discussion

3.2 Analysis of Income Statement

3.2.1 Financial highlights

	January to June 2012	January to June 2011
	(in millions of RMB)	
Net interest income	**43,641**	35,716
Net fee and commission income	**9,732**	8,163
Other net income	**3,861**	2,287
Operating expense	**(22,142)**	(17,845)
Provision for insurance claims	**(150)**	(136)
Share of profits of associates	**18**	41
Share of profits in joint ventures	**9**	14
Impairment losses on assets	**(4,144)**	(4,064)
Profit before tax	**30,825**	24,176
Income Tax	**(7,449)**	(5,576)
Net Profit	**23,376**	18,600
Net profit attributable to the Bank's shareholders	**23,377**	18,600

From January to June 2012, the Group realized a profit before tax of RMB30.825 billion and an effective income tax rate of 24.17%, representing an increase of 27.50% and 1.11 percentage points respectively as compared with the same period in 2011.

3.2.2 Net operating income

From January to June 2012, the net operating income of the Group was RMB57.261 billion, representing an increase of 23.89% as compared with the same period in 2011. Among which, net interest income accounted for 76.21%, representing a decrease of 1.06 percentage points from the same period in 2011; net non-interest income accounted for 23.79%, representing an increase of 1.06 percentage points from the same period in 2011.

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

	January to June 2012 (%)	January to June 2011 (%)	January to June 2010 (%)
Net interest income	**76.21**	77.27	79.80
Net fee and commission income	**17.00**	17.66	16.20
Other net income	**6.74**	4.95	3.91
Share of profits in associates & joint ventures	**0.05**	0.12	0.09
Total	**100.00**	100.00	100.00

III Management's Analysis and Discussion

3.2.3 Net interest income

From January to June 2012, the Group's net interest income amounted to RMB43.641 billion, representing an increase of 22.19% from the same period in 2011, mainly due to (i) the rapid expansion of the balance of interest-earning assets; (ii) the increase in the yield of interest-earning assets due to better asset re-pricing as a result of the interest hike last year; and (iii) the improvement in risk pricing capability.

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

	January to June 2012			January to December 2011			January to June 2011		
	Average balance	**Interest income**	**Annualized average yield (%)**	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualized average yield (%)
				(in millions of RMB, excluding percentages)					
Interest-earning assets									
Loans and advances	**1,708,151**	**56,831**	**6.69**	1,544,580	93,837	6.08	1,494,998	42,455	5.73
Bond investments	**407,538**	**7,669**	**3.78**	359,388	12,568	3.50	345,883	5,665	3.30
Balances with central bank	**407,023**	**3,108**	**1.54**	350,505	5,312	1.52	327,538	2,446	1.51
Placements with banks and other financial institutions	**295,953**	**6,211**	**4.22**	235,241	9,528	4.05	241,257	4,516	3.77
Total interest-earning assets and interest income	**2,818,665**	**73,819**	**5.27**	2,489,714	121,245	4.87	2,409,676	55,082	4.61

	Average balance	**Interest expense**	**Annualized average cost (%)**	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Annualized average cost (%)
				(in millions of RMB, excluding percentages)					
Interest-bearing liabilities									
Deposits from customers	**2,136,299**	**20,316**	**1.91**	1,961,112	32,111	1.64	1,920,159	14,060	1.48
Placements from banks and other financial institutions	**438,078**	**8,573**	**3.94**	329,108	10,958	3.33	309,988	4,414	2.87
Issued debts	**53,448**	**1,289**	**4.85**	38,495	1,869	4.86	35,219	892	5.11
Total interest-bearing liabilities and interest expense	**2,627,825**	**30,178**	**2.31**	2,328,715	44,938	1.93	2,265,366	19,366	1.72
Net interest income	**–**	**43,641**	**–**	–	76,307	–	–	35,716	–
Net interest spread	**–**	**–**	**2.96**	–	–	2.94	–	–	2.89
Net interest margin	**–**	**–**	**3.11**	–	–	3.06	–	–	2.99

III Management's Analysis and Discussion

From January to June 2012, net interest spread of the Group was 2.96%, up by 7 basis points as compared with the same period in 2011. Average yield of interest-earning assets was 5.27%, up by 66 basis points as compared with the same period of the previous year while the average cost of interest-bearing liabilities was 2.31%, up by 59 basis points as compared with the same period of the previous year.

From January to June 2012, net interest margin of the Group was 3.11%, up by 12 basis points as compared with the same period in 2011.

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

	January to June 2012 compared with January to June 2011		
	Increase/(decrease) due to		Net increase/
	volume	Interest rate	(decrease)
	(in millions of RMB)		
Assets			
Loans and advances	7,239	7,137	14,376
Bond investments	1,178	826	2,004
Balances with central bank	613	49	662
Placements with banks and other financial institutions	1,155	540	1,695
Changes in interest income	10,185	8,552	18,737
Liabilities			
Deposits from customers	2,150	4,106	6,256
Placements from banks and other financial institutions	2,510	1,649	4,159
Issued debts	443	(46)	397
Changes in interest expense	5,103	5,709	10,812
Changes in net interest income	5,082	2,843	7,925

III Management's Analysis and Discussion

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

	January to March 2012			April to June 2012		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Annualized average yield (%)
	(in millions of RMB, excluding percentages)					
Interest-earning assets						
Loans and advances	**1,663,123**	**27,980**	**6.77**	1,753,179	28,851	6.62
Bond investments	**396,760**	**3,709**	**3.76**	418,316	3,960	3.81
Balances with central bank	**398,252**	**1,528**	**1.54**	415,794	1,580	1.53
Placements with banks and other financial institutions	**243,123**	**2,789**	**4.61**	348,783	3,422	3.95
Total interest-earning assets and interest income	**2,701,258**	**36,006**	**5.36**	2,936,072	37,813	5.18

	January to March 2012			April to June 2012		
	Average balance	Interest expense	Annualized average cost (%)	Average balance	Interest expense	Annualized average cost (%)
	(in millions of RMB, excluding percentages)					
Interest-bearing liabilities						
Deposits from customers	**2,080,635**	**9,744**	**1.88**	2,191,963	10,572	1.94
Placements from banks and other financial institutions	**394,499**	**4,155**	**4.24**	481,657	4,418	3.69
Issued debts	**46,351**	**559**	**4.85**	60,545	730	4.85
Total interest-bearing liabilities and interest expense	**2,521,485**	**14,458**	**2.31**	2,734,165	15,720	2.31
Net interest income	**–**	**21,548**	**–**	–	22,093	–
Net interest spread	**–**	**–**	**3.05**	–	–	2.87
Net interest margin	**–**	**–**	**3.21**	–	–	3.03

Influenced by the cut in interest rate, in the second quarter of 2012, the net interest spread of the Group was 2.87%, down by 18 basis points as compared with the first quarter of 2012. The average yield of the interest-earning assets was 5.18%, down by 18 basis points as compared with the first quarter of 2012 while the average cost of interest-bearing liabilities was 2.31%, the same as the first quarter of 2012.

In the second quarter of 2012, affected by a decrease in average yield of interest-earning assets, net interest margin of the Group was 3.03%, down by 18 basis points as compared with the first quarter of 2012.

3.2.4 Interest income

From January to June 2012, the Group recorded an interest income of RMB73.819 billion, an increase of 34.02% as compared with the same period in 2011, mainly due to the increase in the volume of interest-earning assets and the rise in yields. Interest income from loans and advances still constituted the majority of the interest income of the Group.

Interest income from loans and advances

From January to June 2012, the interest income from loans and advances of the Group was RMB56.831 billion, representing an increase of RMB14.376 billion or 33.86% as compared with the corresponding period of the previous year. From January to June 2012, due to the constant improvement of our loan risk pricing capability, the average yield of loans and advances of the Group increased by 0.96 percentage point to 6.69% as compared with the corresponding period of the previous year.

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

	January to June 2012			January to June 2011		
	Average balance	**Interest income**	**Annualized average yield (%)**	Average balance	Interest income	Annualized average yield (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**1,040,131**	**33,963**	**6.57**	915,108	25,488	5.62
Retail loans	**576,363**	**19,472**	**6.79**	511,760	14,734	5.81
Discounted bills	**91,657**	**3,396**	**7.45**	68,130	2,233	6.61
Loans and advances	**1,708,151**	**56,831**	**6.69**	1,494,998	42,455	5.73

From January to June 2012, from the perspective of the terms of loans and advances, the average balance of short-term loans was RMB609.812 billion, interest income amounted to RMB22.148 billion, and the average yield reached 7.30%; the average balance of medium to long-term loans was RMB791.653 billion, interest income amounted to RMB25.803 billion, and the average yield reached 6.55%.

3.2.5 Interest expense

From January to June 2012, the interest expense of the Group was RMB30.178 billion, an increase of RMB10.812 billion or 55.83% as compared with the corresponding period of the previous year, which was primarily attributable to the increase of deposits and cost ratio.

Interest expense on deposits from customers

From January to June 2012, the Group's interest expense on deposits from customers increased by RMB6.256 billion or 44.50% as compared with the same period in the previous year. It was because 1) average balance of deposits from customers increased by 11.26% from the same period of last year, and 2) average cost for deposits from customers increased by 0.43 percentage point as compared with the same period in the previous year.

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

III Management's Analysis and Discussion

	January to June 2012			January to June 2011		
	Average balance	Interest expense	Annualized average cost (%)	Average balance	Interest expense	Annualized average cost (%)
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**668,860**	**2,554**	**0.77**	639,939	2,234	0.70
Time	**689,495**	**11,299**	**3.30**	578,625	6,970	2.43
Subtotal	**1,358,355**	**13,853**	**2.05**	1,218,564	9,204	1.52
Deposits from retail customers						
Demand	**451,438**	**1,296**	**0.58**	408,438	1,207	0.60
Time	**326,506**	**5,167**	**3.18**	293,157	3,649	2.51
Subtotal	**777,944**	**6,463**	**1.67**	701,595	4,856	1.40
Total deposits from customers	**2,136,299**	**20,316**	**1.91**	1,920,159	14,060	1.48

3.2.6 Net non-interest income

From January to June 2012, the Group recorded a net non-interest income of RMB13.620 billion, representing an increase of RMB3.115 billion or 29.65% compared with the same period of the previous year. Specifically, net non-interest income from retail banking business amounted to RMB5.494 billion, an increase of 15.47% over the same period of the previous year, accounting for 40.34% of the Group's net non-interest income; net non-interest income from wholesale banking business amounted to RMB7.133 billion, an increase of 29.62% over the same period of the previous year, accounting for 52.37% of the Group's net non-interest income. The following table sets forth, for the periods indicated, the principal components of net non-interest income of the Group.

	January to June 2012	January to June 2011
	(In millions of RMB)	
Fee and commission income	**10,411**	8,746
Less: Fee and commission expense	**(679)**	(583)
Net fee and commission income	**9,732**	8,163
Other net non-interest income	**3,888**	2,342
Total net non-interest income	**13,620**	10,505

3.2.7 Net fee and commission income

From January to June 2012, net fee and commission income of the Group increased by RMB1.569 billion or 19.22% as compared with the corresponding period of the previous year, 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.

	January to June 2012	January to June 2011
	(In millions of RMB)	
Fee and commission income	**10,411**	8,746
Bank card fees	**2,621**	2,260
Settlement and clearing fees	**1,088**	952
Agency service fees	**1,975**	1,907
Commissions from credit commitment and loan business	**1,186**	837
Commissions from custody and other trustee businesses	**2,333**	1,409
Others	**1,208**	1,381
Fee and commission expense	**(679)**	(583)
Net fee and commission income	**9,732**	8,163

Bank card fees increased by RMB361 million or 15.97% as compared with the same period of the previous year, benefiting from the steady increase in POS service charge of credit card.

Settlement and clearing fees increased by RMB136 million or 14.29% as compared with the same period of the previous year, benefiting from the steady increase in remittance and settlement volume.

Agency service fees increased by RMB68 million or 3.57% as compared with the same period of the previous year.

Commissions from credit commitment and loan business increased by RMB349 million or 41.70% as compared with the same period of the previous year, benefiting from the increase in commission from financial leasing business and domestic letter of credit business.

Commissions from custody and other trustee businesses increased by RMB924 million or 65.58% as compared with the same period of the previous year, benefiting from the rapid growth of income from wealth management business such as Entrusted Wealth Management by increasing product supply and product offering. Income from agency trust plan service amounted to RMB1.095 billion, an increase of RMB623 million as compared with the same period of the previous year and income from entrusted wealth management was RMB805 million, an increase of RMB246 million as compared with the same period of the previous year.

Other fee and commission income decreased by RMB173 million or 12.53% as compared with the same period of the previous year, which was mainly attributable to the decrease of financial advisory fee income by RMB443 million as compared with the same period of the previous year.

III Management's Analysis and Discussion

3.2.8 Other net income

From January to June 2012, other net income of the Group increased by RMB1.574 billion or 68.82% as compared with the same period of the previous year, 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.

	January to June 2012	January to June 2011
	(In millions of RMB)	
Net trading profit/(loss)		
– Foreign exchange	**836**	764
– Securities, derivatives and other trading activities	**338**	308
Net gains or losses on financial instruments designated at fair value through profit or loss	**165**	83
Net gains/(losses) on disposal of available-for-sale financial assets	**112**	(114)
Gains on investment in funds	**16**	8
Rental income on assets under operating lease	**53**	–
Bills spread income	**1,997**	892
Insurance operating income	**197**	181
Others	**147**	165
Total other net income	**3,861**	2,287

3.2.9 Operating expenses

From January to June 2012, operating expenses of the Group were RMB22.142 billion, representing an increase of 24.08% as compared with the same period of 2011. The cost-to-income ratio was 32.12%, representing a decrease of 0.39 percentage point as compared with the same period of the previous year.

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

	January to June 2012	January to June 2011
	(In millions of RMB)	
Staff costs	**11,674**	9,320
Business tax and surcharges	**3,749**	2,819
Depreciation of fixed assets and investment properties	**1,356**	1,265
Depreciation of fixed assets under operating lease	**27**	27
Rental expenses	**1,184**	1,051
Other general and administrative expenses	**4,152**	3,363
Total operating expenses	**22,142**	17,845

3.2.10 Impairment losses on assets

From January to June 2012, impairment losses on assets of the Group were RMB4.144 billion, an increase of 1.97% as compared with the corresponding period of 2011.

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

	January to June 2012	January to June 2011
	(In millions of RMB)	
Assets impairment charged/(released) on		
– Loans and advances	**4,087**	3,932
– Others	**57**	132
Total impairment losses on assets	**4,144**	4,064

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In the first half of 2012, impairment losses on loans were RMB4.087 billion, representing an increase of 3.94% as compared with the same period of the previous year. For details of the provision for impairment losses on loans, please refer to the section headed "Loan quality analysis" in this chapter.

From January to June 2012, the provision for impairment losses on other assets of the Group was RMB57 million.

3.3 Analysis of Balance Sheet

3.3.1 Assets

As at 30 June 2012, the total assets of the Group amounted to RMB3,322.701 billion, representing an increase of 18.88% as compared with the end of 2011. This was mainly attributable to the fact that, in the midst of rapid growth of the Group's short-term funding source in the first half of 2012 and in view of the higher market yield, the Group utilized more short-term placements with banks and other financial institutions to improve the efficiency and benefits of capital utilization. Specifically, there was a rapid growth in placements with banks and other financial institutions, inter-bank lending and financial assets purchased under resale agreement.

III Management's Analysis and Discussion

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

	30 June 2012		31 December 2011	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Total loans and advances to customers	**1,783,903**	**53.69**	1,641,075	58.71
Provision for impairment losses on loans	**(40,011)**	**(1.21)**	(36,704)	(1.31)
Net loans and advances to customers	**1,743,892**	**52.48**	1,604,371	57.40
Investments	**519,277**	**15.63**	460,948	16.49
Cash and balances with the central bank	**417,646**	**12.57**	408,304	14.60
Balances with banks and other financial institutions	**234,134**	**7.05**	63,046	2.26
Inter-bank lending and financial assets purchased under resale agreement	**344,803**	**10.38**	205,356	7.35
Investment in associates and joint ventures	**481**	**0.01**	456	0.02
Interest receivable	**14,239**	**0.43**	10,852	0.39
Fixed assets	**17,401**	**0.52**	17,500	0.63
Intangible assets	**2,748**	**0.08**	2,605	0.09
Goodwill	**9,598**	**0.29**	9,598	0.34
Investment properties	**1,711**	**0.05**	1,710	0.06
Deferred tax assets	**4,193**	**0.13**	4,337	0.16
Other assets	**12,578**	**0.38**	5,888	0.21
Total assets	**3,322,701**	**100.00**	2,794,971	100.00

3.3.1.1 Loans and advances

As at 30 June 2012, total loans and advances of the Group amounted to RMB1,783.903 billion, representing an increase of 8.70% as compared with the end of the previous year; total loans and advances accounted for 53.69% of total assets, representing a decrease of 5.02 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.

	30 June 2012		31 December 2011	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Corporate loans	**1,091,963**	**61.21**	994,041	60.57
Discounted bills	**80,180**	**4.50**	75,826	4.62
Retail loans	**611,760**	**34.29**	571,208	34.81
Total loans and advances to customers	**1,783,903**	**100.00**	1,641,075	100.00

Corporate loans

As at 30 June 2012, the Group's total corporate loans amounted to RMB1,091.963 billion, representing an increase of 9.85% as compared with the end of the previous year. Total corporate loans accounted for 61.21% of total loans and advances to customers, representing an increase of 0.64 percentage point as compared with the end of the previous year. In 2012, taking into account the external regulatory requirements and internal capital utilization rules, the Group granted loans in a steady manner and accelerated the granting of loans to small enterprises, thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 30 June 2012, discounted bills amounted to RMB80.180 billion, representing an increase of 5.74% as compared with the end of the previous year. The Group has been expanding its discounted bills business, as the risk of this business was relatively low and capital consumption was relatively small. According to the timeline of granting loans, the Group flexibly adjusted the scale of bills financing and adopted a series of measures, including optimized structure, centralized operation, accelerated circulation and expanded business volume to increase the overall return of bill assets.

III Management's Analysis and Discussion

Retail loans

As at 30 June 2012, retail loans amounted to RMB611.760 billion, representing an increase of 7.10% as compared with the end of the previous year. As at 30 June 2012, retail loans accounted for 34.29% of total loans and advances, down by 0.52 percentage point as compared with the end of the previous year. Adhering to the Second Transformation strategy, the Group sped up its efforts to diversify retail loans by gradually expanding the proportion of high-yield personal operating loan business while developing the home mortgage loan business in a steady way. Meanwhile, the Group continued to implement the refined development strategy for its credit card business to increase the use among valued customers. As a result, the percentage of credit card loans increased during the reporting period.

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

	30 June 2012		31 December 2011	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Home mortgage loans	**331,378**	**54.17**	323,640	56.66
Personal operating loans	**124,289**	**20.32**	90,429	15.83
Credit card receivables	**84,689**	**13.84**	73,305	12.83
Other retail loans(Note)	**71,404**	**11.67**	83,834	14.68
Total retail loans	**611,760**	**100.00**	571,208	100.00

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

3.3.1.2 Investments

Investments

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

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

	30 June 2012		31 December 2011	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Financial assets at fair value through profit or loss	**19,227**	**3.70**	15,530	3.37
Derivative financial assets	**1,948**	**0.38**	1,887	0.41
Available-for-sale financial assets	**287,530**	**55.37**	275,860	59.85
Held-to-maturity investments	**167,763**	**32.31**	145,586	31.58
Investment receivables	**42,809**	**8.24**	22,085	4.79
Total investments in securities and other financial assets	**519,277**	**100.00**	460,948	100.00

III Management's Analysis and Discussion

Available-for-sale financial assets

As at 30 June 2012, available-for-sale financial assets of the Group increased by RMB11.670 billion or 4.23% 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.

In the first half of the year, China's macro economy saw a slowdown and inflation rate demonstrated a downwards trend. The State's monetary policy was focusing on fine-tuning. A new round of interest rate cut cycle began and liquidity became increasingly loosened. The Group proactively adapted itself to market trends to seize market opportunities. It increased its investments in bonds, particularly focused on increasing holdings of interest-bearing bonds and moderately increased its holdings of credit bonds. As a result, the Group optimized its asset and liabilities structure and achieved sound investment performance.

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

	30 June 2012	31 December 2011
	(In millions of RMB)	
Bonds issued by PRC government	**23,059**	24,434
Bonds issued by the PBOC	**15,435**	15,245
Bonds issued by policy banks	**46,148**	46,149
Bonds issued by commercial banks and other financial institutions	**111,284**	106,379
Other bonds	**89,954**	82,371
Equity investments	**1,278**	1,267
Fund investments	**372**	15
Total available-for-sale financial assets	**287,530**	275,860

Held-to-maturity investments

As at 30 June 2012, the net amount of held-to-maturity investments of the Group increased by RMB22.177 billion or 15.23% as compared with the end of the previous year. Held-to-maturity investments are held for the Group's strategic purpose on a long-term basis. In the first half of the year and before interest rate cut, the Group began to purchase more middle to long term bonds bearing fixed interest rates. The purchase focused on bonds issued by PRC government and policy banks which led to a significant growth of such category of investments.

III Management's Analysis and Discussion

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

	30 June 2012	31 December 2011
	(In millions of RMB)	
Bonds issued by PRC government	**70,253**	67,998
Bonds issued by the PBOC	**15,367**	15,359
Bonds issued by policy banks	**12,904**	10,345
Bonds issued by commercial banks and other financial institutions	**67,281**	49,874
Other bonds	**2,136**	2,184
Total amount of held-to-maturity investments	**167,941**	145,760
Less: provision for impairment losses	**(178)**	(174)
Net amount of held-to-maturity investments	**167,763**	145,586

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 30 June 2012, the Group's net investment receivables amounted to RMB42.809 billion, representing an increase of RMB20.724 billion as compared with the end of 2011.

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

	30 June 2012	31 December 2011
	(In millions of RMB)	
Bonds issued by PRC government	**3,045**	3,714
Bonds issued by commercial banks and other financial institutions	**23,947**	7,282
Other bonds	**15,880**	11,152
Total investment receivables	**42,872**	22,148
Less: provision for impairment losses	**(63)**	(63)
Net investment receivables	**42,809**	22,085

III Management's Analysis and Discussion

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:

	30 June 2012		31 December 2011	
	Carrying Value	**Market/ Fair Value**	Carrying Value	Market/ Fair Value
	(In millions of RMB)			
Held-to-maturity listed investments	**165,883**	**168,686**	144,754	146,739

Analysis on investments in foreign currency bonds

As at 30 June 2012, the Group had a balance of investments in foreign currency bonds of US$3.665 billion, among which US$2.310 billion was held by the Company and US$1.355 billion was held by WLB and its subsidiaries (hereinafter referred to as "Wing Lung Group").

As at 30 June 2012, the investments in foreign currency bonds held by the Company are categorized by issuer as follows: 37.8% of the foreign currency bonds are issued by the PRC government and Chinese companies; 9.5% by overseas governments and institutions; 35.9% by overseas banks and 16.8% by overseas companies. The Company has made a provision for impairment losses of US$95 million for its investments in foreign currency bonds, with an evaluated unrealized profit of US$56 million.

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

Derivative financial instruments

As at 30 June 2012, the major categories and amount of derivative financial instruments held by the Group are indicated as in the following table. For details of derivative financial instruments, please refer to Note 35(b) to the financial statements "Off-balance Sheet Exposure – Derivatives".

	30 June 2012			31 December 2011		
	Notional	**Fair value**		Notional	Fair value	
	amount	**Assets**	**Liabilities**	amount	Assets	Liabilities
			(In millions of RMB)			
Interest rate derivatives	**85,434**	**557**	**(264)**	48,748	495	(182)
Currency derivatives	**350,869**	**1,386**	**(1,325)**	229,444	1,386	(1,274)
Other derivatives	**2,421**	**5**	**(3)**	2,038	6	(13)
Total	**438,724**	**1,948**	**(1,592)**	280,230	1,887	(1,469)

III Management's Analysis and Discussion

3.3.1.3 Goodwill

As at 30 June 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.

3.3.2 Liabilities

As at 30 June 2012, the total liabilities of the Group amounted to RMB3,141.339 billion, representing an increase of 19.44% as compared with the end of 2011, which was primarily due to the growth in deposits from customers, deposits from banks and other financial institutions, placements from banks and other financial institutions and proceeds from disposal of financial assets repurchased.

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

	30 June 2012		31 December 2011	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Deposits from customers	**2,456,436**	**78.20**	2,220,060	84.41
Deposits from banks and other financial institutions	**340,195**	**10.83**	205,699	7.82
Placements from banks and other financial institutions	**106,402**	**3.39**	67,484	2.57
Financial assets at fair value through profit or loss	**12,598**	**0.40**	4,724	0.18
Derivative financial liabilities	**1,592**	**0.05**	1,469	0.06
Proceeds from disposal of financial assets repurchased	**101,175**	**3.22**	42,064	1.60
Accrued payroll	**7,092**	**0.22**	3,320	0.13
Taxes payable	**6,568**	**0.21**	7,112	0.27
Interest payable	**20,771**	**0.66**	16,080	0.61
Bonds payable	**66,655**	**2.12**	46,167	1.76
Deferred income tax liabilities	**861**	**0.03**	864	0.03
Other liabilities	**20,994**	**0.67**	14,918	0.56
Total liabilities	**3,141,339**	**100.00**	2,629,961	100.00

III Management's Analysis and Discussion

Deposits from customers

In the first half of 2012, despite the increasingly intense competition from peers, the Group managed to maintain a steady growth in its deposits from customers through attaching great importance on and proactive expansion of deposits from customers. As at 30 June 2012, deposits from customers of the Group amounted to RMB2,456.436 billion, representing an increase of 10.65% as compared with the end of 2011. Deposits from customers accounted for 78.20% of the total liabilities of the Group and were the major funding source of the Group.

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

	30 June 2012		31 December 2011	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**795,715**	**32.39**	754,904	34.01
Time	**759,018**	**30.90**	661,866	29.81
Subtotal	**1,554,733**	**63.29**	1,416,770	63.82
Deposits from retail customers				
Demand	**518,413**	**21.11**	456,688	20.57
Time	**383,290**	**15.60**	346,602	15.61
Subtotal	**901,703**	**36.71**	803,290	36.18
Total deposits from customers	**2,456,436**	**100.00**	2,220,060	100.00

As at 30 June 2012, the percentage of retail deposits to total deposits from customers of the Group was 36.71%, representing an increase of 0.53 percentage point as compared with the end of 2011.

As at 30 June 2012, the percentage of demand deposits to total deposits from customers of the Group was 53.50%, representing a decrease of 1.08 percentage points as compared with the end of 2011. Among the figures, the proportion of corporate demand deposits accounted for 51.18% of the corporate deposits, representing a decrease of 2.10 percentage points as compared with the end of 2011, and the retail demand deposits accounted for 57.49% of the retail deposits, representing an increase of 0.64 percentage point as compared with the end of 2011.

III Management's Analysis and Discussion

3.3.3 Shareholders' equity

	30 June 2012	31 December 2011
	(In millions of RMB)	
Share capital	**21,577**	21,577
Capital reserve	**37,508**	37,508
Investment revaluation reserve	**2,075**	157
Hedge reserve	**231**	278
Surplus reserve	**14,325**	14,325
Regulatory general reserve	**18,832**	18,794
Retained profits	**87,785**	64,446
Proposed profit appropriations	**–**	9,062
Difference arising from converting financial statements denominated in foreign currency	**(986)**	(1,150)
Non-controlling shareholders' equity	**15**	13
Total shareholders' equity	**181,362**	165,010

3.3.4 Market share of major products or services

According to the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions published by the PBOC in June 2012, the market share and ranking of the Bank among the 32 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	11.49	1
Total savings deposits	19.72	1
Total loans	9.76	2
Total personal consumption loans	21.95	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 Incomes and Expenditures Related to Lendings from Financial Institutions, being large-sized 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, Shenzhen Development Bank, Evergrowing Bank, China Zheshang Bank, Bohai Bank, Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank, Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank and Bank of Chongqing.

3.4 Loan Quality Analysis

During the reporting period, the credit assets of the Group have seen steady growth in scale, continued optimization of customer mix, stability in asset quality and enhancement in allowance coverage. As at 30 June 2012, total loans and advances of the Group was RMB1,783.903 billion, representing an increase of 142.828 billion or 8.70%, as compared with the end of the previous year; the non-performing loan ratio was 0.56%, which remained roughly the same level at the end of the previous year; whereas the non-performing loan allowance coverage ratio was 404.03%, representing an increase of 3.90 percentage points as compared with the end of the previous year.

3.4.1 Distribution of loans by 5-tier loan classification

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

	As at 30 June 2012		As at 31 December 2011	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Normal	**1,756,110**	**98.44**	1,614,941	98.41
Special Mention	**17,890**	**1.00**	16,961	1.03
Substandard	**4,234**	**0.24**	3,186	0.20
Doubtful	**2,366**	**0.13**	2,146	0.13
Loss	**3,303**	**0.19**	3,841	0.23
Total loans and advances to customers	**1,783,903**	**100.00**	1,641,075	100.00
Total non-performing loans	**9,903**	**0.56**	9,173	0.56

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. During the reporting period, the Group proactively responded to the risk of economic downturn, asset quality of the Group remained stable as the ratio of non-performing loans was on a par with that at the end of the previous year and the ratio of special mention loans dropped as compared with the end of the previous year. As at 30 June 2012, balance of our non-performing loans was RMB9.903 billion, increasing by RMB730 million from the end of the previous year, and the non-performing loan ratio was 0.56%, which was on a par with that at the end of the previous year. The balance of special mention loans of the Group was RMB17.890 billion, up by RMB929 million as compared with the end of the previous year. The percentage of special mention loan to total loans was 1.00%, a decrease of 0.03 percentage point as compared with the end of the previous year.

During the reporting period, both the balance and percentage of substandard loans of the Group increased as repayment ability of some borrowers deteriorated due to downturn of the macro-economy. As at 30 June 2012, the balance of substandard loans of the Group was RMB4.234 billion, up by RMB1.048 billion as compared with the end of the previous year. The percentage of substandard loan to total loans was 0.24%, an increase of 0.04 percentage point as compared with the end of the previous year.

III Management's Analysis and Discussion

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

	As at 30 June 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	**1,091,963**	**61.21**	**7,402**	**0.68**	994,041	60.57	7,395	0.74
Working capital loans	**661,323**	**37.07**	**5,242**	**0.79**	596,490	36.35	5,458	0.92
Fixed asset loans	**283,274**	**15.88**	**935**	**0.33**	282,995	17.24	999	0.35
Trade finance	**86,422**	**4.84**	**522**	**0.60**	69,333	4.22	497	0.72
Others(2)	**60,944**	**3.42**	**703**	**1.15**	45,223	2.76	441	0.98
Discounted bills(3)	**80,180**	**4.50**	**–**	**–**	75,826	4.62	–	–
Retail loans	**611,760**	**34.29**	**2,501**	**0.41**	571,208	34.81	1,778	0.31
Personal housing loans	**331,378**	**18.58**	**643**	**0.19**	323,640	19.72	389	0.12
Personal operating loans	**124,289**	**6.97**	**356**	**0.29**	90,429	5.51	149	0.16
Credit card loans	**84,689**	**4.75**	**1,055**	**1.25**	73,305	4.47	1,021	1.39
Others(4)	**71,404**	**3.99**	**447**	**0.63**	83,834	5.11	219	0.26
Total loans and advances to customers	**1,783,903**	**100.00**	**9,903**	**0.56**	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 corporate mortgage loans, including overdue discounted bills.

(3) Once discounted bills are overdue; the Company will transfer them to corporate loans for subsequent accounting and management purposes.

(4) Consist primarily of Easy Consumption, automobile loans, home decoration loans, education loans, general consumption loans and retail loans secured by monetary assets.

During the reporting period, the percentage of trade financing and working capital loans in the Group's corporate loans increased while that of fixed assets loans decreased, leading to optimized asset structure and consistent asset quality. The percentage of personal operating loans and credit card loans increased while that of personal housing loans decreased, with the asset quality remaining stable. As at 30 June 2012, the ratio of non-performing corporate loans was 0.68%, down by 0.06 percentage point as compared with the end of the previous year. The ratio of non-performing retail loans was 0.41%, up by 0.10 percentage point as compared with the end of the previous year. The ratio of non-performing retail loans increased as repayment ability and creditworthiness of some individual borrowers deteriorated due to downturn of the macro-economy, therefore both non-performing personal housing loans and non-performing personal operating loans increased.

3.4.3 Distribution of loans and non-performing loans by industry

	As at 30 June 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	**1,091,963**	**61.21**	**7,402**	**0.68**	994,041	60.57	7,395	0.74
Manufacturing	**348,366**	**19.53**	**3,075**	**0.88**	307,972	18.77	2,682	0.87
Wholesale and retail	**189,928**	**10.65**	**1,814**	**0.96**	169,491	10.33	1,713	1.01
Transportation, storage and postal services	**143,746**	**8.06**	**511**	**0.36**	140,950	8.59	958	0.68
Property development	**106,067**	**5.95**	**772**	**0.73**	112,818	6.87	824	0.73
Production and supply of electric power, gas and water	**75,289**	**4.22**	**355**	**0.47**	66,009	4.02	334	0.51
Construction	**54,773**	**3.07**	**158**	**0.29**	44,036	2.68	134	0.30
Mining	**54,325**	**3.05**	**–**	**–**	36,979	2.25	–	–
Leasing and commercial services	**35,285**	**1.98**	**140**	**0.40**	37,568	2.29	136	0.36
Water, environment and public utilities	**32,008**	**1.79**	**1**	**–**	33,752	2.06	1	–
Information transmission, computer service and software	**11,147**	**0.62**	**98**	**0.88**	10,726	0.65	70	0.65
Others(2)	**41,029**	**2.29**	**478**	**1.17**	33,740	2.06	543	1.61
Discounted bills	**80,180**	**4.50**	**–**	**–**	75,826	4.62	–	–
Retail loans	**611,760**	**34.29**	**2,501**	**0.41**	571,208	34.81	1,778	0.31
Total loans and advances to customers	**1,783,903**	**100.00**	**9,903**	**0.56**	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 finance, accommodation and catering, education, etc.

In 2012, the overall credit policy of the Group is "restricting loans to large and medium-sized enterprises while granting loans to small and micro enterprises, adjusting existing loans while allowing more space, promoting loans to new types and green industries, selecting anti-cycle industries while optimizing loan portfolio". By taking RAROC ratio and overall contribution ratio as indicators, the Group optimized new loans, activated existing loans, and granted restricted resource of new loans to industry top player and high-value customers. The Group also vigorously promoted the development of loans to small and micro enterprises while gradually compressed the percentage of loans to large to medium-sized enterprises; reserved existing loans for strategic customers with high return, and customers in industries encouraged by the State, such as new, green, people's livelihood and energy industries, while compressed existing loans for risk associated fields, such as the local government financing platforms, real estate development industry and highway construction, and strengthened its support for new industries, green credit and anti-cycle industries in terms of loans. As at the end of the reporting period, among the top ten industries, only three industries (namely, manufacturing industry, leasing and commercial service industry and information transmission, computer service and software industry) recorded slight increases in non-performing loan ratios due to economic downturn, whereas the non-performing loan ratios of all other industries declined as compared with the end of the previous year.

III Management's Analysis and Discussion

3.4.4 Distribution of loans and non-performing loans by region

	As at 30 June 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	**150,000**	**8.41**	**2,110**	**1.41**	131,692	8.02	2,040	1.55
Yangtze River Delta	**385,461**	**21.61**	**3,223**	**0.84**	376,084	22.92	2,448	0.65
Bohai Rim	**267,429**	**14.99**	**798**	**0.30**	247,249	15.07	760	0.31
Pearl River Delta and West Side of Taiwan Strait	**283,639**	**15.90**	**1,323**	**0.47**	264,202	16.10	1,080	0.41
North-east China	**100,472**	**5.63**	**331**	**0.33**	95,552	5.82	323	0.34
Central China	**203,127**	**11.39**	**1,095**	**0.54**	180,229	10.98	1,145	0.64
Western China	**233,477**	**13.09**	**684**	**0.29**	210,829	12.85	1,068	0.51
Overseas	**29,324**	**1.64**	**23**	**0.08**	24,055	1.46	27	0.11
Subsidiaries	**130,974**	**7.34**	**316**	**0.24**	111,183	6.78	282	0.25
Total loans and advances to customers	**1,783,903**	**100.00**	**9,903**	**0.56**	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.

With the guidance of the bank-wide credit strategy, the Group formulated appropriate regional credit policies by fully taking into account the variations in regional resources, industry clusters and financial environment. Loans were granted to give special support to pillar industries and value customers with growth potentials, achieving a balance in geographic risk and return. In 2012, the Group's loans were extended to different regions in a balanced way. In terms of the increase in loans in each region as a percentage of the newly granted loans, loans to the Yangtze River Delta, North-east China and overseas regions all took up a relatively lower proportion, while loans granted to the other regions all accounted for 10%-20% of the newly granted loans. During the reporting period, the non-performing loan ratios decreased in all regions except the Yangtze River Delta, Pearl River Delta and West Side of Taiwan Strait.

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

	As at 30 June 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	**380,197**	**21.31**	**1,214**	**0.32**	335,863	20.47	1,461	0.43
Guaranteed loans	**428,966**	**24.05**	**3,621**	**0.84**	397,218	24.20	3,485	0.88
Collateralized loans	**740,444**	**41.51**	**4,633**	**0.63**	697,758	42.52	3,623	0.52
Pledged loans	**154,116**	**8.63**	**435**	**0.28**	134,410	8.19	604	0.45
Discounted bills	**80,180**	**4.50**	**–**	**–**	75,826	4.62	–	–
Total loans and advances to customers	**1,783,903**	**100.00**	**9,903**	**0.56**	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.

As at the end of the reporting period, the percentage of credit and pledged loans increased by 0.84 percentage point and 0.44 percentage point respectively as compared with the end of the previous year. The percentage of guaranteed and collateralized loans declined by 0.15 percentage point and 1.01 percentage points respectively as compared with the end of the previous year. During the reporting period, the non-performing loan ratios under different types of guarantees other than collateralized loans all declined, which indicated the balanced optimization of our asset quality.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan balance as at 30 June 2012 (in millions of RMB)	% of net capital	% of total loans
A	Transportation, storage and postal services	6,383	2.85	0.36
B	Transportation, storage and postal services	5,000	2.23	0.28
C	Transportation, storage and postal services	2,993	1.34	0.17
D	Transportation, storage and postal services	2,805	1.25	0.16
E	Mining	2,700	1.21	0.15
F	Transportation, storage and postal services	2,665	1.19	0.15
G	Leasing and commercial services	2,550	1.14	0.14
H	Leasing and commercial services	2,542	1.13	0.14
I	Transportation, storage and postal services	2,406	1.07	0.13
J	Transportation, storage and postal services	2,126	0.95	0.12
Total		**32,170**	**14.36**	**1.80**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB6.383 billion, representing 2.85% of the Group's net capital. The loan balance of the top ten single borrowers totalled RMB32.170 billion, representing 14.36% of the Group's net capital and 1.80% of the Group's total loan balance respectively.

3.4.7 Distribution of loans by overdue term

	As at 30 June 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	**10,555**	**0.60**	6,456	0.39
Overdue more than 3 months but within 1 year	**2,754**	**0.15**	1,005	0.06
Overdue more than 1 year but within 3 years	**1,975**	**0.11**	2,241	0.14
Overdue more than 3 years	**3,550**	**0.20**	3,919	0.24
Total overdue loans	**18,834**	**1.06**	13,621	0.83
Total loans and advances to customers	**1,783,903**	**100.00**	1,641,075	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB18.834 billion, up by RMB5.213 billion from the end of the previous year and accounting for 1.06% of its total overdue loans, representing an increase of 0.23 percentage point as compared with the end of the previous year. Specifically, most of new overdue loans were retail loans overdue for less than 3 months. Among the overdue loans, collateralized and pledged loans accounted for 72.23%, guaranteed loans accounted for 17.68%, while credit loans only accounted for 10.09%.

III Management's Analysis and Discussion

3.4.8 Restructured loans

	As at 30 June 2012		As at 31 December 2011	
	Amount	**Percentage of total loans (%)**	Amount	Percentage of total loans (%)
	(in millions of RMB, excluding percentages)			
Restructured loans	**1,200**	**0.07**	1,298	0.08
Of which: restructured loans overdue for more than 90 days	**667**	**0.04**	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 0.07%, a decrease of 0.01 percentage point as compared with that at the end of the previous year.

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, total repossessed assets of the Group amounted to RMB965 million. After deduction of allowances for impairment losses of RMB909 million, net repossessed assets amounted to RMB56 million.

3.4.10 Changes of allowances for impairment losses on loans

The Group adopted two methods of assessing impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was any objective evidence indicating that a loan was impaired, the impairment losses would be recognized 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.

	In the first half of 2012	2011
	(in millions of RMB)	
Balance at the beginning of the period	**36,704**	29,291
Charge for the period	**4,423**	9,048
Release for the period	**(336)**	(849)
Unwinding of discount on impaired loans(note)	**(91)**	(136)
Recovery of loans and advances previously written off	**30**	65
Write-offs	**(773)**	(583)
Transfers in/out	**9**	–
Foreign exchange rate movements	**45**	(132)
Balance at the end of the period	**40,011**	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 30 June 2012, allowances for impairment losses on loans amounted to RMB40.011 billion, representing an increase of RMB3.307 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 404.03%, representing an increase of 3.90 percentage points as compared with that at the end of the previous year. The total loan allowances ratio was 2.24%, maintaining at a similar level as the end of last year.

III Management's Analysis and Discussion

3.5 Analysis of Capital Adequacy Ratio

As at 30 June 2012, the capital adequacy ratio and the core capital adequacy ratio of the Group were 11.55% and 8.32%, representing an increase of 0.02 percentage point and 0.10 percentage point from the beginning of the year respectively, while the capital adequacy ratio and the core capital adequacy ratio of the Company were 11.19% and 8.71%, representing a decrease of 0.09 percentage point and 0.03 percentage point from the beginning of the year respectively. Benefited from the effective control over the rate of capital consumption as well as the gradual improvement in the capital accumulation ability, the capital adequacy ratio and the core capital adequacy ratio of the Group achieved slight increase as compared with the beginning of the year, while the capital adequacy ratio and the core capital adequacy ratio of the Company recorded slight decrease as compared with the beginning of the year as a result of its capital increase of RMB2 billion in CMB Financial Leasing Co., Ltd..

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

	30 June 2012	31 December 2011
	(in millions of RMB, excluding percentages)	
Core capital		
Paid-up ordinary share capital	**21,577**	21,577
Reserves	**151,601**	134,771
Total core capital	**173,178**	156,348
Supplementary capital		
General provisions for loans and advances	**32,534**	29,251
Term subordinated debts	**30,000**	30,000
Other supplementary capital	**1,352**	255
Total supplementary capital	**63,886**	59,506
Total capital base before deductions	**237,064**	215,854
Deductions:		
Goodwill	**9,598**	9,598
Investments in unconsolidated subsidiaries and other long-term investments	**1,661**	1,589
Investments in commercial real estate	**1,711**	1,710
Total capital base after deductions	**224,094**	202,957
Risk-weighted assets	**1,940,988**	1,760,884
Core capital adequacy ratio	**8.32%**	8.22%
Capital adequacy ratio	**11.55%**	11.53%

3.6 Segment Operating Results

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

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

Business segments

The main businesses of the Group are wholesale banking business, retail banking business and financial market business. For more information about the products and services of the respective main businesses, please refer to the section headed "Business Operations". In the first half of 2012, the cost-to-income ratio (excluding business tax and surcharges) of the wholesale banking business of the Group increased to 23.25% from 22.81% for the corresponding period of 2011, and the cost-to-income ratio (excluding business tax and surcharges) of the retail banking business of the Group decreased to 44.14% from 49.03% for the corresponding period of 2011. The following table summarizes the operating results of the business segments of the Group for the periods indicated.

	January-June 2012		January-June 2011	
Items	**Profit before tax by segment**	**Percentage (%)**	Profit before tax by segment	Percentage (%)
	(in millions of RMB, excluding percentages)			
Wholesale banking business	**22,453**	**72.84**	17,555	72.61
Retail banking business	**9,502**	**30.83**	6,507	26.92
Financial market business	**(730)**	**(2.37)**	378	1.56
Other businesses and adjustments	**(400)**	**(1.30)**	(264)	(1.09)
Total	**30,825**	**100.00**	24,176	100.00

III Management's Analysis and Discussion

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 30 June 2012		Total Liabilities 30 June 2012		Total Profit January-June 2012	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, excluding percentages)					
Head Office	**1,272,186**	**38**	**1,135,058**	**36**	**(2,693)**	**(8)**
Yangtze River Delta	**428,558**	**13**	**422,513**	**13**	**8,066**	**26**
Bohai Rim	**319,038**	**10**	**313,998**	**10**	**6,736**	**22**
Pearl River Delta and West Side of Taiwan Strait	**414,916**	**13**	**409,708**	**13**	**6,928**	**22**
North-eastern China	**135,764**	**4**	**134,348**	**4**	**1,887**	**6**
Central China	**235,548**	**7**	**232,697**	**7**	**3,802**	**12**
Western China	**272,115**	**8**	**268,867**	**9**	**4,312**	**14**
Overseas	**48,030**	**1**	**47,803**	**2**	**342**	**1**
Subsidiaries	**196,546**	**6**	**176,347**	**6**	**1,445**	**5**
Total	**3,322,701**	**100**	**3,141,339**	**100**	**30,825**	**100**

	Total Assets 31 December 2011		Total Liabilities 31 December 2011		Total Profit January-June 2011	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, excluding percentages)					
Head Office	1,059,543	38	951,393	36	(1,474)	(6)
Yangtze River Delta	393,691	14	383,458	15	6,331	26
Bohai Rim	274,620	10	266,715	10	5,076	21
Pearl River Delta and West Side of Taiwan Strait	322,628	11	314,040	12	5,410	22
North-eastern China	108,851	4	106,714	4	1,408	6
Central China	190,155	7	185,660	7	2,817	12
Western China	223,127	8	217,964	8	3,300	14
Overseas	53,225	2	52,954	2	213	1
Subsidiaries	169,131	6	151,063	6	1,095	4
Total	2,794,971	100	2,629,961	100	24,176	100

3.7 Other Information

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

The Group's off-balance-sheet items include derivatives, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and contingent liabilities. Credit commitment is the primary component. As at the end of June 2012, the balance of credit commitments was RMB709.794 billion. For details of the contingent liabilities and commitments, please refer to the "Contingent Liabilities and Commitments" in "Notes to the Financial Statements" of this report.

3.7.2 Outstanding overdue debts

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

3.8 Business Operations

3.8.1 Retail banking

Business overview

In the first half of 2012, the Company took various measures to promote a rapid and healthy development of retail businesses in response to changed macro-economic situation and market demand. These measures include: optimize structure of retail banking to foster core competitiveness in retail loans, wealth management and credit cards; step up customer categorization, acquisition and management to tap the potential of customer value; and strengthen the coordination of different channels for cross sales.

In the first half of 2012, the number of high-value customers of the Company grew rapidly, witnessing a continuously improved structure. Specifically, the Company newly attracted 87,800 Sunflower-level or above customers, representing a year-on-year increase of 23,200 or 11.21% as compared with the beginning of the year. As a result, deposits and loans grew steadily. The balance of retail deposits exceeded RMB800 billion to reach RMB846.305 billion, accounting for 35.93% of the total customer deposits. The balance of total retail loans recorded RMB596.814 billion, accounting for 36.11% of total loans to customers, representing an increase of RMB39.879 billion as compared with the beginning of the year. According to the data released by People's Bank of China, the Company ranked the first among domestic small and medium-sized banks in terms of both the balance and increase of retail 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; the Company maintained its leading position in wealth management business, and was in the forefront among domestic banks in terms of 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 the insurance industry). In addition, sales of wealth management products and precious metals continued to maintain a rapid growth.

III Management's Analysis and Discussion

In the first half of 2012, profit of the retail business achieved a rapid growth that profit before tax reached RMB9.439 billion. The percentage of retail profit in total profit increased continuously to 32.15%, 4.45 percentage points higher than the previous year. Net operating income generated by the Company's retail banking business grew rapidly to RMB22.115 billion, up by 33.93% year-on-year, representing 40.49% of the Company's net operating income, 3.08 percentage points higher than the previous year. Amongst them, net interest income from retail business reached RMB16.699 billion, increasing by 39.55% year-on-year and accounting for 75.51% of the Company's net income from retail business; retail net non-interest income amounted to RMB5.416 billion, up by 19.14% year-on-year and accounting for 24.49% of the net income from retail business and 43.58% of the Company's net non-interest income. In the first half of 2012, the Company recorded a commission income of RMB2.539 billion from bank cards (including credit cards), increasing by 15.83% year-on-year; fee and commission income from retail wealth management business was RMB2.834 billion, increasing by 36.05% year-on year and accounting for 52.82% of fee and commission income from retail business.

In the second half of 2012, the Company will consolidate resources and optimize processes, develop cross-channel marketing and promote cross-selling; vigorously promote the retail small-and-micro operational loans; deepen our asset allocation service in wealth management business, enhance our management expertise and sales in wealth management, and strengthen innovation and provision of wealth management products; intensify the expansion and management of customer base; reinforce the construction and management of brand, channel and services so as to further strengthen our core market competitiveness in retail business with consolidated and expanded advantages.

Wealth management

To build a new sales system centered on asset allocation so as to enhance wealth management ability and sales volume, in early 2012, the Company established the Wealth Management Investment Committee that has three subordinate product offices to provide the Bank with investment and asset allocation strategies as an effort to strengthen the brand image of the Company's wealth management. Based on market analysis and opinions of investment decision-making meetings, the Company integrated the resources of trust companies, gold companies, fund companies, brokerage firms and others to build a pool of attractive wealth management products that are continuously supplied to the market, fully meeting the financial needs of our customers. In the first half of 2012, the Company recorded RMB1,426.8 billion in accumulated sales of personal wealth management products, and realized RMB176.3 billion agency sales of open-ended funds. Standard premiums from insurance agency services reached RMB24.3 billion; fee and commission income from retail wealth management business was RMB2.834 billion. Among which, income from trust plan agency services was RMB1,061 million, increasing by 124.79% year-on-year; income from insurance agency services was RMB823 million, increasing by 35.81% year-on-year; income from entrusted wealth management was RMB408 million, increasing by 20.00% year-on-year; income from fund agency services was RMB542 million, down by 18.50% year-on-year due to subdued capital markets.

In the second half of 2012, the Company will, expand the customer base of wealth management (WM), raise WM expertise in sales and management, cultivate market leading WM team, increase the assets under management (AUM) of WM clients, raise the return on AUM, so as to enhance our leading position in WM.

III Management's Analysis and Discussion

Private banking

Our private banking business follows the philosophy of "It's our job to build your everlasting family fortune". Our local senior client managers work with globally recruited investment experts to form "1+N" expert teams providing our high-net-worth customers with a comprehensive, personalized 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 optimize asset allocation in a changing financial environment. The Company also presented an open product platform with complete range of products in an effort to improve the product and value-added service of private banking. During the reporting period, the Company improved its sales mode and processes, enhanced product lifecycle management and innovated product design, aiming to better meet customers' diversified needs.

As at the end of June 2012, the Company had 18,401 private banking customers, representing a growth of 11.57% as compared with the beginning of the year; the total assets under management amounted to RMB412.125 billion, representing a growth of 11.42% over the beginning of the year; the Company also established 4 new private banking centers in Foshan, Dalian, Suzhou and Jinan respectively. Up to now, the Company boasted 27 private banking centers in 25 major cities across the country with ever increasing service coverage.

The year 2012 marks the fifth anniversary of the Company's private banking. To capitalize on this monumental opportunity, the Company will step up brand promotion and raise management level. With the new private banking center established by Wing Lung Bank in Hong Kong, the Company will promote cross-border coordination in the Private Banking business and construct cross-border financial service platform to make new strides in private banking business.

Bank card

All-in-one Card

In the first half of 2012, the Company enriched the variety of All-in-one Card and expanded its functions, and introduced the first domestic "All-in-one Business Card" based on the characteristics and needs of retail customers. In order to further broaden the channels of card issuance and expand the brand influence of All-in-one Cards, stimulate customers' needs to use cards, promote a rapid growth of card issuance volume and boost a steady growth of POS transaction volume, the Company aggressively expanded agency issuance business, actively promoted payment and settlement business, and vigorously expanded merchant offers and debit card POS marketing.

As at the end of June 2012, a cumulative total of 63.63 million All-in-one Cards were issued, including 2.78 million newly issued cards during the period. Total deposit balance of All-in-one cards was RMB698.429 billion, accounting for 82.53% of the total retail deposits. Average balance per card amounted to RMB11,000, increasing by RMB951 as compared with the beginning of the year. In the first half of 2012, transaction volume of All-in-one Cards via POS amounted to 178.2 billion, increasing by 4.17% as compared with the same period of last year, and average trading amount via POS amounted to RMB2,801 per card.

Credit cards

In the first half of 2012, the Company earnestly carried out the guiding principle of "Deepening the Second Transformation" and actively adapted to customer demands and external environment to build a differentiated competitive strength of CMB credit cards through its comprehensive customer-centered and market-oriented innovation.

III Management's Analysis and Discussion

During the reporting period, the Company further integrated retail resources to boost value contribution of the credit card business; strengthened the channel building to improve the efficiency and quality of customer acquisition; integrated various marketing resources with differentiated competition in mind to continuously optimize its customer business model and build a professional customer management system; reinforced risk management and exploitation and strengthened risk analysis and strategic assessment, to ensure the stability of key risk indicators and an overall low-risk operation; implemented refined operation by tapping the potentials of business processes and focusing on card-users' experiences, to steadily improve the overall efficiency of credit card business.

As at 30 June 2012, the Company had issued 42.18 million credit cards in total. The total number of active cards was 20.24 million, representing an increase of 1.35 million during the reporting period. The cumulative transaction volume for the first half of 2012 was RMB292.7 billion and the average transaction value per month of each active card was RMB2,500. The percentage of the revolving balances of credit cards was 34.67%, an increase of 0.29 percentage point as compared with the end of the previous year. The balance of revolving credit increased by 16.73% as compared with the end of the previous year. Interest income from credit cards amounted to RMB2,862 million, an increase of 33.86% as compared with the corresponding period of the previous year. Non-interest income from credit card was RMB2,435 million, an increase of 32.84% as compared with the corresponding period of the previous year.

In the second half of 2012, the Company will continue to keep to the orientation of acquiring valued customers, constantly optimize its customer mix; proactively try to build a highly-efficient operating system by cutting-edge technologies to enhance the customer experience; continue to develop high value business and expand sources of revenue; improve the efficiency of capital utilization and reduce economic capital consumption; and innovate payment models and perfect credit card payment system, with an aim to ensure a sustainable and steady development of credit card business with leading position in the industry.

Retail loans

In the first half of 2012, the Company vigorously developed the retail loan business, with improved risk pricing capability and higher capital return, thus significantly enhancing the profitability of the Company's retail loans. At the same time, the consumer credit 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 eventually losing such loans is slim. As at 30 June 2012, the Company's total retail loans amounted to RMB596.814 billion, representing an increase of RMB39.879 billion as compared with that at the end of the previous year; non-performing loan ratio of retail loans was 0.40%, up by 0.09 percentage point as compared with that at the end of the previous year.

To respond to the call of national policy to support the development of small and micro-sized enterprises, the Company, referring to the experience of the world-leading banks, relocated small and micro-sized enterprise loans each with an amount of RMB5 million or below into the retail business line. The Company constantly innovated loan products for small and micro enterprises, and developed a series of innovative products with various forms of guarantee for small and micro enterprise credit business which were customized to different groups of customers to meet the demands of the market and the customers. To further fulfill the demands of small and micro enterprise customers for comprehensive financial services such as financing, settlement, wealth management and etc., the Company launched an innovative product, namely "All-in-one Business Card", for small and micro enterprise customers, which has effectively met their diversified needs in terms of financial services and enhanced the Company's market competitiveness in small and micro enterprise credit business. In the first half of the year, loans granted to small and micro enterprises by the Company achieved a rapid growth.

III Management's Analysis and Discussion

At the same time, the Company continuously optimized the retail loan granting procedures and explored the bank-wide integration of the middle and back office operation of retail loans with a view to reduce operating cost and enhance efficiency by achieving centralized approval and granting of retail loans; continued to improve our risk management system and pushed forward the construction and application of loan auto-evaluation system and the post-lending risk pre-warning system, establish a post-lending management mechanism driven by small and micro enterprise loan data and systems so as to constantly improve our risk management of retail loans.

In future, the Company will continue to aggressively develop small and micro enterprise loan business, fully enhance the risk pricing capability of retail loans, strengthen low-cost operation capability, cross-selling capability and the capability to maintain the first-class customer service experience, thereby increasing the profitability of retail loans. Meanwhile, the Company will employ the internationally advanced risk quantitative methods and management tools to enhance retail loan risk management capability, diversify our risk management tools for retail loans, and achieve the coordinated development of the profitability, quality and scale of retail loans.

Retail customer deposits

In the first half of 2012, by adhering to the "customer-centered" business philosophy, and closely focusing on meeting clients' demands in wealth management, payment and settlement, loans and financing, the Company recorded a rapid growth of customer deposits through product innovation, marketing model innovation and multi-channel coordination. As at the end of June 2012, the total retail customer deposits of the Company amounted to RMB846.305 billion, increasing by 12.65% from the end of the previous year, of which demand deposits accounted for 59.39% of the total retail customer deposits. The total retail customer deposits accounted for 35.93% of the Company's total deposits.

For the second half of 2012, the Company will continue to exploit new customers and expand the scale of total assets under management through implementing the business development strategy formulated at the beginning of the year. We will accelerate the development of the wealth management business and continue the issue of quality financial products in a bid to optimize customer assets allocation. By further strengthening the coordination between the corporate and private businesses, accelerating the development of agency payment services, enhancing customer payment and settlement service experience, we will achieve continuous and stable growth in the scale of retail customer deposits.

Retail customers

In the first half of 2012, the Company continuously improved its customer base management system through further optimizing its strategy for retail customer base, and constantly improved its professional customer management, enhanced product innovation and management, innovated marketing models and promoted database accurate marketing. The Company issued dedicated financial products to certain customer base, strengthened the coordination among different channels, and actively carried out customer referrals and explored the potential value of its customer base, all these measures effectively satisfied the demands of existing customers on asset allocation and value appreciation in a wide range. At same time, the Company broadened the channels of acquiring customers which brought more new customers, thus promoting a steady growth in the size of the retail customers and providing strong support for its business development.

III Management's Analysis and Discussion

As at the end of the reporting period, the Company's retail customer base kept growing at a fast pace. The total number of retail accounts was 51.49 million, of which, the total number of Sunflower customers or above (i.e. high-end customers with daily average assets per month of RMB500,000 or above deposited at the Company) was 871,000, with a growth of 11.21%. Their total deposit balance was RMB399.2 billion. The balance of total assets under management from Sunflower customers or above amounted to RMB1,603.7 billion, an increase of RMB167.3 billion or 11.65% from the end of the previous year, accounting for 71.18% of retail customers' total assets under management. In addition to the existing Sunflower Wealth Management Centers and Sunflower VIP rooms, the Company established another 50 wealth management centers and put them into operation, thereby further raising our professional service standards and improving the service system for mid and high-end customers.

Branding and marketing

The Company made sustained efforts in product and service branding. It is awarded "The Best Joint Stock Retail Bank in China" for seven consecutive years by The Asian Banker. The Company was awarded the honor of the "Best Retail Bank" for many times by The Asian Banker and The Global Finance. The Company was also repeatedly awarded the title of "Best Private Bank in China" by the Euromoney, The Asset and other media authorities. During the reporting period, the Company was awarded for the fourth time the "Best Retail Bank in China" by The Asian Banker. The Company also stood out from fierce competition among more than 180 banks and financial institutions from 29 countries and regions in the Pan-Asia Pacific to reap "Excellent Retail Financial Services Award" as the first Chinese bank ranked top ten since the establishment of the award. The Company won once again the "Best Private Bank in China" from Private Banker International in Singapore, and "Best Domestic Private Bank in China" from Asia Money for a second time, and was selected "Best Private Bank in China" by high-value customers with net assets between US$1-5 million. In addition, the Credit Card Center and remote banking center were honored as "Best Call Center in China" for seven consecutive years. In terms of wealth management, the Company's Sunflower Wealth Management was awarded "Best Wealth Management Product in China" for two consecutive years by The Asian Banker in 2012.

Based on changes in market demands and customer needs, the Company proactively transformed its retail banking management by application of advanced technologies, customer segmentation and professional capacity building to better serve customers. In the first half of 2012, the Company launched the first "All-in-one Business Card" in China that provides small and micro business owners with integrated functions of financing, settlement and daily expenditure in one card, such one-stop customer service highlighted our brand image in strong innovation, excellent service and advanced technologies. In addition, the Company organized various branding campaigns to increase customer goodwill and loyalty, such as "Golden Sunflower" Cup National Teenagers Piano Competition.

3.8.2 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. As at 30 June 2012, the total corporate loans of the Company were RMB984.914 billion, an increase of 8.95% over the end of the previous year, accounting for 59.59% of the total customer loans, among which the balance of medium to long-term loans to domestic enterprises amounted to RMB365.572 billion, representing 38.26% of the total loans to domestic enterprises, a decrease of 3.71 percentage points as compared with that at the end of the previous year; the balance of total discounted bills was RMB71.201 billion, an increase of 3.24% over the end of the previous year, accounting for 4.31% of the total customer loans; and the total corporate customer deposits were RMB1,509.424 billion, an increase of 9.72 % over the end of the previous year, accounting for 64.07% of the total customer deposits.

III Management's Analysis and Discussion

In the first half of 2012, profit from the Company's wholesale banking business grew steadily, profit before tax amounted to RMB21.573 billion, accounting for 73.48% of the Company's profit before tax. Net operating income of the Company's wholesale banking business grew steadily to RMB33.944 billion, representing an increase of 22.79% as compared with that of the previous year, and accounted for 62.15% of the net operating income of the Company, representing a decrease of 0.49 percentage point as compared with that of the previous year. The Company successfully optimized its pricing mechanism and system construction and fully improved its risk pricing capability by taking full advantage of market factors (including supply-demand relationship) in accordance with the requirements for improving the risk pricing of loans as set out in the development strategy of Second Transformation. As a result, the interest income across the Bank increased significantly. In the first half of 2012, the Company accomplished a net interest income of RMB27.363 billion from wholesale banking business, representing an increase of RMB4.954 billion or 22.11% as compared with the same period last year. While driving the interest income up, the Company also endeavoured to raise the proportion of non-interest income. The Company faced a market environment which presented both challenges and opportunities in 2012, and effectively realized persistent steady growth in the non-interest income business. The Company made great efforts in exploring new businesses such as cash management, debt instrument underwriting, M&A financing, project financial advisory services, asset custody, corporate wealth management, wealth management for other financial institutions, precious metals dealing/leasing and agency trading, cross-border RMB settlement/clearance, business card, annuity, bulk commodities and emerging markets and third-party payments, and continued to maintain stable growth of income derived from intermediary businesses including traditional settlement business and financing related business (in particular, syndicated loans, factoring and forfeiting), so as to ensure diverse sources of non-interest income. While continuing to strengthen product innovation, the Company further regulated the charges of intermediary businesses and strengthened product operations and compliance management as well as the brand building of key products. As a result, the marketing and customer application indicators for various core products continued to make breakthroughs. In the first half of 2012, net non-interest income from wholesale banking business amounted to RMB6.581 billion, representing an increase of RMB1.347 billion or 25.74% as compared with the same period last year.

In the first half 2012, the Company's wholesale banking business strictly complied with the requirements of the Second Transformation, thereby expediting healthy development of its various businesses and achieving steady improvement in profits, quality and scale. The Company's loans to domestic medium, small and micro-sized enterprises increased by RMB36.811 billion as compared with that at the end of the previous year, accounting for 56.29% of total domestic corporate loans. In addition, the Company's fully promoted "Qian Ying Zhan Yi" plan (千鷹展翼) attracted a total of 5,334 customers, representing an increase of 64.68% as compared with the end of the previous year. The Company was awarded the honor of "China's Best Domestic Cash Management Bank" by *The Asset*, an international authoritative magazine. In the "Assessment on Foreign Exchange Management Requirements Implemented by Banks in 2011", China Merchants Bank was consecutively ranked "Class A" bank. Our campaign in marketing new product of "cross-border financing" was awarded the "Top Ten Financial Institutions in Brand Image Marketing Initiatives" by *The Banker*, and the Company's off-shore performance indicators (such as offshore deposits, offshore non-interest net income and offshore profitability) continued to rank first among its domestic peers in terms of market share (based on inter-bank data). In addition, our asset custody business has passed the ISAE3402 international standard accreditation by Ernst & Young for five consecutive years, and was named the "Best Chinese Professional Custody Bank" by *The Asset* for the third time. In the forum for "Competitiveness of Chinese Investment Banks 2012" and the presentation ceremony for the first "Golden Bull Award for Chinese Investment Banks" hosted by *China Securities Journal*, the Company was awarded "Golden Bull Award for Investment Banks". In the summit forum for "Investment Banks Creating Value" and the presentation ceremony for the "China Excellent Investment Banks 2012", the Company won five prizes, including "Best Bank for Investment Banking", "Best Bank for Financial Consultant Services", "Best Bank for Bonds Underwriting", "Best Innovative Bank for Investment Banking" and "Best Project on Merger and Acquisition Reorganisations". Our "Golden Life" corporate annuity business received the "Top Ten Financial Product Marketing Award" under the "Chinese Financial Innovation Award for 2012" presented by *The Banker*.

III Management's Analysis and Discussion

Corporate loans

Corporate loans of the Company include working capital loans, fixed asset loans, trade finance and other loans such as corporate mortgage loans. In the first half of 2012, the Company actively provided premium loan services. The Company provided more supports for quality industries, such as those emerging strategic industries, modern service sector, renewable energy, environmental protection and high-tech industries. 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. These measures optimized industry distribution of corporate loans.

The Company pushed forward the Second Transformation with focus on SME business to realize healthy and stable development of the business. According to 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) promulgated by the Ministry of Industry and Information Technology, total balance of our domestic corporate loans extended to medium, small and micro enterprises amounted to RMB537.909 billion as at 30 June 2012, representing an increase of 7.35% as compared with that at the end of the previous year, and accounting for 56.29% of our total domestic corporate loans, with a non-performing loan ratio of 1.06%, 0.03 percentage point higher than that at the end of the previous year.

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

Firstly, the Company intensified its effort to set up special outlets and utilized the successful experience of the Small Enterprise Credit Center to further improve the comprehensive SME financial services. On one hand, the businesses of the Small Enterprise Credit Center kept growing steadily. As at 30 June 2012, loan balance of the Small Enterprise Credit Center was RMB37.022 billion, representing an increase of RMB3.484 billion or 10.39% as compared with that at the end of the previous year. The number of loan customers was 5,969, representing an increase of 228 or 3.97% as compared with that at the beginning of the year. The average loan balance granted by our customer managers was RMB128 million. The average number of customers served by our relationship managers was 20.7. Non-performing ratio of the Small Enterprise Credit Center was 0.80%. In only 3.5 years, the cumulative loan amounts granted by the credit centre exceeded RMB89 billion, providing financial support to an aggregate of more than 10,000 small-sized enterprises. The Small Enterprise Credit Center not only developed its businesses in a healthy and comparatively rapid way and made remarkable contributions to the real economies by serving small-sized enterprises, it also received widespread praises and acclaims from all walks of life. It has won more than 30 awards including the "Advanced Units on Financial Services" from the Chinese Financial Industry Workers' Union, the "Advanced Units on Financial Services for Small- and Micro-sized Enterprises" from the China Banking Regulatory Commission (CBRC), the "Advanced Units on Financial Services for Small-sized Enterprises" from the CBRC (Jiangsu branch) and the CBRC (Suzhou sub-branch) and No.1 among all first prize winners of the financial innovation award in Shenzhen. On the other hand, the Company optimized the functions of the Small Enterprise Finance Department of its branches, enhanced the utilization and sharing of the successful experience of the Small Enterprise Credit Center as well as the business integration and cross-selling businesses of its branches, and further enhanced the marketing capabilities, credit approving efficiency and comprehensive financial services of its SME corporate businesses.

Secondly, the Company enriched SME innovative products. In 2012, the Company continued to optimize the product structure of "Zhu Li Dai (助力貸) "for SME financing and "Xiao Dai Tong" (小貸通) for small-sized enterprises. Based on the diverse demands of SME enterprises, the Company constantly enriched the brand features and special sub-products of "Zhu Li Dai" and "Xiao Dai Tong" which won positive recognition from a great many SME enterprises. Meanwhile, in the first half of the year, the Company initiated the technology-based financial product innovation campaign and launched the featured products such as the loans pledged with technology and the loans pledged with intangible assets while proactively establishing the "CMB Innovation & Business Start-ups Public Welfare Foundation" jointly with the Ministry of Science and Technology. In addition, the Company also supported the first national "Chinese Innovation & Business Start-ups Competition" and offered tailored financial products and financial service proposals for attending enterprises.

Thirdly, the Company enhanced its SME loan risk management. Based on its effort in 2011, the Company continued to improve various risk management methods, including further optimizing the credit-approving investigation report, improving efficiency of the double endorsement for credit approving, optimizing the credit-approving procedures to launch remote credit-approving model, establishing efficient and flexible trigger post-loan management system, and implementing the due-diligence exemption system and regulations.

Syndicated loans

In the first half of 2012, for the purpose of enhancing inter-bank cooperation and information sharing, and diversifying risks associated with large-amount loans, the Company vigorously promoted syndicated loan business. As at 30 June 2012, the balance of syndicated loans amounted to RMB68.668 billion, representing an increase of RMB2.518 billion, or 3.81%, as compared with the end of the previous year.

Discounted bills

In the first half of 2012, the Company effectively drove forward the business of discounted bills in consideration of the combined factors of total amount of loans, liquidity, yield and risks. As at 30 June 2012, the balance of discounted bills loans was RMB71.201 billion, representing an increase of 3.24 % as compared with the end of the previous year.

Corporate customer deposits

In the first half of 2012, the Company's corporate customer deposits maintained its growth momentum. As at 30 June 2012, the balance of corporate customer deposits amounted to RMB1,509.424 billion, representing an increase of RMB133.781 billion as compared with that in the previous year, while its daily balance amounted to RMB1,315.929 billion, representing an increase of RMB99.206 billion as compared with that in the previous year.

The Company attaches great importance to enhancing the returns on corporate customer deposits. With innovative services such as online corporate banking and cash management and improved marketing and expanded sources of deposits, large amount of low cost corporate customer deposits were obtained. Meanwhile, the Company absorbed some agreement deposits with longer maturity in a proper way so as to optimize the structure of corporate customer deposits. As at 30 June 2012, demand deposits accounted for 51.87% of the total RMB deposits of our corporate customers, which were 2.38 percentage points lower than that at the end of the previous year, and 3.74 percentage points higher than that of term deposits.

III Management's Analysis and Discussion

"Qian Ying Zhan Yi" Program

In October 2010, the Company launched the "Qian Ying Zhan Yi" program (千鷹展翼) to nurture innovative emerging enterprises in line with the State's Twelfth Five-Year Plan and in response to the call of the Ministry of Science and Technology on speeding up the development of technology-intensive small and micro enterprises. The program was designed to identify more than 1,000 enterprises with great growth potential and high technological content each year and provide comprehensive financial supports for them. By introducing "Comprehensive Financial Services Program for Innovative Growth Companies", the Company cultivates and assists enterprises to progressively build up their edge in brands, patents, staff, service and business models and create competitive strengths from nine aspects, including innovative credit policy, innovative financing products and innovative private equity cooperation.

As at 30 June 2012, the total number of innovative emerging enterprises under "Qian Ying Zhan Yi" program was 5,334, representing a surge of 64.68% as compared with the end of the previous year. Since 2011, a total of 93 corporate customers under "Qian Ying Zhan Yi" program have been successfully listed on the SME board and GEM and have opened accounts with the Company for IPO proceeds.

In the future, the Company will continue to vigorously promote the "Qian Ying Zhan Yi" program. Firstly, continue to aggressively cultivate and support qualified corporate customers to expand customer base; secondly, extend special loans of RMB200 billion to support such enterprises for the next five years; thirdly, strive to increase the proportion of technology-intensive SME loan balance of total SME loans to 50% within the next three years; fourthly, build the equity investment platform for innovative emerging enterprises by deepened cooperation with high-quality PE; fifthly, launch the innovative "Zhan Yi Tong (展翼通)" financing products to offer special financing services for "Qian Ying Zhan Yi" customers; sixthly, identify premium innovative enterprising projects and increase the number of "Qian Ying Zhan Yi" customers through participation in the first Innovation and Entrepreneurship Competition 2012 led by the State Ministry of Science and Technology.

Settlement and cash management business

Regarding cash management, our innovation advantage and competitiveness continue to take lead among our domestic peers, which are of fundamental and strategic importance to cope with the challenge of liberalized interest rate. Notably, our market dominant cross-bank cash management products and unique online supply chain finance service are the most advanced in the industry. Yield of cash management products increased significantly. We provide all-inclusive, multi-model and integrated cash management service, contributing to the acquisition and retention of customers, acquisition of low cost corporate settlement related deposit, and the cross-sell of other corporate and retail products. As at 30 June 2012, the total number of customers using cash management services reached 195,533, representing an increase of 17,963 as compared with the previous year. Our product penetration rate increased steadily with the number of highly penetrated customers growing rapidly. The number of customers using 4 to 6 products increased by over 30% year-on-year. The balance of corporate deposits from customers using cash management services exceeded RMB900 billion. The balance of deposits from cash management customers without loans exceeded RMB600 billion, accounting for near 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 a firm grip on core customers in the industrial chain, the financial transaction volume from the electronic supply channel increased rapidly with a transaction volume of over RMB350 billion during the year.

III Management's Analysis and Discussion

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 90% of the products and services of wholesale banking businesses that include account management, payment and settlement, online borrowing, trade finance and investment appreciation. As at 30 June 2012, the number of customers increased steadily to a total of 205,177, representing an increase of 10.96% as compared with the end of the previous year. Customers with a high replacement ratio of settlement business have become the mainstream user of our online banking, which have effectively lowered the costs of the whole bank. As at 30 June 2012, there were close to 60,000 customers transacting 100% of their settlement online, with a total of 4 million transactions in RMB700 billion. Among the online corporate banking customers, small-sized enterprise customers accounted for nearly 90%. The actual usage by our small-sized enterprise customers of U-BANK, an online corporate bank was further strengthened. Number of loans granted through "Wang Dai Yi (網貸易)", an online financial service for small-sized enterprises exceeded 7,000 with an average amount of withdrawals of RMB430,000. This fully reflects that the service, which has the advantage of "Borrow & Repay Anytime", meets small-sized enterprises' demand for frequent withdrawals of small loans. The Company continued to spearhead innovation of online banking in the industry. The number of users of the corporate mobile banking service, which was the first of its type in China, has exceeded 40,000. Our online corporate bank, as an important channel for products sales, has become profitable with strong sales capability. It effectively bolstered the development of corporate businesses across the Company, and fully demonstrated our leading technological edge.

As for corporate card business, through coordinated marketing of retail and corporate lines, the Company had issued a total of 54,275 corporate cards as at 30 June 2012. Total revenue from corporate cards amounted to RMB79,562,100 for the first half of 2012, an increase of 27.12% over the same period of last year, among which non-interest income from domestic and overseas transactions was RMB35,663,000 and RMB8,243,700 respectively, while the income from recurring interest, the interest from cash advance loan and the overdue fine was RMB35,655,400.

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 the first half of 2012, the sales of our corporate wealth management products reached RMB570.3 billion, realizing an income of RMB230 million from entrusted wealth management.

With respect to the asset custody business, in the first half of 2012, the Company enhanced its efforts in marketing high yield custody products to overcome the unfavorable conditions in domestic stock market. As a result, income from custody fees and assets under custody reached record high. The Company's custody business recorded an income of RMB350 million, representing an increase of 53.51% over the same period of last year; the balance of assets under custody was RMB907.779 billion, representing an increase of 78.79% as compared with that at the beginning of the year; and daily average deposits under custody was RMB25.627 billion. The Company successfully entered into a contract with One Foundation as an independent third-party custodian of the first public welfare charity foundation in China. This marked a meaningful attempt at the supervision and information disclosure of charity foundation in China.

III Management's Analysis and Discussion

As for annuity business, the Company hosted the 2012 Chinese Annuity Financing Forum in June 2012, when more than 160 participants including government officials, experts and scholars and senior corporate executives were invited to exchange ideas on the development and reform of annuity financing. This forum has brought about extensive influence in the industry. As at 30 June 2012, the total number of individual accounts of our newly contracted annuity customers was 55,500, our newly contracted entrusted assets were RMB462 million, newly contracted auxiliary entrusted assets reached RMB2.882 billion and newly contracted custody assets reached RMB4.083 billion.

International business and offshore business

As for the international business, the Company responded effectively to the complicated domestic and international economic and financial situations to seize opportunities in innovation, development and reform. Specifically, the Company focused on product innovation, liability management, wealth creation, cross-border collaboration, customer base building and management capability to achieve notable improvement in operation, management and capital efficiency. As at 30 June 2012, the Company completed international settlements of US$85.380 billion, an increase by 13.08% from the same period last year; collaborated international settlements amounted to US$78.961 billion, an increase of 17.66% from the same period last year; cross-border Renminbi settlements amounted to RMB63.206 billion, an increase by 14.90% from the same period last year; foreign exchange settlements amounted to US$57.960 billion, an increase of 16.24% from the same period last year; accumulated trade financing amounted to US$12.458 billion, an increase of 23.49% from the same period last year; and international factoring business amounted to US$1.471 billion, an increase by 10.27% from the same period last year. As a result, accumulated non-interest income from international business was RMB939 million, representing an increase of 8.96% over the same period last year.

With regard to offshore business, the Company continued to rank the first in terms of market share in many business indicators. As at 30 June 2012, deposits from offshore customers amounted to US$7.069 billion, representing an increase of 37.72% as compared with that at the beginning of the year; while credit assets of offshore customers reached US$3.452 billion, representing an increase of 17.98% 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$45.0261 million, representing an increase of 31.63% over the same period of the previous year.

Financial institutions business

With regard to businesses with financial institutions, as at 30 June 2012, the balance of inter-bank placements from other financial institutions reached RMB328.817 billion, representing an increase of RMB128.180 billion or 63.89% 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 credit assets transfer of repurchase nature amounted to RMB207.697 billion as at the end of the reporting period, representing an increase of RMB151.423 billion or 269.08% as compared with that at the beginning of the year. As for third party custody business, the Company had a total of 3,936,600 clients. The balance of funds under third-party custody amounted to RMB40.952 billion. The Company recorded a sales value of RMB38 billion in respect of wealth management products sold through inter-bank channels. The amount of cross-border RMB agency clearing service from and to other financial institutions reached RMB79.9 billion in value, while the total number of clearing accounts remained at 45. Margin trading and short selling business was carried out in partnership with 28 pilot securities firms. As the precious metal operations developed rapidly, the Company had traded gold and silver on behalf of its customers with accumulated transaction volume of 52.30 tons and 4,013 tons respectively (the abovementioned transactions were conducted on behalf of both institutional and individual customers); and the volume of precious metal leasing with customers amounted to 9.95 tons.

Investment banking

With respect to investment banking business, as at 30 June 2012, the revenue amounted to RMB653 million. The Company aggressively expanded the underwriting business of debt financing instruments including short-term financing bonds, medium-term bills, ultra short-term financing bonds and private issuance of credit facility by more marketing efforts and product and business innovation. A total income of RMB298 million from the underwriting business of debt financing instruments was achieved. Besides, the Company also focused on M&A advisory business, IPO and PE financial advisory services, and innovative investment banking wealth management business, achieving a total revenue of RMB355 million from financial advisory business.

Wholesale customers

After 25 years of development, the Company has developed 458,500 corporate depositors and 31,100 corporate borrowers, including domestic industry leaders and large enterprise groups, government agencies, financial institutions and Fortune Top 500 multinational corporations. Meanwhile, the Company has been striving to develop small and medium-sized enterprises business to form a balanced customer mix with large, medium and small customers reasonably proportioned. The products and services of the Company's wholesale banking business have been widely recognized by our customers who maintain a high level of satisfactions with our services.

3.8.3 Treasury

Operating strategy

With respect to RMB investment business, as impacted by sluggish economic environment and continued cooldown in domestic real estate industry in the first half of 2012, the overall Chinese economy experienced a growth slowdown and declining inflation rate. Under this macroeconomic situation, the central government gradually adjusted its macro-economic policy from "stimulating growth and economic transformation" to "stabilizing growth", and it is generally anticipated that the macro-economic adjustment policy will gradually be loosened. To this end, the Company has formulated the investment strategy of "progressively handled longer duration portfolio", and proactively increased investments in the first half of the year mainly in medium to long-term bonds of high credit ratings. Meanwhile, more efforts were made in adjusting stock position with range trading. As at the end of the reporting period, the average duration of the debt portfolio denominated in RMB was 3.04 years.

With respect to foreign currency investment, in the first half of 2012, the Eurozone debt crisis lingered on, and there were disagreements in formulating an effective long-term solution for the debt crisis. Meanwhile, the optimistic expectation for economic growth in the United States experienced a gradual cooldown, and the unemployment rate and core indicators of economic growth also saw a downturn recently after several months of encouraging performance. Due to all these factors, the yield of 10-year U.S. treasury bonds decreased to a historical new low of approximately 1.5% recently. In view of the above conditions, new foreign currency investments will continue to avoid those countries affected by the European debt crisis and mainly consist of Asian enterprises' credit debts with higher safety level with active range trading operation. As at the end of the reporting period, the average duration of debt investments denominated in foreign currencies was 2.54 years. Besides, the Company also seized market opportunities of derivative business on behalf of customers to secure new source of profit growth.

III Management's Analysis and Discussion

Operating results

From January to June 2012, the yield rate of the Company's local and foreign currency bond portfolio is 3.79%, up by 47 basis points as compared with the corresponding period of 2011; the Company's annual yield on financial assets under reverse repo agreement and placements to other financial institutions was 4.27%, up by 26 basis points as compared with the corresponding period of 2011.

At the end of June 2012, the proprietary investment of the Company was RMB527.985 billion, up by 19.48% as compared with the end of the previous year. From January to June 2012, income from the Company's entrusted wealth management was RMB805 million, up by 44.01% as compared with the corresponding period of 2011. Income from agency trading of precious metals amounted to RMB197 million, representing an increase of 65.55% over the same period of the previous year.

Business development

For wealth management business, the Company launched innovative wealth management products such as umbrella-shaped structured level-by-level stock investment and gold-linked structured product. As at 30 June 2012, with the number of wealth management products issued by the Company reaching 1,205, the sales of our corporate wealth management products amounted to RMB2,040 billion, representing an increase of 57% as compared with the same period last year. In respect of precious metal operation, the Company cooperated with other banks and completed the first international gold placement in China.

3.8.4 Distribution channels

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

Physical distribution channels

The efficiently operated outlets of the Company are primarily located in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, and large and medium-sized cities in other regions. As at 30 June 2012, the Company had 94 branches, 813 sub-branches, 2 branch-level specialized service institutions (a Credit Card Center and a Small Enterprise Credit Center), 1 representative office, 2,067 self-service centers and 8,589 self-service machines (including 2,680 automatic teller machines and 5,909 cash recycle machines) in more than 100 cities of Mainland China. The company also has a wholly-owned subsidiary, CMB Financial Leasing Co., Ltd. in China and several subsidiaries including Wing Lung Bank Ltd. and CMB International Capital Corporation, Ltd., as well as a branch in Hong Kong; a branch and a representative office in New York; and a representative office in London and Taipei respectively.

As at 30 June 2012, the Company's Small Enterprise Credit Center has set up 36 sub-centers, including 12 first-tier sub-centers, 11 second-tier sub-centers and 13 third-tier sub-centers, in addition to 3 teams based in Shanghai and other regions. These sub-centers have developed nearly 70 marketing teams in total, and have built an expanding small enterprise service network in major cities in the Yangtze River Delta. For Pearl River Delta, West Side of Taiwan Strait and the Bohai Rim Area, small enterprise financial service bases have also been set up in major cities exploring the feasibility of specialized operation. The Small Enterprise Credit Center has also cooperated with local governments, federations of industry and commerce, chambers of commerce and associations to promote the small enterprise service and build a "Partnership Project" brand.

e-banking channels

In the first half of 2012, e-banking channels such as online banking, direct banking and mobile banking continued rapid development momentum, the number of e-banking users, transaction volume and online payment all grew rapidly, which effectively relieved the pressure on physical outlets and significantly reduced the operating cost of the Company. In the first half of 2012, the overall counter-replacement ratio in retail e-banking channels reached 88.91% as compared with 51.13% in corporate e-banking channels, and the replacement ratio in online corporate banking reached 87.68%.

Online banking

The Company's retail online banking business grew rapidly in the first half of 2012, and the number of online banking users, trading volume as well as online payment volume all maintained rapid growth. In the first half of 2012, the counter replacement ratio in retail online banking of the Company was 83.38%, up by 5.83 percentage points as compared with the corresponding period of the previous year. The number of active users of CMB Online Banking Professional Edition reached 9,755,500, up by 23.96% as compared with that at the beginning of the year, the total cumulative number of online retail banking transactions was 323,419,600, up by 42.33% as compared with the corresponding period of the previous year; and the accumulated transaction volume was RMB7,222.918 billion. In particular, the accumulated number of online payment was 246,581,900, with total volume of RMB99.066 billion, up by 55.85% and 52.03 % respectively compared with the same period last 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 constantly enhanced, and thus has become an efficient channel connecting customers in various wholesale banking segments, evolving in a customer management tool for value exploitation, cross-selling and industry extension. As at 30 June 2012, the accumulated number of transactions through U-BANK was 20.20 million, with a volume of RMB11,570 billion,up by 21.25% and 28.70% respectively compared with the same period last year.

Direct banking

The direct banking service provided by the Company revolutionarily combines the convenience of direct banking with the face-to-face service at counters. Direct banking enables relationship managers to provide customers with immediate, comprehensive, speedy and professional services, including a variety of banking transactions, investment and financial advices, one-stop loans and product sales. Currently, the primary functions of direct banking include direct transactions, remote assistance, remote wealth management, remote loan and remote sales.

In the first half of 2012, in respect of Quick & Easy Wealth Management, the number of newly opened active accounts reached 158,400 and the cumulative number of active accounts was 3.2997 million. The accumulated number of transactions was 3.9235 million, and the accumulated transaction volume was RMB345.064 billion, representing an increase of 54.78% from the same period of last year; whereas accumulated sales of various types of funds (including monetary funds), trusts and financial products amounted to RMB125.036 billion, increasing by 100.61% from the same period last year.

III Management's Analysis and Discussion

Mobile banking

In the first half of 2012, the Company experienced significant growth in its personal mobile banking business. The number of mobile banking users and trading volume as well as mobile payment has maintained rapid growth, leading to a significantly increased utilization rate. As at 30 June 2012, the number of downloads of iPhone and Android applications exceeded 4 million, with app market rating ranked top among online banking apps. The total number of mobile banking customers has reached 7.0903 million with 3,752,800 cumulative transactions (excluding mobile payment), up by 429.01% as compared with the same period last year; and the accumulated transaction volume reached RMB128.101 billion, up by 185.00% as compared with the same period last year. The aggregate number of mobile payment amounted to 13.6145 million, up by 230.00% as compared with the same period last year; and the cumulative transaction volume was RMB3,646 million, up by 309.20% as compared with the same period last year.

3.8.5 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.

In the first half of 2012, the global economic environment remained unstable. Amidst fierce competition, the Hong Kong Branch proactively seized opportunities in mainland and overseas business coordination, and adhered to the Second Transformation to promote operation and internal management, thus achieving satisfactory results and laying a solid foundation for completing this year's plan. During the reporting period, the application for corporate online banking service has been approved by the Hong Kong Monetary Authority, and the service was launched on 6 July 2012 to better serve corporate customers. Meanwhile, the Hong Kong Monetary Authority has approved certain CMB outlets in mainland China to provide account opening for Hong Kong All-in-one Card, witnessed by CMB manager, for convenience of mainland customers.

New York Branch

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

2012 marks the fourth anniversary of New York Branch. As the European debt crisis deteriorated, the U.S. economic recovery experienced volatilities, RMB appreciation expectations weakened and the interest spread in Chinese market continued shrinking, the New York Branch continued to collect local market information and capture business opportunities in the U.S.. With its innovation capability and quality service, NY Branch actively expanded collaboration with homeland branches and accurately positioned itself in serving other banks with diversified products and services. As a result, the Branch's profit increased substantially over years with a path for organic growth.

3.8.6 Information technology and research & development

The Company highly stresses the importance of IT infrastructure building and investment. As an integral objective of the Second Transformation, the core capability of its IT infrastructure is undertaking a systematic upgrade to support management reform and business development. The principal measures taken by the Company during the reporting period were as follows:

The upgrade mainly covers four areas: maturity of structure management, CMMI R&D management, ITIL operation management and ISO27001 security management, which are designed to systematically enhance IT management in general. The focus was to ensure IT support for the Second Transformation and streamlining workflow. In the first half of the year, 644 projects were completed to support work process optimization and business innovation.

The Company attached great importance to IT system security and stable operation of bank-wide systems. Project of the data centre in Shanghai is accelerated to realize the operation of dual data centres. Business continuity system was strengthened, and IT system's capacity to deal with emergencies was also improved.

To prepare IT system for the future, the Company steadily carries out the third generation IT system project. The planning and design for the project has been completed to enter the stage of full-scale development and implementation.

3.8.7 Wing Lung Group

3.8.7.1 Profile of Wing Lung Bank

Wing Lung Bank Limited ("WLB"), founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with prudence, service with sincerity" in providing personalized and sincere service to the public. The principal operations of WLB and its subsidiaries ("Wing Lung Group") comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities brokerage, wealth management service, insurance business, financial lease, property trustee and nominees service. As of 30 June 2012, the registered capital of WLB was HK$1.5 billion.

III Management's Analysis and Discussion

3.8.7.2 *Overall operation overview of Wing Lung Group*

For the period ended 30 June 2012, Wing Lung Group recorded an unaudited consolidated profit after tax of HK$1.037 billion, representing an increase of 5.83% as compared with the consolidated profit after tax of HK$980 million in the first half of 2011 (as restated), which was mainly driven by net interest income. For the period ended 30 June 2012, Wing Lung Group recorded a net interest income of HK$1.265 billion, representing an increase of 43.16% as compared with the corresponding period of 2011; the net interest margin for the first half of 2012 was 1.63%, up by 30 basis points as compared with the corresponding period of 2011. Net non-interest income was HK$582 million, representing a decrease of 28.55% as compared with the corresponding period of 2011, primarily due to the European debt crisis and the prudent investment sentiment across global markets, resulted in non-interest income such as income from securities business to decrease significantly; net fees and commission income amounted to HK$214 million, representing a decrease of 7.13% as compared with the corresponding period of 2011. The insurance business achieved a net operating income of HK$57.72 million, representing an increase of 7.07% as compared with the corresponding period of 2011. Net gain from foreign exchange trading amounted to HK$161 million, representing a decrease of 19.04% as compared with the corresponding period of 2011. Operating expenses amounted to HK$646 million, representing an increase of 9.66% as compared with the corresponding period of 2011. The cost-to-income ratio for the first half of 2012 was 34.95%, representing a slight increase of 0.29 percentage point as compared with the corresponding period of 2011.

As at 30 June 2012, the total assets of Wing Lung Group increased by 5.97% to HK$173.626 billion when compared with that at the end of 2011; the net assets of Wing Lung Group increased by 7.31% from HK$14.944 billion at the end of 2011 (as restated) to HK$16.037 billion. Loan-to-deposit ratio was 61.16%, which fell by 0.69 percentage point as compared with the end of 2011. As at 30 June 2012, the capital adequacy ratio and core capital adequacy ratio of Wing Lung Group were 13.36% and 9.71% respectively, and the average liquidity ratio for the reporting period was 45.95%, all above statutory requirements.

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

Deposits

As at 30 June 2012, total deposits of Wing Lung Group grew by 6.91% to HK$123.098 billion as compared with that at the end of 2011.

Among the various kinds of deposits, compared with that at the end of 2011, Hong Kong Dollar deposits increased by HK$2.609 billion or 4.12%; US Dollar deposits after translation increased by HK$2.763 billion or 15.94%; RMB deposits after translation rose substantially by HK$3.107 billion or 17.79%; and deposits in other foreign currencies after translation fell by HK$521 million or 3.07%.

III Management's Analysis and Discussion

Advances to customers

As at 30 June 2012, the balance of Wing Lung Group's total advances to customers, including trade bills, grew by 4.33% to HK$89.008 billion as compared with that at the end of 2011. Overall loan quality remained sound with a non-performing loan ratio (including that of trade bills) of 0.43%.

With respect to corporate banking business, the total corporate loans amounted to HK$35.761 billion as at 30 June 2012, which was on a par with that at the end of 2011. During the reporting period, WLB devoted efforts to obtaining loans for overseas enterprises which were secured by guarantee from their respective parent companies, syndicated loans, corporate loans to enterprises in China and Hong Kong as well as bilateral loans and the result was remarkable. In order to expand the revenue base, WLB actively explored non-interest income business, including promoting sales of RMB bonds and wealth management products in overseas markets, acting as the receiving bank in initial public offering of shares and the dividend paying bank for listed companies.

As to commercial banking business, the balance of loans amounted to HK$3.484 billion as at 30 June 2012, representing a decrease of 15.28% as compared with the end of 2011. Documentary bill financing business improved slightly by 2.80%. In 2012, WLB proactively promoted the "Cross-border Renminbi/Discount Notes Financing Guarantee" business, and continued to focus on expanding the cross-border trade Renminbi settlement business. With respect to the hire purchase and lease business, the balance of loans amounted to HK$399 million, representing a decrease of 4.11% as compared with the end of 2011 due to intense market competition in the first half of the year.

As for the mortgage and personal loan business, due to the slowdown in the recovery of the property market, the intense competition in the mortgage market, and the prudent measures implemented by the Monetary Authority, as at 30 June 2012, the balance of loans amounted to HK$25.510 billion, decreased by 2.15% as compared with the end of 2011. Of the total loans, the balance of residential mortgage loans amounted to HK$8.343 billion, decreased by 3.20% as compared with the end of 2011. WLB will closely monitor the market development, take flexible measures and formulate competitive lending strategies to secure its market share.

Investments

As at 30 June 2012, the balance of Wing Lung Group's debt securities investment amounted to HK$16.310 billion, down by 31.83% as compared with the end of 2011. As at the end of the period, the balance of Wing Lung Group's foreign currencies (including Hong Kong dollar) debt securities investment amounted to HK$10.558 billion. Nearly 85% of the foreign currencies (including Hong Kong dollar) debt securities were rated A3 or above and were exposed to comparatively low risks.

Treasury business

For the first half of 2012, the tightening regulatory policies at home and abroad, the challenging economic situation in China and the prevailing prudent sentiment on the market, led to the reduced transaction volume of and gain from the RMB non-deliverable forward contracts and cross-border purchase and sale of foreign exchange. Revenue from foreign exchange trading business amounted to HK$43.95 million, representing a decline of 48.54% as compared with the corresponding period of the previous year. Revenue from foreign money exchanges, however, amounted to HK$33.45 million, representing an increase of 31.26% as compared with the corresponding period of 2011; and the substantial growth in revenue from foreign exchange swaps made net gain from foreign exchange business decline by only 19.04%.

III Management's Analysis and Discussion

With strong support from 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. With RMB going global, WLB will continuously launch new RMB products with a view to meet the market demand. In addition, WLB also strived to increase the scale of investment in domestic RMB bond market and expand RMB client base to lay a solid foundation for the further development of RMB business of WLB.

Wealth management

In the first half of 2012, Wing Lung Group's wealth management business realised a revenue of HK$21.72 million, representing an increase of 18.79% as compared with the corresponding period of 2011.

WLB officially launched its "Private Wealth Management Service" this year to offer comprehensive financial services to high-end customers in Mainland China and Hong Kong. During the reporting period, WLB aggressively launched promotional activities for its wealth management business, and devoted itself to diversifying its wealth management products to offer comprehensive cross-border financial products and services, thereby enabling its customers to gain investment returns from global markets. Among which, the transaction volumes of funds and debt securities rose by nearly 70% and 50% respectively as compared with the corresponding period of the previous year. WLB will continue to enrich its investment products and services so as to offer more choices for its customers.

Credit card

WLB issued more than 250,000 credit cards as at 30 June 2012, representing an increase of 0.83% as compared with the end of 2011. The credit card receivables amounted to HK$320 million, representing a decrease of 23.94% as compared with the end of 2011. Merchant business turnover was HK$1.965 billion, representing a sharp increase of 23.42% as compared with the corresponding period of 2011, reflecting the vigorous 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 have been in a steady growth. In order to attract and retain customers, WLB has launched "CUP (China UnionPay) Dual Currency Credit Card", as well as a number of flexible cash revolving and spending reward programs. In 2012, WLB will make pilot introduction of standard credit cards jointly issued by WLB and CMB to gain over more users.

Securities broking

In the first half of 2012, Wing Lung Securities Limited ("Wing Lung Securities") realised a brokerage commission and related income of HK$65.94 million, representing a decrease of 32.82% as compared with the corresponding period of 2011. During the reporting period, notwithstanding the uncertain external economic environment and concerns over the sovereign debt problem in Europe, investors in Hong Kong preserved a prudent attitude. In the first half of 2012, Wing Lung Securities actively launched the securities business promotion plans, strengthening cross-selling and exploring for new customers, in anticipation of recovering the trading volume rapidly once the market shows positive signs.

III Management's Analysis and Discussion

Insurance

In the first half of 2012, Wing Lung Insurance Company Limited ("Wing Lung Insurance") realised a gross premium income of HK$396 million, representing an increase of 5.35% as compared with the corresponding period of 2011. Total insurance claims increased by 13.84% to HK$185 million. Underwriting business recorded a profit of HK$24.29 million, indicating an improvement of 19.21% as compared with the corresponding period of 2011, mainly due to the significant increase in the gross premium from the employees' compensation insurance business.

Branch network

At present, WLB has a total of 43 banking offices in Hong Kong.

WLB has 4 branches and representative offices in the PRC, 1 branch in Macau and 2 overseas branches, located in Los Angeles and Cayman Islands respectively.

Human resources

As at 30 June 2012, the total number of employees of WLB is 1,698 (31 December 2011: 1,693), of which 1,519 were in Hong Kong, 126 in the PRC, 34 in Macau and 19 overseas.

3.8.7.3 Progress of Integration with WLB

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

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and WLB jointly 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 Migration 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-sized 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. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with corporate deposits of HK$9.624 billion and corporate loans of HK$42.346 billion. The Company has successfully recommended individual customers to WLB with retail deposits of HK$833 million and loans of HK$314 million, and the balance of total customer assets under management amounted to HK$1.668 billion.

III Management's Analysis and Discussion

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, and the process re-engineering of the Logistics Center has made remarkable progress. WLB has kept on enhancing its electronic banking service capability, as evidenced by the fact that WLB's iPhone App has been officially launched, that an online subscription channel for initial public offering funds has been made available, and that 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. 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. 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.

3.8.8 CMB Financial Leasing

CMB Financial Leasing Co., Ltd. (CMBFL) is one of the first five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and is mainly engaged in the provision of financial leasing of large-and-medium scale 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 from all over the country in respect of procurement of equipment, promotion of sales, activation of assets, balance of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

CMBFL actively explores a specialised business model, develops market-oriented financial leasing product portfolio, expands internationalized equipment financing business, as well as constructs comprehensive risk management and internal control systems and strengthens the building of a talented team. After more than four years of hard work, CMBFL has achieved good operating results with stable and rapid developments across all business lines, and become one of the most competitive financial leasing companies with promising prospects in China. As at 30 June 2012, CMBFL had a registered capital of RMB4 billion and 101 employees; total assets of RMB51.225 billion, up by 36.48% from the end of the previous year; net assets of RMB5.212 billion, up by 85.22% from the end of the previous year. In the first half of 2012, CMBFL has realized a net profit of RMB398 million in aggregate, representing a growth of 98.01% as compared with the same period last year.

3.8.9 CMB International Capital

CMB International Capital Corporation Limited (CMBIC) is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage and assets management. As at 30 June 2012, CMBIC had a registered capital of HK$250 million and 73 employees.

In the first half of 2012, CMBIC proactively took various measures to cope with volatile market conditions and challenges, enhanced coordinated market activities, strengthened the overall risk management, and made great progress in internal control and management as well as business operation. All its investment banking business, agency business and asset management business achieved steady and rapid development. CMBIC also proactively explored new investment banking business, with an aim to create a series of diversified products. By the end of June 2012, total assets of CMBIC were HK$591 million, and net assets were HK$458 million. In the first half of 2012, realized operating income amounted to HK$117,001,500, an increase of 94.76% over the corresponding period of the previous year. Realized net profits were HK$60,889,100, an increase of 322.98% over the corresponding period of the previous year.

3.8.10 China Merchants Fund Management

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

As at 30 June 2012, CMFM reported total assets of RMB915 million, net assets of RMB709 million and a workforce of 187 employees. CMFM operated 25 open-ended mutual funds, 4 social security portfolios, 18 annuity portfolios, 23 private wealth management portfolios and 1 QFII portfolio. The total assets under management were RMB80.282 billion. In the first half of 2012, CMFM realized an operating income of RMB275 million and a net profit of RMB72.9242 million.

3.9 Risk Management

Over recent years, the Company, through implementing the Second Transformation, stepped up the construction of a risk management system that focuses on risk adjusted value creation with principles of "Comprehensiveness, Professionalism, Independence and Balance". During the first half of 2012, against the background of sophisticated and ever-changing economic environment at home and abroad that brought rising risks in bank operations, the Company proactively and effectively adopted various risk control measures, and therefore the overall risk profile was maintained at low levels while the risk trends remained largely stable, and all risk preference indicators met the requirements of the intended goals. Regarding credit risk management, the Company continued to promote overall process optimization and fully enhance the fundamental management, which led to largely stable asset quality and credit cost and further improvement in provision coverage for impairment loss. With market risk control measures in place, our liquidity was secured, interest rate risk exposure and exchange rate risk exposure of bank accounts were confined within respective limits, and risks associated with financial market business were managed under acceptable range. Thanks to the effective prevention and management of operational risk, compliance risk, IT risk, strategy risk and reputation risk, both risk management awareness and capability were enhanced significantly. There was no serious incident associated with operational risk, compliance, lawsuit or significant IT system failure. Our IT system has maintained stable operation.

III Management's Analysis and Discussion

3.9.1 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 authorizations that has been approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. Based on different credit risk conditions, the Company reviews different risk associated system at different authorization levels. The decision-making entities include: Risk Control Committee of the Head Office, the Professional Committee of Loan Assessment of Head Office, the Risk Control Committee of Branch and the Professional Committee of Loan Assessment of Branch. From business origination, due diligence, review and approval of credit, loan granting and post-loan management, the Company has established a credit risk management system with clear procedural requirements. By utilizing comprehensive management measures, including formulating credit policies, access approval, reviewing and approval of credit at different levels, credit inspection, risk warning, centralized credit granting management of group clients, recovery and investigation of non-performing assets, loan categorization and provision, internal rating and asset portfolio management and by introducing advanced quantitative modeling tools and risk management system, the Company ensured an effective implementation of the risk management procedures. The Company managed its risk assets in accordance with the classification specified by regulations. With the requirements of regulation 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 an account executive or risk control officer and then reviewed by credit risk management departments of the Head Office and branches according to their respective authorizations.

During the first half of 2012, the Company continued to enhance its credit risk management in a forward-looking and sensitive manner, endeavoured to carry out risk prevention and structural adjustment, proceeded with procedural optimization and management improvement, and proactively supported the rapid business development of small and micro-sized enterprises, thereby promoting the improvement of capital efficiency and the implementation of the "Second Transformation" strategy. During the reporting period, the Company promoted the healthy development of our small and micro enterprise credit granting business by having in place credit risk management structure, operating process, special credit granting policies, risk management system and competent employees which suits the characteristics of small and micro enterprises; exercised proactive and strict control over loans extended to local government financing platforms, real estate and the sensitive "high pollution, high energy consumption and overcapacity" sectors so as to stay cautious of systematic risks; fully inspected credit granting fields including the steel trading sector, financing-oriented guarantee companies, mutual and allied guarantees among enterprises and overseas exposures to cope with risks; improved our resilience to withstand the economic cycle by setting out specific credit granting policies, extending "green" loans, fortifying policy promotion and implementation, continuously serving real economy and optimizing asset portfolio; promoted the development of asset portfolio management projects, optimized internal rating tools and deepened the application of outcome calculated with risk quantitative tools; introduced the fundamental appraisal system for our branches' credit risk management to fully improve our credit risk management level; conducted online trial operation of ten-level classification system, strengthened the management of deviation extent arising from classification and encouraged active risk exposure in a positive manner; and strengthened the control over and enhanced the recovery of special mention and non-performing loans, promoted the system of coordinative recovery of loans by the Head Office and branches and sped up the disposal of risk assets.

3.9.2 Country risk management

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

As at the end of June 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.

3.9.3 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 observable factors such as foreign exchange, interest rate and share price, which may give rise to losses. The Company is exposed to market risk primarily associated with its proprietary trading activities. The Company considers that any market risk arising from its proprietary trading activities is not material.

In the first half of 2012, the Company closely followed the development in internal management practices and changes in the requirement of external regulatory requirements, further perfected market risk management policies, comprehensively enhanced the risk management policies and practices in respect of financial market business, promoted market risk management in its subsidiaries and branches outside the Mainland, continued to optimize techniques in market risk management and further improved its market risk management system.

In the first half of 2012, high volatility in the global financial market dragged down the economic growth momentum in both domestic and international markets. Domestically, the economic growth was at a slower pace and the growth rate saw a significant slowdown, which resulted in PBOC gradually loosening its monetary policy. Globally, the European debt crisis lingered on and had global impact through channels such as finance, trade and confidence. As a result, the recovery was full of difficulties and challenges.

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

III Management's Analysis and Discussion

3.9.4 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.

Taking the effective functioning of its operational risk management system as its core action, the Company has strengthened the construction of its management infrastructure, improved risk management techniques, enhanced risk monitoring and reporting as well as organizing risk management training, so as to specifically promote the work of operational risk management and enhance the capability and effectiveness of our operational risk management. Major works undertaken during the reporting period were as follows:

1. Actively promoted the attainment of relevant requirements under the Basel II, thus further optimized the mechanism and measures for its operational risk management;

2. Put operational risk management tools and system into full use, and enhanced the monitoring and prevention of operational risks of key area;

3. Pursuant to the requirements of the section "Standard Measurements" under the "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by the CBRC, the Company carried out a quantitative measurement of operational risk regulatory capital on a group and company basis, and incorporated operational risk into its economic capital management.

3.9.5 Liquidity risk management

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

The Company's major funding source is customer deposits which include deposits from corporate clients, retail customers and financial institutions. The Company's deposits have been growing continuously in recent years, with constantly enriched deposit products with diversified terms of maturity and longer tenacity.

In the first half of 2012, the Company further perfected the relevant systems and procedures and revised the "Operational Procedures for Investment/Financing Business of China Merchants Bank". The Company also further enhanced its capability in tackling liquidity crisis and formulated a drilling plan for liquidity contingencies.

In the first half of 2012, the Company formally applied quota limits to manage liquidity risks of its subsidiaries, and monitored the quota limits for the liquidity risks of its subsidiaries on a quarterly basis.

In the first half of 2012, based on our internal liquidity position and the market environment, the Company adopted pertinent measures on risk management to secure the liquidity of its domestic and foreign currencies. Specific measures included: resilient scale adjustment of investment/financing, so that when the liquidity was loose, more bonds were purchased to achieve higher investment returns and when RMB liquidity was tight, currency swaps were applied to reduce financing cost; flexible adjustment of the market yield curve and the guidance rate for business with financial institutions, so that market yield curve and the guidance rate became more predictive and instructive; improved asset and liability structure with financial institution, so that liquidity was ensured at crucial time; and moderately increased active liability based on liquidity gap by flexibly taking treasury term deposits and agreement deposits to improve the liquidity structure of the Company in domestic currency.

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

3.9.6 Interest rate risk management

Interest rate risk refers to the risk of unfavorable fluctuation of interest rates, maturity structure 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 acceptable range of exposure of interest rate risk.

The Company mainly adopts the scenario simulation analysis, re-pricing gap analysis, duration analysis, stress test among other methods to measure and analyze interest rate risk. Under its quota limit framework, the Company monitors and reports its interest rate risk on a monthly basis. The Company further optimized its treasury management and streamlined work procedures, clarified responsibilities through regular meeting of treasury analysis. The meeting serves as an efficient platform to analyze the causes of interest rate risk, propose and implement measures of control.

In the first half of 2012, the Company continued to manage its interest rate risk in a proactive and forward-looking manner. Within balance sheet, the Company carried out management of the interest rate risk combined with FTP and product pricing, to adjust the structure of balance sheet assets and the characteristics of interest rate risks, and to adjust the duration of loans and bonds, and to attract active liability. On the off-balance sheet part, the Company expanded the coverage and scale of risk hedging operation.

In the first half of 2012, PBOC lowered the RMB benchmark deposit and loan interest rates twice, resulting in one-year term deposit interest rate accumulatively decreased by 0.5%. Since the Company is relatively sensitive to interest rate of assets, the lowering of benchmark deposit and loan interest rates may bring negative impact on the net interest income of the Company. We always take a long-term perspective and will further enhance interest rate risk management to realize a steady growth of net interest income and economic value.

III Management's Analysis and Discussion

3.9.7 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 liability 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") among other methods to measure and analyze exchange rate risk. The Company regularly measures and analyzes 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 the first half of 2012, the Company further improved the methods and tools for measuring exchange rate risk, adjusted the structure of foreign currency assets and liability by FTP tools and started to adopt active management measures for exchange rate risk. The consolidated management of exchange rate risk has covered the entire group with established procedures.

In the first half of 2012, the central parity rate of RMB against USD stopped the unilateral appreciation and entered into bilateral fluctuation. At the end of June, RMB depreciated by approximately 0.38% against USD as compared with the beginning of the year, thus the exchange rate risk was mitigated. The Company managed to control the exchange rate risk within a safe range through various measures.

3.9.8 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 the first half of 2012, the Company took the following steps to improve its reputation risk management. Firstly, the Company adopted a series of measures to enhance the advanced prevention and pre-warning of reputation risk, thereby completing the reputation risk assessment system and further improving the bank-wide reputation risk system. Secondly, pursuant to the "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd.", the Company put more effort into the reputation risk training and education, thereby raising the staff's reputation risk awareness. Thirdly, the Company enhanced reputation risk inspection on key business and areas, and accordingly contingency plans are prepared in advance for businesses or events which could cause reputation risks, thereby lowering the loss of reputation to the greatest extent.

3.9.9 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 organization to manage compliance risk of the whole company under the senior management.

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

During the reporting period, the Company complied with the reform induced in to its management structure and systems under the customer-oriented principle, adapted to adjustments in regulatory policy that prioritized risk control, completed a dual mechanism to be compliant with regulations while promoting development, enhanced streamlined management techniques, continuously conducted regular compliance education within the whole bank in an attempt to raise its staff's awareness of compliance via training and education programs with compliance integrated into business flow. In addition, the Company thoroughly rectified non-compliant activities occurred in its operations across the Bank by standardizing operating practices with a view to laying a solid compliance foundation for development. Further, the Company conducted compliance discussion on all its products, systems and procedures to carefully identify and assess the compliance risks associated with new products, new businesses and major projects. Moreover, the Company further improved the functions of its compliance management system, reviewed risk points of compliance for 2012, set threshold values to monitor the key indicators of compliance risk, and highlighted the key areas and aspects in compliance risk management.

3.9.10 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 significant transactions and suspicious transactions.

During the reporting period, the Company abided by the anti-money laundering regulations and strictly implemented the customer identification, significant transaction and suspicious transaction reporting procedures. In dealing with the frequent occurrence of money laundering crimes such as illegal fund-raising, underground banking services and bank card deception, the Company strengthened procedures to ensure proper identification of certain customers and carried out observation and analysis of those high-risk business and transactions so as to prevent money laundering risk. During the reporting period, the Company organised a series of anti-money laundering training courses.

III Management's Analysis and Discussion

3.9.11 Implementation of Basel II

Since 2007, in order to implement its international 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 Basel II. Thanks to the measures implemented in recent years, the Company optimized its risk management structure, gradually completed its credit risk, market risk and operational risk management system, significantly increased its sophisticated risk management skills, remarkably improved the quality of its data, and thoroughly applied these achievements to its business operations. Currently, having passed the formal evaluation by the CBRC, the Company is concentrating all its efforts on implementing the rectification measures according to the "Opinion of the General Office of CBRC on Basel II Implementation by CMB", and actively prepares various documents necessary for the official application of adopting Basel II, so as to submit this application in due course.

3.10 Changes in External Environment and Responding Measures

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

In the first half of 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 steady growth with anticipatory adjustments and frequent fine-tuning on monetary policies. The PBOC twice reduced the deposit reserve ratio in the first half of this year and cut interest rates twice in June while actively carrying forward the reform for interest rate marketization. Though the credit growth of financial institutions were generally in line with our expectation, there was increasing pressure on deposit growth and notably large deposit volatility.

Facing with significant changes in the macro-economic environment, the Company determined to make strategic adjustments in line with the Second Transformation and actively optimized its asset-liability structure to mitigate the adverse impacts from the external environment. As a result, our operating scale grew steadily in the first half of 2012 with intact assets quality and balanced development across all the business lines.

1. *The effect of interest rate cut and the impact of liberalized interest rate on the Company's net interest margin*

In the first half of 2012, in face of complicated and tough macro-economic situation, especially the adverse effect of interest rate cuts in the middle of the year and the promotion of interest rate liberalization reform on the Company, the Company responded by further pressing on strategic structural adjustment required by the Second Transformation and making adjustments to its asset-liability structure and business mix. Firstly, the Company actively adjusted loan portfolio by focusing on the loans to small and micro enterprises, and adjusted retail loan portfolio based on the market conditions by increasing the proportion of non-housing loans. Secondly, the Company continued to strengthen management of loan pricing in order to improve risk pricing capability and return on loans. Thirdly, the Company continued to expand off-balance-sheet hedging operations, extended the loan duration by increasing the proportion of fixed interest rate loans in the new issuance of RMB loans and extending the re-pricing cycle of floating rate loans. The Company also utilized active liabilities with floating interest rates to better manage interest rate risk by both on-balance-sheet adjustments and off-balance-sheet hedging. Fourthly, in response to the interest rate marketization reform, the Company explored differential deposit pricing strategy based on the comprehensive contribution of customers. In the first half of 2012, the Company achieved a net interest margin of 3.19%. The impact of interest rate cuts will gradually appear from the second half of the year. However, these measures will alleviate the adverse effect of interest rate cuts and liberalized interest rate on the future earnings of the Company.

2. *Management of loan-to-deposit ratio*

In the first half of 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) prioritized the regulatory requirements on loan-to-deposit ratio and achieved coordinated growth in deposits and loans through measures of better planning and allocation, assets and liability management, budget management and capital management. (2) under the principle of the business philosophy of fund sources restricting its utilization, optimized the incentive systems for deposits marketing by the branches to achieve a utilization stable growth in deposits business. (3) leveraged on tools such as management accounting to analyze the growth potential of deposits from different types of customers, and used the results to guide branches to adjust the customer structure. (4) strictly implemented regulatory requirements on credit granting to keep the scale and speed of granting loans at an appropriate level and in accordance with planning. The above measures ensured the continuous compliance of the loan-to-deposit ratio with regulatory requirements. In the second half of the year, the Company will put deposit volatility as a vital evaluation indicator for branches, so as to drive the steady growth of deposits.

3. *Capital management*

In the first half of 2012, the Company's capital management adhered to the strategic transformation requirements with focuses on improving capital measurement, optimizing the allocation of economic capital, and strengthening capital constraint. As a result, our capital strength was further enhanced and our capital efficiency improved steadily. As at the end of June, the proportion of the Company's risk weighted assets was 57.82%, which was 4.83 percentage points down as compared with that at the beginning of this year; the capital adequacy ratio was 11.19%, and the core capital adequacy ratio was 8.71%. Excluding the effect caused by such factors as additional capital contribution to CMB Financial Leasing and change of payout ratio, the capital adequacy ratio and the core capital adequacy ratio of the Company were 11.36% and 8.83%, representing an increase of 0.08 percentage point and 0.09 percentage point as compared with that at the beginning of the year respectively and maintaining a balanced internal growth of capital. Following the promulgation of the "Measures for the Management of Capital of Commercial Banks (Trial Version)" (《商業銀行資本管理辦法（試行）》), the Company conducted a simulative estimation, the result of which revealed that the impact of relevant implementation on the Company's capital adequacy was limited on an overall basis. In the second half of the year, the Company will ensure that the rights issue of A Shares and H Shares will proceed smoothly. Meanwhile, the Company will take the opportunity of implementing the "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, optimize allocation of internal capital and strengthen capital performance management, and thus further improving the guidance of economic capital return on its business and optimizing structures of assets and profit.

III Management's Analysis and Discussion

4. *Net non-interest income*

In the first half of 2012, the Company's net non-interest income maintained a healthy growth momentum. Since the beginning of this year, the Company managed to overcome the adverse effect brought about by tightening regulatory policies and sought opportunities amidst challenges by actively expanding business in wealth management and bills to achieve a rapid growth in net non-interest income. In the first half of the year, the Company realized net non-interest income of RMB12.426 billion, representing an increase of RMB2.967 billion or 31.37% as compared with the corresponding period of the previous year. The proportion of net non-interest income in our net operating income was 22.75%, up by 1.33 percentage points as compared with the corresponding period of the previous year. Of which, fees and commission income from wealth management services amounted to RMB3,613 million, representing a year-on-year increase of 42.63%. In particular, income from entrusted wealth management amounted to RMB805 million, representing a year-on-year increase of 44.01%; income from agency trust plan service amounted to RMB1,095 million, representing a year-on-year increase of 131.76%; income from insurance agency amounted to RMB824 million, representing a year-on-year increase of 35.73%; and bills spread income amounted to RMB1.997 billion, representing a year-on-year increase of 125.23%. In addition, income from bank card fees amounted to RMB2,581 million, representing a year-on-year increase of 16.00%; and income from settlement and clearing fees amounted to RMB1,083 million, representing a year-on-year increase of 14.36%. In the second half of the year, the Company will further strengthen its existing competitive edges, and actively foster new growth points to realize a continuous and rapid growth in net non-interest income.

5. *Loans extended through local government financing platforms*

In 2012, the Company strictly complied with the regulatory requirements and strengthened classification of loans extended through local government financing platforms according to the principle of "gradually reducing total loans, conducting level-by-level management, strictly observing compliance bottom line and preventing substantial risks". First, the Company adhered to the principle of "controlling total loans and optimizing loan structure" and achieved the goal of "reducing old loans and controlling the grant of new loans and optimizing loan structure "through the implementation of various management and control measures, including proactive exit, stringent access and loan approval; secondly, the Company kept to the basic requirement of full coverage of cash flow and implemented differentiated risk management on loans granted through platforms; thirdly, the Company implemented the platform list management bank-wide which focuses on the inner side rather than the surface; and fourthly, the Company kept the consistency between policies and risk preferences in businesses of loans, wealth management and investment, and strictly observed compliance bottom line. During the reporting period, the Company's loans extended through local government financing platforms realized decrease in total amount, optimization in structure and stable in quality. As at the end of June 2012, balance of loans extended by the Company through local government financing platforms amounted to RMB101.555 billion, representing a decrease of RMB12.628 billion or 11.06% as compared with the end of the previous year, and accounting for 6.14% of the total loans granted by the Company, down by 1.31 percentage points as compared with the end of the previous year. Total non-performing loan was RMB157 million, representing a decrease of RMB11 million as compared with the end of the previous year, and the non-performing loan ratio was 0.15%, which was on a par with the end of the previous year.

6. *Loans for real estate development*

In the first half of 2012, the Company earnestly carried out the State policies on real estate control and, based on the general principle of "reducing total loan amount, adjusting existing loans and controlling the grant of new loans", further enhanced management and control over credit risk of the real estate industry by taking the following risk control measures: (1) to raise the criteria for approval of loans to real estate development projects, with the Head Office responsible for the relevant examination and approval, so as to carefully select target customers; (2) to implement quota management so as to achieve a rational allocation of credit resources at the three dimensions: branches, customers and regions; (3) to strengthen the closed-off management on real estate development loans by conducting regular monitoring of development process, collection of sales receivable and scheduled repayment of loans; (4) to intensify exit management and recall loan in advance against breaches of contract including embezzling loans, or failure in collecting sales receivable or repaying loans according to agreement; (5) to exercise unified management over real-estate-enterprise related businesses such as bonds investment, entrusted wealth management and etc., in order to implement a consistent risk appetite and risk management policy. In the first half of 2012, the Company has achieved in full its fixed management and control objectives which consist of decrease in balance and proportion of real estate loans, the optimization of customer structure and stabilization of asset quality. As at the end of June 2012, the balance of our corporate loans granted for real estate development decreased by RMB5.8 billion to RMB79.931 billion as compared with the end of the previous year, representing 4.84% of the Company's total loans and a decrease of 0.76 percentage point as compared with the end of the previous year.

7. *The variation trend of the Bank's asset quality*

Since the fourth quarter of 2011, though affected by domestic and international economic downtown which resulted in more non-performing loans, yet benefiting from the comprehensive disposing measures including timely defusing risks, recovering and disposing loans and speeding up the process of loan examination and approval, the Company's asset quality maintained generally stable during the reporting period. Looking into the second half of 2012, the management and control of the Company's non-performing loans will still be faced with greater challenges due to a number of uncertainties, including the potential risks in the "high pollution, high energy consumption and overcapacity" sectors as well as the risk-sensitive industries such as shipping and PV, which might become more notable. The Company will, by taking proactive and effective risk mitigation measures including controlling the formation of non-performing loans, accelerating the settlement and disposal of risk assets, and proactively coping with the challenges associated with asset quality.

3.10.2 Achievement Analysis of the Second Transformation

Despite complicated and tough external environment in the first half of 2012, the Company continued to press forward with the Second Transformation and achieved remarkable results:

Capital utilization efficiency continued to rise. As at 30 June 2012, excluding the impact of factors including additional capital contribution to CMB Financial Leasing, adjustments made to the proportion of dividend, the capital adequacy ratio of the Company was 11.36%, representing an increase of 0.08 percentage point as compared with the beginning of the year. The core capital adequacy ratio was 8.83%, representing an increase of 0.09 percentage point as compared with the beginning of this year. The annualized net return on average equity (ROAE) was 24.90%, representing an increase of 2.83 percentage points as compared with the previous year. The risk adjusted return on capital (RAROC, profit after tax) was 24.28%, representing an increase of 2.52 percentage points as compared with the previous year.

Risk pricing of loans was greatly improved. As at 30 June 2012, the floating band of new weighted average interest rates of general corporate loans in RMB (weighted at actual amounts, same as below) increased by 0.67 percentage point as compared with the previous year. The floating band of weighted average interest rates of retail loans in RMB increased by 1.84 percentage points as compared with the previous year.

III Management's Analysis and Discussion

Operational efficiency continued to improve. As at 30 June 2012, the cost-to-income ratio of the Company was 32.26%, representing a decrease of 3.84 percentage points as compared with the previous year; annualized profit before tax per person was RMB1.30 million, representing an increase of 27.45% as compared with the previous year; annualized profit before tax per sub-branch was RMB64.81 million, representing an increase of 24.35% as compared with the previous year.

The proportion of high-net-worth customers increased continuously. As at 30 June 2012, the Company had 871,000 Sunflower (i.e. retail customers with monthly daily average total assets of RMB500,000 or above) or higher customers, representing an increase of 11.21% as compared with the beginning of this year; the number of its private banking customers increased by 11.57 % as compared with the beginning of this year; the proportion of high-net-worth wholesale customers was 15.89%, representing an increase of 1.68 percentage points as compared with the beginning of this year.

Our overall asset quality was kept stable. As at 30 June 2012, the non-performing loan ratio of the Company was 0.58%, which was on a par with that at the end of the previous year, while the special mention loan ratio was 1.01%, representing a decrease of 0.03 percentage point as compared with the end of the previous year.

3.11 Outlook and Measures

In the second half of 2012, both domestic and global financial situations would remain complicated and volatile. Internationally, the underlying effects of the financial crisis have not been eliminated, as no effective solution has been found to tackle the European debt crisis so the global financial market would remain in an unstable state. Commodity prices are likely to fluctuate substantially, rendering global economic recovery instable and uncertain. Domestically, the economic growth would slow down while conflicts and problems arising from imbalance, incoordination and unsustainability in economic development remain prominent. Opposite factors exist to impact the total demand and economic growth may be affected in short run during structural transformation. Also, potential risks in economy and financial sector must be guarded against prudently. The complicated economic and financial environment is likely to impose great pressure on the Company's liabilities, assets, intermediate business, capital management, cost management and risk prevention.

Amidst the new environment and challenges, the Company will further explore new concepts and continue with the Second Transformation to focus on small and micro enterprises to build differential competitive edge. In the second half of the year, the Company has the following priorities: Firstly, break through the bottleneck in small and micro-enterprise business and accelerate its development by organization reform, streamlined workflow, better performance evaluation and product innovation. Secondly, invest more efforts in corporate and retail deposits business, by differential pricing to meet liberalized interest rate perspective and higher proportion of demand deposits. Thirdly, put more efforts into services of wealth management, mobile finance, POS payment, annuity finance and tap growth potential of various business lines, like international, financial institution, offshore, financial markets, investment banking, asset custody, cash management to fuel the growth of intermediary business in a sustainable manner. Fourthly, optimize resource allocation of credit, capital, budget, labor to channel them toward higher return businesses and clientele. Fifthly, reengineer customer-centered business processes and foster a long-term mechanism. Sixthly, guard against various risks, such as credit risk, liquidity risk, market risk, operational risk, reputational risk by strict internal control and compliance, criminal case prevention and auditing. Seventhly, continue to integrate with and transform Wing Lung Bank, and increase international presence and extend business scope.

IV Share Capital Structure and Shareholder Base

4.1 Changes in Shares of the Company during the Reporting Period

		31 December 2011		Changes in	30 June 2012	
		Quantity (share)	Percentage (%)	the reporting period	Quantity (share)	Percentage (%)
I.	**Shares subject to trading moratorium**	**0**	**0**	**0**	**0**	**0**
II.	**Shares not subject to trading moratorium**	**21,576,608,885**	**100.00**	**0**	**21,576,608,885**	**100.00**
	1. Common shares in RMB (A Shares)	17,666,130,885	81.88	0	17,666,130,885	81.88
	2. Foreign shares listed domestically	0	0	0	0	0
	3. Foreign shares listed overseas (H Shares)	3,910,478,000	18.12	0	3,910,478,000	18.12
	4. Others	0	0	0	0	0
III.	**Total shares**	**21,576,608,885**	**100.00**	**0**	**21,576,608,885**	**100.00**

As at the end of the reporting period, the Company had a total of 607,122 shareholders, including 48,845 holders of H Shares and 558,277 holders of A Shares, and all the shares are not subject to trading moratorium.

Based on the public information available to the Company and its directors, as at 30 June 2012, the Company had met the public float requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

IV Share Capital Structure and Shareholder Base

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

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.[1]	/	3,854,515,270	17.86	H Shares	369,415	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal persons	2,675,612,600	12.40	A Shares not subject to trading moratorium	–	–	–
3	China Ocean Shipping (Group) Company	State-owned legal persons	1,341,336,551	6.22	A Shares not subject to trading moratorium	–	–	–
4	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	636,788,489	2.95	A Shares not subject to trading moratorium	–	–	–
5	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	631,287,834	2.93	A Shares not subject to trading moratorium	–	–	–
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	556,333,611	2.58	A Shares not subject to trading moratorium	–	–	–
7	China Communications Construction Company Ltd.	State-owned legal persons	383,445,439	1.78	A Shares not subject to trading moratorium	–	–	–
8	SAIC Motor Corporation Limited	State-owned legal persons	368,079,979	1.71	A Shares not subject to trading moratorium	–	–	–
9	An-Bang Insurance Group Co., Ltd – Conventional Insurance Products	Domestic non-state-owned legal persons	338,582,466	1.57	A Shares not subject to trading moratorium	307,805,738	–	–
10	CNOOC Investment Co., Ltd.	State-owned legal persons	301,593,148	1.40	A Shares not subject to trading moratorium	–	–	–

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

(2) Of the aforesaid top 10 shareholders whose shareholdings are not subject to trading moratorium, 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 co-relationship of other shareholders.

IV Share Capital Structure and Shareholder Base

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

As at 30 June 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	3,886,912,452#	1	22.00	18.01*
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	2,675,612,600	1	15.15	12.40
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	18,177,752#	1		
		Long	Interest of controlled corporation	1,193,122,100	1		
				1,211,299,852#		6.86	5.61
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	636,788,489	1		
		Long	Interest of controlled corporation	556,333,611	1		
				1,193,122,100		6.75	5.53
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,284,140,156#		7.27	5.95
China Shipping (Group) Company	A	Long	Beneficial owner	258,470,781			
		Long	Interest of controlled corporation	695,697,834			
				954,168,615	2	5.40	4.42
JPMorgan Chase & Co.	H	Long	Beneficial owner	66,308,276			
		Long	Investment manager	231,878,677			
		Long	Custodian	120,721,417			
				418,908,370	3	10.71	1.94
		Short	Beneficial owner	43,539,224	3	1.11	0.20
BlackRock, Inc.	H	Long	Interest of controlled corporation	266,715,176	4	6.82	1.24
		Short	Interest of controlled corporation	20,679,508	4	0.53	0.10
Templeton Asset Management Ltd.	H	Long	Investment manager	392,249,565		10.03	1.82

* As at 30 June 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 30 June 2012. During the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2012, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation in accordance with SFO.

IV Share Capital Structure and Shareholder Base

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.

(3) JPMorgan Chase & Co. was deemed to hold interests in a total of 418,908,370 H shares (Long position) and 43,539,224 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 147,285,111 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 35,275,377 H shares (Long position) and 18,489,500 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 66,778,523 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 133,814,943 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 4,036,782 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 Ltd. held 31,032,899 H shares (Long position) and 24,889,724 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.7) JPMorgan Asset Management (Japan) Limited held 684,735 H shares (Long position) in the Company. JPMorgan Asset Management (Japan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.8) J.P. Morgan Whitefriars (UK) held 160,000 H shares (Short position) in the Company. J.P. Morgan Whitefriars (UK) was owned as to 99.99% by J.P. Morgan Whitefriars Inc., which was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

IV Share Capital Structure and Shareholder Base

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 120,721,417 H shares. Besides, 18,197,500 H shares (Long position) and 34,947,561 H shares (Short position) were held through derivatives as follows:

15,717,500 H shares (Long position) and 15,571,500 H shares (Short position)	–	through physically settled derivatives (on exchange)
427,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
160,000 H shares (Short position)	–	through physically settled derivatives (off exchange)
2,480,000 H shares (Long position) and 18,789,061 H shares (Short position)	–	through cash settled derivatives (off exchange)

(4) BlackRock, Inc. was deemed to hold interests in a total of 266,715,176 H shares (Long position) and 20,679,508 H shares (Short position) in the Company by virtue of its control over the following corporations:

(4.1) BlackRock Investment Management, LLC held 12,242,432 H shares (Long position) in the Company. BlackRock Investment Management, LLC was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.2) BlackRock Financial Management, Inc. held 254,472,744 H shares (Long position) and 20,679,508 H shares (Short position) in the Company. BlackRock Financial Management, Inc. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.3) BlackRock Fund Advisors held 148,228,505 H shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company, N.A., the latter held interest in 193,090,155 H shares (Long position) and 416,500 H shares (Short Position) in the Company. BlackRock Institutional Trust Company, N.A. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.4) BlackRock Asset Management Canada Limited held 333,500 H shares (Long position) in the Company. BlackRock Asset Management Canada Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.5) BlackRock Investments Canada, Inc held 138,000 H shares (Long position) in the Company. BlackRock Investments Canada, Inc was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.6) BlackRock Asset Management Japan Limited held 60,500 H shares (Long position) in the Company. BlackRock Asset Management Japan Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.7) BlackRock Asset Management Australia Limited held 165,000 H shares (Long position) in the Company. BlackRock Asset Management Australia Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.8) BlackRock Asset Management North Asia Limited held 20,726,909 H shares (Long position) and 18,610,698 H shares (Short position) in the Company. BlackRock Asset Management North Asia Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.9) BlackRock (Netherlands) B.V. held 85,000 H shares (Long position) in the Company. BlackRock (Netherlands) B.V. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.10) BlackRock (Luxembourg) S.A. held 46,000 H shares (Long position) in the Company. BlackRock (Luxembourg) S.A. was an indirect wholly owned subsidiary of BlackRock, Inc..

(4.11) BlackRock Asset Management Ireland Limited held 28,399,530 H shares (Long position) in the Company. BlackRock Asset Management Ireland Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.12) BlackRock Advisors (UK) Limited held 4,356,614 H shares (Long position) and 1,652,310 H shares (Short position) in the Company. BlackRock Advisors (UK) Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.13) BlackRock International Limited held 5,736,577 H shares (Long position) in the Company. BlackRock International Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.14) BlackRock Fund Managers Limited held 460, 959 H shares (Long position) in the Company. BlackRock Fund Managers Limited was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.15) BlackRock Asset Management Deutschland AG held 596,500 H shares (Long position) in the Company. BlackRock Asset Management Deutschland AG was an indirect wholly-owned subsidiary of BlackRock, Inc..

Among the entire interest and short position of BlackRock, Inc. in the Company, a total of 46,000 H shares (Long position) and 416,500 H shares (Short position) were held through physically settled derivatives (on exchange).

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2012 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

5.1 Directors, Supervisors and Senior Management

Name	Gender	Date of birth	Title	Term of office	Share holding at the beginning of the period (share)	Share holding at the end of the period (share)
Fu Yuning	Male	1957.3	Chairman & Non-Executive Director	2010.6-2013.6	0	0
Wei Jiafu	Male	1950.1	Vice Chairman & Non-Executive Director	2010.6-2013.6	0	0
Li Yinquan	Male	1955.4	Non-Executive Director	2010.6-2013.6	0	0
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8-2013.6	0	0
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2010.6-2013.6	0	0
Xiong Xianliang	Male	1967.10	Non-Executive Director	2012.7-2013.6	0	0
Sun Yueying	Female	1958.6	Non-Executive Director	2010.6-2013.6	0	0
Wang Daxiong	Male	1960.12	Non-Executive Director	2010.6-2013.6	0	0
Fu Junyuan	Male	1961.5	Non-Executive Director	2010.6-2013.6	0	0
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2010.6-2013.6	0	0
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2010.6-2013.6	0	0
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2010.6-2013.6	0	0
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2010.6-2013.6	0	0
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-2013.6	0	0
Yan Lan	Female	1957.1	Independent Non-Executive Director	2010.6-2013.6	0	0
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7-2013.6	0	0
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11-2013.6	0	0
Guo Xuemeng	Female	1966.9	Independent Non-Executive Director	2012.7-2013.6	0	0
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors	2010.8-2013.6	0	0
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2010.6-2013.6	0	0
An Luming	Male	1960.4	Shareholder Supervisor	2012.5-2013.6	0	0
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2010.6-2013.6	0	0
Liu Zhengxi	Male	1963.7	Shareholder Supervisor	2012.5-2013.6	0	0
Peng Zhijian	Male	1948.11	External Supervisor	2011.10-2013.6	25,000	25,000
Pan Ji	Male	1949.4	External Supervisor	2011.5-2013.6	0	0
Yang Zongjian	Male	1957.4	Employee Supervisor	2010.6-2013.6	0	0
Zhou Qizheng	Male	1964.11	Employee Supervisor	2010.6-2013.6	0	0
Tang Zhihong	Male	1960.3	Executive Vice President	2010.6-2013.6	0	0
Yin Fenglan	Female	1953.7	Executive Vice President	2010.6-2013.6	0	0
Ding Wei	Male	1957.5	Executive Vice President	2010.6-2013.6	0	0
Zhu Qi	Male	1960.7	Executive Vice President	2010.6-2013.6	0	0
Tang Xiaoqing	Male	1954.8	Executive Vice President	2012.4-2013.6	0	0
Wang Qingbin	Male	1956.12	Executive Vice President	2011.6-2013.6	0	0
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 up to now	0	0
Lan Qi	Male	1956.6	Secretary of Board of Directors	2010.6-2013.6	0	0

5.2 Appointment and Resignation of Directors, Supervisors and Senior Management

Pursuant to the resolution considered and passed at the 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 (CBRC) 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. For details, please refer to announcements published on China Securities Journal, Shanghai Securities News and Securities Times on 29 March, 31 May, 10 July and 18 July 2012 respectively and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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 Second Meeting of the Eighth Session of the Nomination Committee under the Board of Supervisors, the Eleventh Meeting of the Eighth Session of the Board of Supervisors and the 2011 Annual General Meeting, the Board of Supervisors appointed Mr. An Luming 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. For details, please refer to announcements published on China Securities Journal, Shanghai Securities News, Securities Times on 29 March and 31 May 2012, which were also published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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. For details, please refer to announcements published on China Securities Journal, Shanghai Securities News and Securities Times on 21 April 2012 and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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

5.3 Changes of Occupations of Directors and Supervisors

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. 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.

3. 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.

4. Mr. Zhu Genlin, Shareholder Supervisor of the Company, was appointed as the chairman of China Automotive Industry Investment and Development Co., Ltd., and ceased to be a supervisor of Shanghai Charity Foundation, the chairman of board of supervisors of Huayu Automotive Systems Company Ltd. (a company listed on the Shanghai Stock Exchange), a director of SVA (Group) Co., Ltd.

5.4 H-Share Appreciation Rights Incentive Scheme

To optimize its incentive system and integrate 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. 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. For details, please refer to announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

5.5 Information about Employees

As at 30 June 2012, the Company had 44,765 employees (excluding 14,619 labor-dispatch staff), including 14,132 management staff, 28,600 ordinary staff and 2,033 administration staff. Of these staff, 43,780 employees had associate bachelor education or above, accounting for 97.8%. Currently, the Company has 233 retirees.

5.6 Branches and Representative Offices

The Company continued to expand its branch network in the first half of 2012. During the reporting period, 6 domestic branches, namely Xining Branch, Loudi Branch, Jiangmen Branch, Binzhou Branch, Tonghua Branch and Zunyi Branch, were approved to commence business. Meanwhile, Zhanjiang Branch was authorized to set up and Rizhao Sub-branch was upgraded to a branch.

In 2012, the Company will carry on its organic expansion plan by adhering to the principles of "controlling the speed, focusing on efficiency, securing high quality and emphasizing key points", and will develop its second-tier branches and sub-branches in county level, continuously expand the coverage of sub-branches and self-service machines in the same city and steadily pursue its organic expansion. In geographical distribution, the Company will further develop the three major regional markets in Yangtze River Delta, Pearl River Delta and Bohai Rim, and will strengthen its advantages and enhance its regional competitiveness in these major regions.

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

The following table sets out the branches and representative offices as at 30 June 2012:

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,986	1,039,303
	Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,593	84,089
	Small Enterprise Credit Center	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	641	36,311
Yangtze River Delta	Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	59	2,527	131,090
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	23	1,339	88,002
	Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	306	12,149
	Changzhou Branch	120 Heping Road North, Changzhou	213003	7	233	8,847
	Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	5	140	5,061
	Zhenjiang Branch	Block 3, 18 Dianli Road, Zhenjiang	212000	2	91	2,880
	Taizhou Branch	28-8 Yingchun Road East, Taizhou, Jiangsu Province	225300	1	58	2,401
	Xuzhou Branch	6 Jiefang Road, Xuzhou	221000	1	63	1,778
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	30	1,195	100,638
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Wenzhou	325000	10	373	20,877
	Shaoxing Branch	357 Shengli Road East, Shaoxing	312000	8	305	15,950
	Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	4	144	7,841
	Ningbo Branch	342 Min'an Road East, Jiangdong District, Ningbo	315000	18	684	45,767
	Taizhou Branch	535 Shifu Road, Taizhou	318000	4	165	8,301
	Suzhou Branch	36 Wansheng Street, Suzhou Industrial Park, Suzhou	215000	16	669	63,061
	Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	5	162	7,398
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	6	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	58	2,778	162,770
	Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	16	789	45,597
	Weihai Branch	19 Qingdao Road North, Weihai	264200	4	120	2,926
	Zibo Branch	A1, 12 Renmin Road West, Zibo	255000	4	110	3,005
	Jining Branch	136 Guhuai Road, Jining	272000	1	60	1,859
	Rizhao Branch	56 Huanghai No.1 Road, Rizhao	276800	1	69	2,392
	Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	29	868	35,432
	Tianjin Binhai Branch	33 Second Avenue, Economic and Technology Development Zone, Tianjin	300457	1	160	13,345
	Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	733	54,866
	Yantai Branch	237 Nanda Street, Yantai	264000	8	272	7,363
	Weifang Branch	Block 1, Financial Service Zone, Shengli Street East, Weifang	261041	5	164	5,218
	Linyi Branch	9 Xinhua No. 1 Road, Linyi	276000	2	71	2,976
	Dongying Branch	47 Jinan Road, Dongying	257000	1	57	2,449
	Binzhou Branch	601 Bohai No.16 Road, Binzhou	256600	1	34	–
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	2	113	7,028

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

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	43	1,581	78,280
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	70	2,819	194,151
	Huizhou Branch	3 Wenming No. 1 Road, Jiangbei, Huizhou	516000	1	47	1,650
	Zhuhai Branch	1263 Jiuzhou Avenue, Zhuhai	519000	1	50	1,451
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	17	687	41,415
	Quanzhou Branch	301 Fengze Street, Fengze District, Quanzhou	362000	8	262	13,645
	Longyan Branch	301 Denggao Road West, Xicheng, Xinluo District, Longyan	364000	1	43	1,013
	Putian Branch	Block 5, Licheng Boulevard, Chengxiang District, Putian	351100	1	41	349
	Xiamen Branch	862 Xiahe Road, Xiamen	361004	13	499	27,312
	Zhangzhou Branch	70 Nanchang Road Central, Xiangcheng District, Zhangzhou	363000	1	64	1,696
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	19	586	32,385
	Foshan Branch	Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	13	500	41,372
	Zhongshan Branch	Block A3, Phase 3, Shengjing Garden, Zhongshan 4th Road, East District, Zhongshan	528400	3	73	1,934
	Jiangmen Branch	38 Donghua 2nd Road, Pengjiang District, Jiangmen	529000	1	22	1
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	18	1,059	41,189
	Dandong Branch	2 Shiwei Road, Zhenxing District, Dandong	118000	4	105	875
	Anshan Branch	Qianshan Road Central, Tie Dong District, Anshan	114000	1	31	1,688
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	17	683	39,299
	Yingkou Branch	19 Bohai Street East, Zhanqian District, Yingkou	115000	2	92	1,737
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	15	559	26,326
	Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	6	261	26,779
	Tonghua Branch	568 Jiangyan Road, Jiangnan New District, Tonghua	134000	1	30	434
Central China	Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	26	1,239	50,998
	Huangshi Branch	76 Hangzhou Road West, Development District, Tuanchengshan, Huangshi	435000	5	121	3,458
	Yichang Branch	70 Yiling Road, Yichang	443002	5	133	5,266
	Xiangyang Branch	20 Changhong Road, Xiangyang, Hubei Province	441100	2	43	1,831
	Shiyan Branch	16 Dongyue Road, Maojian District, Shiyan	442000	1	25	121
	Nanchang Branch	162 Bayi Avenue, Nanchang	330003	20	764	35,871
	Ganzhou Branch	66 Hongqi Street, Zhanggong District, Ganzhou	341000	2	62	3,180
	Shangrao Branch	71 Zhongshan Road West, Xinzhou District, Shangrao	334000	1	37	1,420
	Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	24	912	40,068
	Hengyang Branch	Huijing Garden, Hengyang	421000	2	57	2,174
	Loudi Branch	6 Leping Street East, Loudi	417000	1	29	718
	Hefei Branch	169 Funan Road, Hefei	230000	14	564	24,209
	Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	4	128	4,677
	Huainan Branch	Central Plaza, Xintiandi, Longhu Road, Huainan	232000	2	65	3,626
	Ma'anshan Branch	20 Hudong Road Central, Ma'anshan	243000	1	57	1,042
	Zhengzhou Branch	39 Huyuan Road, Zhengzhou	450000	16	562	28,639
	Luoyang Branch	Xiyuan Building, 7 Nanchang Road, Jianxi District, Luoyang	471000	2	67	1,630
	Anyang Branch	30 Jiefang Avenue, Anyang	455000	1	48	1,010
	Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	9	351	22,433
	Jincheng Branch	249 Zezhou Road, Jincheng	048000	1	30	2,581
	Shuozhou Branch	20 Gubei Street West, Shuocheng District, Shuozhou	036002	1	29	596

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

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	27	1,067	38,277
	Leshan Branch	90 Boyang Road Central, Shizhong District, Leshan	614000	1	35	1,024
	Luzhou Branch	39 Jiangyang Road West, Jiangyang District, Luzhou	646000	1	36	594
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	588	29,781
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	26	1,108	41,611
	Yulin Branch	1-2/F, Changfeng Building, Hangyu Road Central, Yulin	719000	2	64	1,809
	Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	28	1,027	49,178
	Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	408	20,079
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	20	709	32,895
	Qujing Branch	Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	2	58	1,629
	Lijiang Branch	222 Changshui Road, Gucheng District, Lijiang	674100	1	39	1,816
	Honghe Branch	279 Renmin Road, Gejiu, Yunnan Province	654400	1	31	472
	Hohhot Branch	56 Xinhua Street, Hohhot	010010	7	332	22,703
	Hulunbeier Branch	20 Alihe Road, Hailaer District, Hulunbeier	021008	1	25	147
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	5	187	9,457
	Liuzhou Branch	26 Wenchang Road, Liuzhou	545000	1	52	1,539
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	1	116	10,748
	Zunyi Branch	2 Minzhu Road, Honghuagang District, Zunyi	563000	1	24	867
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	3	119	7,491
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	1	63	–
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	111	40,561
	USA Representative Office	509 Madison Aveune, Suite 306, New York, New York 10022, U.S.A	–	1	1	2
	New York Branch	535 Madison Aveune	–	1	40	7,470
	London Representative Office	39 Cornhill EC3V 3ND, London, U.K.	–	1	2	2
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	1	1
Other assignments					27	–
Total		**–**	**–**	**916**	**44,765**	**3,159,653**

VI Corporate Governance

6.1 Overview of Corporate Governance

During the reporting period, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the special committees under the Board of Directors and the Board of Supervisors of the Company functioned proactively and effectively, played an active role in ensuring compliant operation and sustainable growth of the Company. During the reporting period, the Company held a total of 28 meetings. Among which, there was 1 general meeting, 8 meetings by the Board of Directors, 14 meetings by the special committees under the Board of Directors, 3 meetings by the Board of Supervisors and 2 meetings by the special committees under the Board of Supervisors.

Having conducted a careful self-inspection, the Company was not aware of any of its corporate governance practices are at variance with the CSRC's documents for regulating governance of listed companies. There had not been any disclosure of undisclosed information to its major shareholders or the effective controllers. Nor had there been any irregularities in the Company's corporate governance.

6.2 Shareholders' General Meetings

During the reporting period, the Company convened its 2011 Annual General Meeting in Shenzhen on 30 May 2012. The notice, 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 China Securities Journal, Shanghai Securities News and Securities Times, and on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 31 May 2012.

6.3 Meetings of the Board of Directors and its Special Committees

During the reporting period, the Company convened 8 meetings of the Board of Directors (1 on-site meeting, 7 meetings voted by correspondence), considered and approved 41 proposals, heard 5 theme reports. The special committees under the Board of Directors convened 14 meetings (1 by the Strategy Committee, 1 by the Nomination Committee, 3 by the Remuneration and Appraisal Committee, 4 by the Risk and Capital Management Committee, 3 by the Audit Committee and 2 by the Related-Party Transactions Control Committee), studied and reviewed 48 proposals and heard 11 theme reports.

Meetings held by the special committees under the Board of Directors are as follows:

The Strategy Committee under the Board of Directors held 1 meeting, studied and considered various proposals, including the Profit Appropriation Plan for the year 2011, the Issuance in substitution for 23 billion Maturing Tier 2 Capital Instruments, the General Mandate to Issue New Shares and/or Share Options, 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.

The Nomination Committee under the Board of Directors held 1 meeting, studied and considered the following proposals: Change of Independent Directors, Appointment of an Additional Director and Appointment of Tang Xiaoqing as Executive Vice President of China Merchants Bank.

The Remuneration and Appraisal Committee under the Board of Directors held 3 meetings, studied and considered the following proposals: Revision of Rules on Senior Management Remuneration, proposal regarding the H Shares Appreciation Rights to Senior Management of China Merchants Bank Phase V, proposal regarding the 2012 Appraisal on the coming into effect the H Shares Appreciation Rights of China Merchants Bank and the Inspection Report by KPMG in relation to 2011 Total Annual Remuneration and Remuneration of Senior Management.

VI Corporate Governance

The Risk and Capital Management Committee under the Board of Directors held 4 meetings, studied and considered the Comprehensive Risk Management Report for the Year 2011, the Profit appropriation Plan for the year 2011, the Issuance in Substitution for 23 billion Maturing Tier 2 Capital Instruments, the General Mandate to Issue New Shares and/or Share Options, Expanding the Scope of Mandate to Issue Financial Bonds, Authorization to the Senior Management and the Special Committee under the Board of Directors to approve Basel II related issues, Annual Examination of the Effectiveness of the Internal Assessment System by the Board of Directors, Work Summary of Consolidated Statement Management in 2011 and Work Plan for 2012, Write-off of Large-amount Non-performance Loan Plan, Comprehensive Risk Management Report for the First Quarter in 2012, Rectification Plan for Issues Arising from Formal Evaluation on the Implementation of the New Basel II Capital Accord, Revision of Market Risk Management Policies, Report in relation to the Implementation of Verification Policies in 2011, Overview of the Report in relation to Modeling Test on Risk Measurement (2012), Verification Policies (Series) under the New Basel II Capital Accord, Management Measures on Classification of Credit Risks Exposure (Version 2), Revision of the Annex on Management Measures in relation to Credit Risks Cushion under Internal Rating Based System and General Policy of Internal Rating Based System for Credit Risks (Version 2).

The Audit Committee under the Board of Directors held 3 meetings, studied and considered the Internal Control Evaluation Measures, the Proposal on the Work Plan for Internal Control Evaluation in 2011, the Proposal regarding the Appointment of Accounting Firm and its Remuneration, the Proposal regarding the Annual Examination of the Validity of the Internal Assessment System for Credit Risk by the Board of Directors, the Internal Control Handbook, the 2011 Report on the Assessment of Internal Control, the Audited Financial Report for 2011, and the 2011 Annual Report and the KPMG's Report on the Audit for 2011.

The Related-Party Transactions Control Committee under the Board of Directors held 2 meetings, studied and considered the Report on Related-Party Transactions in 2011, the Auditor's Report on Related-Party Transactions in 2011, the project on significant related-party transactions and the 2012 related-party list.

6.4 Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Eighth Session of the Board of Supervisors held its 11th, 12th and 13th meetings, considered 15 proposals, heard 4 theme reports. Special Committees under the Board of Supervisors convened 2 meetings, being convened by the Nomination Committee and the Supervision Committee, respectively. The Supervision Committee under the Board of Supervisors considered and passed the "Appraisal Report on the Duty Performance of Directors in 2011". The Nomination Committee under the Board of Supervisors considered and passed the Proposal on Change of Members of the Board of Supervisors and the "Appraisal Report on the Duty Performance of Supervisors in 2011".

The Board of Supervisors attended 1 on-site meeting of the Board of Directors and 1 general meeting. Certain Supervisors attended 2 meetings of special committees under the Board of Directors, including being present at 1 meeting convened by the Audit Committee and the Risk and Capital Management Committee under the Board of Directors, respectively.

6.5 Investigations and Trainings of Directors and Supervisors

During the reporting period, Mr. Fu Yuning, Chairman of the Company, visited the Fuzhou Branch where he listened to the work report and gave direction on small and medium-sized enterprises business, business innovation and how to cope with the challenges of interest rates liberalization. Li Yinquan, a director of the Company, and Mr. Li Hao, Vice-president of China Merchants Bank, visited the Yinchuan Branch where they investigated the branch's business operation and gave guidance on operation and management. Certain independent non-executive directors participated in the discussion on CBRC's comments to CMB's compliance with the New Capital Accord and provided written feedback to CBRC. The independent non-executive directors of the Company made 1 on-site inspection, and listened to the report on the progress of small and medium-sized enterprises business prepared by the Corporate Banking Department, Retail Banking Department and Small Enterprise Credit Center.

VI Corporate Governance

During the reporting period, the Board of Supervisors of the Company visited the Fuzhou Branch to conduct a collective investigation, in which the Board of Supervisors listened to a report given by the management of Fuzhou Branch on the economic and financial condition in Fujian Province, the business operation and risk management of Fuzhou Branch and its progress with the Second Transformation. In addition, the Supervisors and the management communicated on the issues of innovation and service, risk management and refined management.

During the reporting period, Mr. Han Mingzhi, Chairman of the Board of Supervisors, visited 12 First-tier branches in cities of Shijiazhuang, Taiyuan, Wuhan, Xi'an, Nanjing and Ningbo with focus on understanding each branch's business operation and management, local economic and financial condition and the main difficulties and challenges each branch met in the Second Transformation, and held meetings with the heads of local CBRC Offices. In addition, Mr. Han Mingzhi, Chairman of the Board of Supervisors, also conducted surveys in all Shenzhen-based first-tier departments under the Head Office to understand their respective functions, operations and management and listened to their opinions and suggestions.

6.6 Securities Transactions of Directors, Supervisors and relevant Employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2012.

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

6.7 Internal Control and Internal Audit

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

1. Internal Control System

Adhering to the guiding principles of law observance, rule compliance and prudent operation, and pursuant to 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 the stock exchanges in Shanghai and Hong Kong, the Company has established an internal control system consisting of five elements, namely: internal environment, risk assessment, controlled activities, information and communication and internal supervision. With such system, the Company has control over the whole procedures of management activities. It also keeps improving the completeness, reasonableness and effectiveness of the internal control system in the course of business operation, so as to ensure prudent operation and facilitate long-term development of the Company.

VI Corporate Governance

2. *The Internal Control Structure and its Responsibilities*

Under the requirements of the relevant laws, regulations and rules, the Company has established a relatively sound corporate governance structure of effective checks and balances and positive interaction across the Board of Directors, the Board of Supervisors and the senior management. In consideration of the needs for internal management and risk management, the Company established an internal control management structure with clear accountability, diversified function and well-defined responsibility, which involves management staff of various departments and at all levels and all employees of the Company. The internal control committees of the Head Office and the branches are the platforms responsible for conducting studies and decision making of significant matters and management measures relating to the Company's internal control. All departments of the Company are responsible for the establishment and execution of internal control system under their respective business lines. The Company's Audit Department is responsible for monitoring and assessment of internal control. All employees are responsible for feedback of significant information regarding the measures of internal control and their implementation.

3. *The Internal Control System and its Operation*

During the reporting period, the Company organized and conducted certain educational activities with the theme of "Enhance Awareness of Self-discipline and Upgrade Professional Ethics", to further enhance all management personnel's and employees' self-discipline on compliance and law-abiding, honest and trustworthy as well as clean practices. According to the unified arrangement of the CBRC, the Company launched a specific correction work to non-standard operations, and carried out a comprehensive investigation and rectification campaign in connection with standardized operations and bank fee management. Taking this opportunity, the Company also improved relevant systems and established effective long-term mechanism for standardized operations. By adhering to the principle of "Mechanisms and internal control always go first", the Company strived to execute mechanism development. During the reporting period, the Company issued 89 regulations and measures, including the "Internal Control Evaluation Measures of China Merchants Bank Co., Ltd.", the "Compliance Management Regulations of China Merchants Bank (2nd Edition)", the "Risk Portfolio Management Guidelines for Small Enterprises of China Merchants Bank" and the "Regulations on Risk Management Regulations on Outsourcing of China Merchants Bank", and implemented the same across the Bank.

During the reporting period, the Company continuously optimized its risk management mechanisms and processes, and constantly reinforced the risk management bases, so as to effectively enhance the level of risk management. As for compliance risk management, the Company continuously promoted regular identification and evaluation on compliance risk points, and set monitoring threshold for key compliance risk indicators to strengthen compliance risk management in key areas and aspects. As for operational risk management, the Company further improved the management system and evaluation and examination mechanism for operational risks, the Company also took measures to control risks in key areas and used management tools to dynamically identify and monitor the risk profile. As for credit risk management, the Company actively optimized the small enterprises credit process to promote the healthy development of small enterprises credit business and strengthened the quality management of credit assets to ensure the stability of the quality of credit assets. In addition, the Company conducted ongoing updating, optimization, monitoring and analysis on risk measurement models, further consolidated the internal rating system of credit risk, and actively promoted the ten-category classification system of credit assets to perfect this operating procedure. As for market risk management, the Company strengthened liquidity management to ensure safe operations, and promoted vigorously the on-balance sheet management and off-balance sheet hedging of interest rate risk. The Company also enhanced exchange rate risk monitoring and management, and actively explored off-balance sheet hedging of exchange rate risk.

VI Corporate Governance

During the reporting period, the Company actively promoted the full implementation and compliance with the Basel II, and completed on-site assessment of the Basel II. The Company also continued to promote the Second Pillar of capital management projects and further improved the relevant policy system of the Basel II. In addition, the Company also tightened investigation on and management of deviant behavior of employees, and paid close attention to the prevention and control on departments/positions where potential job-related crimes are likely to occur. Pursuant to the principle of separation of the front, middle and back offices, the Company continued to streamline the workflows and centralize the operations in business lines such as credit, accounting and retailing. The Company also upgraded its hardware facilities and software systems, with a view to enable better IT support to various business activities and risk management. Besides, the Company continued to enhance on-site/off-side inspection and auditing/monitoring capacity across all business lines, so as to detect any violation occurred during operation/administration and urge rectification by the relevant departments in a timely manner.

To guarantee the truthfulness and completeness of its accounting information as well as the truthfulness and fairness of its financial statements, the Company has formulated "China Merchants Bank Accounting Policy Handbook" and accounting systems for various businesses, and has established a standardized accounting process. During the reporting period, no material defects were identified in the Company's internal control system in terms of financial reporting. The Company complied with the principles of truthfulness, accuracy, completeness, timeliness and fairness in information disclosure, ensuring effective communication within the Company and that between the Company and external parties. During the reporting period, there was no material mistake made in information disclosure.

The Company's internal control system has been proved to be effective, which ensures that the relevant risks involved in operations and those specified in our internal control objectives are controlled within the tolerance level. During the reporting period, the Company assigned all the departments under the Head Office, and its branches and sub-branches to assess the states of their internal control for 2011. 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.

4. Implementation of "Basic Principles for Internal Control of Enterprises" and their supporting guidelines

During the reporting period, the Company continued to promote the relevant project implementation work of internal control principles, and developed the "2012 Working Program for Continued Internal Control Improvement". As at the end of the reporting period, the Company had completed the project implementation work of internal control principles in accordance with the arrangements under the "Working Plan for the Implementation of Internal Control Principles of China Merchants Bank".

(1) The Company established the working standards for streamlining and assessing its internal control, and clarified the direction to further improve the Company's internal control management system. On the basis of summing up the project results, the Company timely consolidated and standardized the methods and processes formed in streamlining and assessing internal control into rules and mechanisms, and initially established the regular internal control management mechanism which cover internal control construction, internal control systematization, internal control assessment and internal control rectification. Meanwhile, combined with the needs of the Company's internal control works, we further proposed related goals for improvement in internal control structure, divisional internal control of duties, internal control system construction, internal control performance assessment, internal control training, system promotion of internal control principles as well as management information system of internal control and others, all these works have laid a solid foundation for future work of the Company's internal control.

(2) **The Company completed timely the 2011 self-assessment and audit for internal control.** The Company organized and conducted the 2011 annual internal control assessment, and engaged external auditor to audit the effectiveness of the internal control related to financial reporting matters; in addition, the Company timely published the "2011 Report on the Assessment of Internal Control of China Merchants Bank Co., Ltd." and the "Auditors' Report on Internal Control of China Merchants Bank". These internal and external assessment results showed that the Company has maintained sound and effective internal control for financial reporting in all material respects in accordance with the "Basic Principles for Internal Control of Enterprises" and the relevant regulations.

(3) **The Company developed the 2012 Working Program for Continued Internal Control Improvement.** In order to continuously optimize the Company's internal control system and operating mechanism and to constantly improve our standards on management, standardized operation and risk prevention, the Company developed a working program for continued internal control improvement, in which we formulated our plans and arrangements for internal control construction, internal control assessment and internal control audit in 2012.

6.7.2 Internal audit

The internal Audit Department of the Company is responsible for inspecting and assessing operation and management of the Company, 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.

The Company has established complete internal auditing mechanisms and set up independent auditing departments in the Head Office and branches. The Company has also established complete auditing mechanisms covering general rules, operation rules and working standards based on the *Internal Auditing Memorandum of China Merchants Bank*. In addition, the Company has set up an inspection system that combines on-site auditing with off-site auditing and coordinates Head Office auditing with branch auditing. The audit on the whole Bank is directly under the management of the Head Office. Among which, the Audit Department 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. Internal audit departments at branches are running on a dual-management and dual-reporting mechanism, with any audit findings reported directly to the Audit Department at the Head Office.

In the first half of 2012, the internal audit departments conducted audits to the status of operations and internal control of certain branches by means of on-site audits, off-site audits, regular audits, special audits, rectification and verification audit, resignation audit and others. During the audit process, the Company stressed the inspection to key businesses, key aspects and key risks. The scope of inspection included: credit business, treasury business, international operations, intermediary business, accounting, retail banking, information technology system and other areas of the Company. During the audit process, focusing on the comprehensiveness and effectiveness of internal control systems and paying attention to reveal the shortcomings and management deficiencies of internal control, the internal audit departments have continuously played an important role in improvement of management and internal control by taking a risk-oriented approach, highlighting priorities and valuing efficiency. Meanwhile, through linking rectification with accountability, connecting self-examination with internal steering, both the internal control and compliance systems of the Company were further optimized.

6.8 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 ("CGC") (from 1 April 2012 to 30 June 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 CGC, an Independent Non-Executive Director did not attend the annual general meeting of the Company held on 30 May 2012 due to other work arrangement.

VII Report of the Board of Directors

7.1 Profit Appropriation

2011 Profit Appropriation Plan

2011 Profit Appropriation Plan of the Company was considered and passed at the 2011 Annual General Meeting of Shareholders held on 30 May 2012.

The Company's profit after tax as stated in the audited financial statement (domestic section) of 2011 amounted to RMB34.452 billion, and was appropriated, in accordance with the availability and the relevant regulatory requirements, as follows: 1) RMB3.445 billion was appropriated to the statutory surplus reserve, pursuant to the PRC Company Law. 2) 1% of the total amount of the increased risk assets, totalling RMB1.871 billion, was appropriated to the general reserve. 3) Based on the total share capital of A Shares and H Shares on the record date for profit appropriation, the Company declared a cash dividend of RMB4.20 (tax included) for every 10 shares, payable in RMB for all A shareholders and in HKD for all H shareholders whose names appeared on the register of the Company. The actual profit appropriations amount in HKD would be calculated based on the average rate of PBOC's RMB/HKD benchmark exchange rates one week before the date of general meeting (inclusive). The retained profits would be carried forward to the next year. No capital reserve was converted into capital for the year 2011.

The Board of Directors of the Company has already implemented the above-mentioned dividend appropriation plan. For further information relating to the implementation, please refer to the announcement published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 1 June 2012.

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 be satisfied by allotment of new shares. Interim cash dividend may be paid out. Unless another resolution is passed at the shareholders' meeting, the Board shall be authorized 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) in cash of any appropriation of fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall be entitled to make deduction against the cash dividend to be paid to such shareholder, and such deducted amount shall be used as to offset 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 wishes 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. The Company implemented the 2011 Equity Distribution Plan 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 independent directors of the Company have expressed independent opinions on those profit appropriation plans for 2011 that the equity distribution plans of the Company and their implementation process have adequately protected the legal rights and interests of minority shareholders.

7.2 Interim Dividend Appropriation for the Year 2012

The Company would not distribute interim dividend for the year 2012, nor would it capitalize the capital reserve (for January-June 2011: Nil).

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

Shareholdings in non-listed financial companies

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/(losses) for the reporting period[1] ('000)	Changes in owners' equity for the reporting period ('000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	689,906	735,111	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	48,659	51,342	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	4,000,000	100.00	N/A	4,000,000	401,348	400,817	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914	33.40	70,000,000	258,291	17,409	24,357	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$73,785	HK$7,133	HK$5	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	2.88	20,000	HK$9,430	HK$583	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$89,328	HK$9,967	HK$83	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	21,000,000	HK$38,969	HK$3,334	–	Equity investment

VII Report of the Board of Directors

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
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$3,911	HK$1,060	HK$(17)	Equity investment
Equity Underwriters Ltd.	HK$2,173	40.00	1,580,000	HK$0[2]	HK$0	–	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$2,818	HK$(323)	–	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$7,174	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP 6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment

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

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

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Percentage of total investment at end of period (%)	Profits/(losses) for the reporting period ('000)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	2,689	996,042	109,365	25.85	–
V	Visa Inc	HK$	15,893	54,361	48,544	11.48	–
03988.HK	Bank of China Ltd.	HK$	46,081	15,500,000	45,570	10.77	–
01288.HK	Agricultural Bank of China Ltd.	HK$	32,323	10,000,000	30,800	7.28	–
00941.HK	China Mobile Ltd.	HK$	23,866	316,000	26,781	6.33	–
00005.HK	HSBC Holdings plc	HK$	30,961	378,344	25,917	6.13	–
02778.HK	Champion Real Estate	HK$	31,755	6,164,000	19,663	4.65	–
00939.HK	China Construction Bank Corporation	HK$	8,059	3,210,000	16,949	4.01	–
02388.HK	BOC Hong Kong (Holdings) Limited	HK$	5,902	687,000	16,179	3.82	
01398.HK	Industrial and Commercial Bank of China Ltd.	HK$	15,246	3,135,000	13,418	3.17	–
Other securities investments at end of period		HK$	51,367	N/A	69,827	16.51	(2,700)
Total		**HK$**	**264,142**	**N/A**	**423,013**	**100.00**	**(2,700)**

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

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

7.4 Shareholdings and Trading in Equity Interest of other Listed Companies

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

7.5 Purchase, Sale or Repurchase of Listed Securities of the Company

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

7.6 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 Share Shareholders Meeting and the 2011 First H Share Shareholders Meeting of the Company. Up to present, the Company has obtained approval from the CBRC in respect of such Rights Issue, and the proposal on Rights Issue of A Shares was considered and passed by the Review Committee under CSRC. As the final approval was yet to be obtained from regulatory authorities and the validity of the resolutions on such Rights Issue passed on the general meeting would expire on 9 September 2012, the Company considered and approved the extension of the validity period of the resolutions of such Rights Issue for one year at the 33rd meeting of the Eighth Session of the Board of Directors held on 20 July 2012, such proposal is subject to the approvals at the 2012 First Extraordinary General Meeting, the 2012 First A Share Shareholders Meeting and the 2012 First H Share Shareholders Meeting, to be held on 7 September 2012.

7.7 Use of Raised Fund and Major Investment not Financed by the Raised Fund

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

Pursuant to the "Proposal on the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd. (Revised)" which was considered and passed at the 2009 Second Extraordinary General Meeting, the 2009 First A Shareholders Class Meeting and the 2009 First H Shareholders Class Meeting of the Company, the proposal regarding the Rights Issue of A Shares and H Shares had been carried out smoothly, and the A Shares and H Shares issued under the Rights Issue were listed and traded on 19 March 2010 and 9 April 2010 respectively. Total funds raised under the A Share Rights Issue and the H Share Rights Issue were RMB17,764,081,690.65 and HK$4,525,772,680 (equivalent to approximately RMB3,980,417,072) respectively. The expenses incurred in connection with the A Share Rights Issue and the H Share Rights Issue, including fees on financial consultancy, underwriting commission, legal and accounting charges, printing, registration and translation expenses, etc., amounted to 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 the RMB20 billion raised from issuance of financial bonds in 2012

Approved by the regulatory authorities, the Company successfully 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 rate, issuance size of RMB6.5 billion and annual coupon rate of 4.15%; type II is a 5-year bonds with floating 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. As at the end of June 2012, the proceeds raised from issuance of the Bonds were fully used to support small- and micro-enterprise financings.

VII Report of the Board of Directors

Major investment not financed by the raised fund

As of 30 June 2012, the total investment in Shanghai Lujiazui Project was RMB1.486 billion, among which RMB86 million was invested during the reporting period.

7.8 Interests and Short Positions of Directors, Supervisors and Chief Executives under Hong Kong Laws and Regulations

As at 30 June 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 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 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 (shares)	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Peng Zhijian	Supervisor	A	Long position	Beneficial Owner	25,000	0.00014	0.00012

7.9 Disciplinary Actions Imposed on the Company, Directors, Supervisors and Senior Management

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

7.10 Undertakings Made by the Company

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

7.11 Significant Connected Transactions

7.11.1 Overview of connected transactions

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

7.11.2 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 Company Limited ("CIGNA & CMC Life Insurance"), China Merchants Fund Management Company Limited ("CMFM") and China Merchants Securities Company Limited ("CM Securities"), respectively.

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

Pursuant to the Share Transfer Agreement entered into between the Company and Dingzun on 5 May 2008, the Company acquired from Dingzun its 50% equity interest in CIGNA & CMC Life Insurance for a consideration of RMB141,865,000 (please refer to the Company's announcement dated 5 May 2008, the Company's circular dated 13 May 2008 and the Company's announcement issued on 3 June 2011). The principal business of CIGNA & CMC Life Insurance includes life insurance, accidents and health insurance products. The completion of the acquisition was subject to the approval from the independent shareholders of the Company and the regulatory authorities. After the completion of the acquisition, CIGNA & CMC Life Insurance will become a non-wholly-owned subsidiary of the Company. The future financial statements of CIGNA & CMC Life Insurance will be consolidated into the Company's financial statements. The independent shareholders have granted their approvals for the acquisition. However, as at the date of this report, the regulatory authorities have not yet granted their approvals. Prior to the completion of the acquisition by the Company, the agency services conducted by the Company relating to the sales of insurance products of CIGNA & CMC Life Insurance constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 28 December 2011, the Company entered into the 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 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

VII Report of the Board of Directors

(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 30 June 2012, the aggregate amount of related transactions between the Company and CM Securities amounted to RMB96,240,000.

CMFM

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

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

The Company entered into a service co-operation agreement with CMFM on 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 according 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 30 June 2012, the aggregate value of related transactions between the Company and CMFM amounted to RMB93,650,000.

CM Securities

The provision of third-party custodian account, fund custodian account guaranteed by customers' credit transactions, collective/targeted wealth management agency services and collective/targeted wealth management products in custody between the Company and CM Securities constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

China Merchants Steam Navigation Company Limited is a substantial shareholder of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company Limited, and currently holds approximately 18.63% 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 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 RMB300,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would accordingly be subject only to the reporting, 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 30 June 2012, the aggregate value of related transactions between the Company and CM Securities amounted to RMB20,240,000.

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

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

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

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

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

7.12 Material Litigation and Arbitration

As at 30 June 2012, so far as is known to the Company, the Company was involved in the following litigation cases in its ordinary course of business: the total number of pending litigation and arbitration cases that involved the Company was 1,704, with a total principal amount of RMB2,992,749,900 and total interests of RMB127,240,900. Of which, there were a total of 169 pending litigation and arbitration cases with the Company as defendant as at 30 June 2012, with a total principal amount of RMB483,556,900 and total interests of RMB24,414,700. There was one pending case with a principal amount exceeding RMB100,000,000, involving a total principal amount of RMB305,995,900 and total interests of RMB16,707,400. The above litigation and arbitration cases would not have a significant adverse impact on the financial position or operating results of the Company.

7.13 Material Contracts and their Performances

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

During the reporting period, none of the material contracts entered into by the Company involved any custodian,, contracting or hiring or leasing of any assets of other companies and vice versa which was outside the Company's normal business scope.

Significant guarantees

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

Significant entrustments in respect of fund and asset management

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

7.14 Major Activities in Asset Acquisition, Disposal and Reorganization

7.14.1 Progress of the acquisition of CIGNA & CMC Life Insurance

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

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

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

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 and 4 June 2011 respectively.

7.14.2 Progress 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 been signed for a long time, and it is still pending the approval of the relevant regulatory authorities. 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 published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 4 July 2012.

7.15 Implementation of the Share Appreciation Rights Incentive Scheme during the Reporting Period

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

7.16 Use of Funds by Related Parties

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

7.17 Social Responsibilities

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

1. Continuous efforts in poverty relief

The year 2012 marked the fourteenth year of the Company's efforts to provide designated poverty relief to Wuding County and Yongren County in Yunnan Province. In the first half of the year, staff of the Company donated over RMB8.37 million in cash to the two counties. RMB4 million in small sum loans were granted to the impoverished to aid and help themselves.

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

In the first half of 2012, the Company continued to adhere to its SME business development strategy and increased support for SMEs. As at 30 June 2012, the total balance of loans granted to medium, small and micro enterprises domestically by the Company amounted to RMB537.909 billion, represented an increase of RMB36.811 billion or 7.35% as compared with that at the end of the previous year.

VII Report of the Board of Directors

3. Implementation of green finance

During the reporting period, the Company has formulated the "Plan of China Merchants Bank to Promote the Implementation of Green Finance" and promulgated CMB's "Green Finance Policy" to provide guidance to areas of green credit; we have developed various new types of green loan products including loan against collateral of emission rights, loan against collateral of energy conservation revenue, low-interest long-term loan of French Development Agency (FDA), buyer credit for green equipments, green financial leasing, integrated solution on clean development mechanism (CDM) leasing, and etc.. These loans have expanded the scope of energy-saving & emission-reduction leasing and supported the development of the low-carbon economy. We have organized "Long Teng Xin Lu Green Credit Marketing Competition", established partnership with the United Nations Environment Programme, French Development Agency and World Wide Fund for Nature, signed the Natural Capital Declaration of the United Nations Environment Programme and invited experts from the China Banking Regulatory Commission, World Wide Fund for Nature and HSBC to conduct video trainings for the Bank's 2,616 staff, thus enhancing the concept of green credit across the Bank. We have furthered our efforts to grant green credit to sectors such as renewable energy, clean energy and environmental protection. In the first half of 2012, the Company granted greed credits totaled RMB11.913 billion. As of 30 June 2012, the balance of loans to green credit area amounted to RMB52.33 billion, increased by RMB1.348 billion as compared with the beginning of the year; the balance of loans to environmental protection area amounted to RMB38.936 billion; the balance of loans to clean energy amounted to RMB13.394 billion, increased by RMB1.798 billion as compared with the beginning of the year. Amongst which, RMB12.454 billion was granted to renewable energy, representing an increase of RMB1.784 billion as compared with the beginning of the year.

4. Cheering on dreams and donations to the WABC (World of Art Brut Culture) program

In January 2012, the CCTV Dream Choirs highlighting the theme of "Dream" and "Public Welfare" videotaped a program-" A Dream Festival- To Touch China". As a sponsor to the Shanghai Dream Choir, the Company participated in the program and donated RMB1,000,000 to the WABC (World of Art Brut Culture) program, helping the Shanghai Dream Choir to realize its dream.

5. Little blue lamps lighting up hope

To respond to the calls of international charitable organizations to arouse worldwide concern for autistic children, CMB's headquarter, Credit Card Centre and One Foundation (壹基金) jointly held a press conference for the "Ocean Paradise-Lighting up Blue Lamps" program and officially held the "lighting up blue lamps" ceremony on 2 April 2012. By the end of 2011, there were more than 20,000 One Foundation credit card holders, with accumulated donation of RMB4.46 million. The number of One Foundation All-in-one card holders who continuously made donations exceeded 50,000, contributing a cumulative donation of RMB3.51 million. As at the end of the reporting period, the Company has made cumulative donations of RMB2.59 million.

6. On the occasion of its 25th anniversary, CMB's 800 volunteers embarked on their journey

To celebrate the 25th anniversary of the establishment of CMB and to continuously implement our notion of social responsibility centering on "from society and for society", the Company launched the "CMB 25th Anniversary & CMB Volunteers' Activities" themed with "The World is Becoming a Better Place for Having You in it", through which a series of public welfare activities including education aid, poverty relief, low-carbon and environment protection, etc. are carried out in each branch. These activities have disseminated the notion of CMB's corporate social responsibility and its service notion of "We are here just for you" to the neighboring schools, communities and the needed. They have rewarded the public and spread love.

7. The Beautiful Singings of Children's Choir spread throughout China

In August 2011, jointly with China Children and Teenagers' Fund and 21st Century Business Herald, the Company launched the charity programme of "Sunflower and Yi Minority Children's Choir". With the aid of the Company's donation, the music teaching room at Jincheng Primary School in Wuding County, Chuxiong Autonomous Prefecture, Yunnan Province was established in April 2012. This has provided relatively good hardware facilities for the professional development of the Yi Minority Children's Choir. The programme has helped Yi Minority Children's Choir to go out of the great mountains and let the public get to know the unique intangible cultural heritage of the Yi Minority, and has aroused public concerns for protecting cultural heritage.

7.18 Review on Interim Results

KPMG Certified Public Accountants, being the external auditor of the Company, has reviewed the interim financial report prepared in accordance with the disclosure requirements of the International Accounting Standards and the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Company has also reviewed and approved the results and financial report of the Company for the period ended 30 June 2012.

7.19 Publication of Interim Report

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

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

By Order of the Board of Directors

Chairman
Fu Yuning

17 August 2012

VIII Review Report to the Board of Directors and Interim Financial Report for 2012

Review Report to the Board of Directors

KPMG

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 100 to 162 which comprises the consolidated statement of financial position of China Merchants Bank Co., Ltd as of 30 June 2012 and the related consolidated statement of comprehensive income, and consolidated statement of changes in equity and consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

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

17 August 2012

Unaudited Consolidated Statement of Comprehensive Income

For the period ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2012	2011
Interest income	4	**73,819**	55,082
Interest expense	5	**(30,178)**	(19,366)
Net interest income		**43,641**	35,716
Fee and commission income	6	**10,411**	8,746
Fee and commission expense		**(679)**	(583)
Net fee and commission income		**9,732**	8,163
Other net income	7	**3,861**	2,287
Operating income		**57,234**	46,166
Operating expenses	8	**(22,142)**	(17,845)
Charge for insurance claims		**(150)**	(136)
Operating profit before impairment losses		**34,942**	28,185
Impairment losses	9	**(4,144)**	(4,064)
Share of profit of associates		**18**	41
Share of profit of jointly controlled entities		**9**	14
Profit before tax		**30,825**	24,176
Tax expense	10	**(7,449)**	(5,576)
Profit for the period		**23,376**	18,600

The notes on pages 108 to 162 form part of this interim financial report. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the period are set out in note 32.

Unaudited Consolidated Statement of Comprehensive Income

For the period ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2012	2011
Profit attributable to:			
Owners of the Bank		**23,377**	18,600
Non-controlling interests		**(1)**	–
Earnings per share			
Basic	12(a)	**1.08**	0.86
Diluted	12(b)	**1.08**	0.86
Other comprehensive income (after tax and reclassification adjustments)	11		
Foreign currency translation difference		**164**	(279)
Net change in fair value of available-for-sale investments		**1,918**	(644)
Effective portion of change in fair value of cash flow hedges		**(47)**	6
Other comprehensive income for the period, net of tax		**2,035**	(917)
Total comprehensive income for the period		**25,411**	17,683
Total comprehensive income attributable to:			
Owners of the Bank		**25,412**	17,683
Non-controlling interests		**(1)**	–

The notes on pages 108 to 162 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**30 June 2012**	31 December 2011
Assets			
Cash		**10,697**	10,725
Balances with central bank	13	**406,949**	397,579
Balances with banks and other financial institutions	14	**234,134**	63,046
Placements with banks and other financial institutions	15	**121,264**	131,381
Amounts held under resale agreements	16	**223,539**	73,975
Loans and advances to customers	17	**1,743,892**	1,604,371
Interest receivable		**14,239**	10,852
Financial assets at fair value through profit or loss	18(a)	**19,227**	15,530
Derivative financial assets	35(b)	**1,948**	1,887
Available-for-sale investments	18(b)	**287,530**	275,860
Held-to-maturity debt securities	18(c)	**167,763**	145,586
Receivables	18(d)	**42,809**	22,085
Interest in associates	19	**314**	297
Interest in jointly controlled entities	20	**167**	159
Fixed assets	21	**17,401**	17,500
Investment properties	22	**1,711**	1,710
Intangible assets	23	**2,748**	2,605
Goodwill	24	**9,598**	9,598
Deferred tax assets	25	**4,193**	4,337
Other assets		**12,578**	5,888
Total assets		**3,322,701**	2,794,971
Liabilities			
Deposits from banks and other financial institutions	26	**340,195**	205,699
Placements from banks and other financial institutions	27	**106,402**	67,484
Amounts sold under repurchase agreements	28	**101,175**	42,064
Deposits from customers	29	**2,456,436**	2,220,060
Interest payable		**20,771**	16,080
Financial liabilities at fair value through profit or loss	18(e)(f)	**12,598**	4,724
Derivative financial liabilities	35(b)	**1,592**	1,469
Debts issued	30	**66,655**	46,167
Salaries and welfare payable		**7,092**	3,320
Tax payable		**6,568**	7,112
Deferred tax liabilities	25	**861**	864
Other liabilities		**20,994**	14,918
Total liabilities		**3,141,339**	2,629,961

The notes on pages 108 to 162 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**30 June 2012**	31 December 2011
Equity			
Share capital	31	**21,577**	21,577
Capital reserve		**37,508**	37,508
Investment revaluation reserve		**2,075**	157
Hedging reserve		**231**	278
Surplus reserve		**14,325**	14,325
Regulatory general reserve		**18,832**	18,794
Retained earnings		**87,785**	64,446
Proposed profit appropriations	32(b)	**–**	9,062
Exchange reserve		**(986)**	(1,150)
Equity attributable to owners of the Bank		**181,347**	164,997
Non-controlling interest	39	**15**	13
Total equity		**181,362**	165,010
Total liabilities and equity		**3,322,701**	2,794,971

Approved and authorised for issue by the board of directors on 17 August 2012.

Fu Yu Ning
Director

Ma Wei Hua
Director

Company Chop

The notes on pages 108 to 162 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the period ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 2012											
		Attributable to shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained earnings	Proposed profit appropria-tions	Translation 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 period		–	–	1,918	(47)	–	38	23,339	(9,062)	164	16,350	2	16,352
(a) Profit for the year		–	–	–	–	–	–	23,377	–	–	23,377	(1)	23,376
(b) Other comprehensive income for the period	11	–	–	1,918	(47)	–	–	–	–	164	2,035	–	2,035
Total comprehensive income for the period		–	–	1,918	(47)	–	–	23,377	–	164	25,412	(1)	25,411
(c) Changes by the shareholder's equity		–	–	–	–	–	–	–	–	–	–	3	3
(d) Distribution of profits													
(i) Transfer of retained earnings to regulatory general reserve		–	–	–	–	–	38	(38)	–	–	–	–	–
(ii) Dividends paid for the year 2011	32(a)	–	–	–	–	–	–	–	(9,062)	–	(9,062)	–	(9,062)
At 30 June 2012		21,577	37,508	2,075	231	14,325	18,832	87,785	–	(986)	181,347	15	181,362

The notes on pages 108 to 162 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the period ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	For the six months ended 30 June 2011												
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained earnings	Proposed profit appropria-tions	Translation 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 period		–	–	(644)	6	2,462	82	18,518	(8,719)	(279)	11,426	–	11,426
(a) Profit for the year		–	–	–	–	–	–	18,600	–	–	18,600	–	18,600
(b) Other comprehensive income for the period	11	–	–	(644)	6	–	–	–	–	(279)	(917)	–	(917)
Total comprehensive income for the period		–	–	(644)	6	–	–	18,600	–	(279)	17,683	–	17,683
(c) Distribution of profits													
(i) Appropriations to statutory surplus reserve for the year 2010		–	–	–	–	2,462	–	–	(2,462)	–	–	–	–
(ii) Transfer of retained earnings to regulatory general reserve		–	–	–	–	–	82	(82)	–	–	–	–	–
(iii) Dividends paid for the year 2010	32(a)	–	–	–	–	–	–	–	(6,257)	–	(6,257)	–	(6,257)
At 30 June 2011		21,577	37,508	(1,955)	9	10,880	16,894	61,324	–	(805)	145,432	–	145,432

The notes on pages 108 to 162 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

For the period ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2012	2011
Cash flows from operating activities			
Profit before tax		**30,825**	24,176
Adjustments for:			
– Impairment losses on loans and advances		**4,087**	3,932
– Impairment losses on investments and other assets		**57**	132
– Unwinding of discount on impaired loans		**(91)**	(69)
– Fixed assets and investment properties depreciation		**1,356**	1,265
– Operating lease of fixed assets depreciation		**27**	27
– Amortisation of other assets		**149**	120
– Amortisation of discount and premium of debt investments		**(13)**	(35)
– Amortisation of discount and premium of issued debts		**59**	12
– Gains on debt investments		**(1,843)**	(571)
– Interest income on debt investments		**(7,656)**	(5,630)
– Interest expense on issued debts		**1,230**	865
– Share of profit of associates		**(18)**	(41)
– Share of profit of jointly controlled entities		**(9)**	(14)
Changes in:			
Balances with central bank		**(31,288)**	(34,128)
Balances and placements with banks and other financial institutions with original maturity over 3 months		**(63,716)**	18,360
Loans and advances to customers		**(143,562)**	(123,316)
Other assets		**(12,165)**	(8,155)
Deposits from customers		**236,376**	195,580
Deposits and placements from banks and other financial institutions		**232,525**	21,624
Other liabilities		**19,976**	(1,319)
Cash generated from operating activities		**266,306**	92,815
Income tax paid		**(7,876)**	(4,711)

Unaudited Consolidated Cash Flow Statement

For the period ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June **2012**	2011
Cash flows from investing activities			
Payment for investments purchased		**(497,161)**	(490,947)
Proceeds from disposal of investments		**442,555**	478,776
Interest received from investments		**7,375**	5,284
Payment for purchase of fixed assets and other assets		**(1,519)**	(1,172)
Proceeds from sale of fixed assets and other assets		**6**	52
Repayment of loan to jointly controlled entities		**2**	2
Net cash used in investing activities		**(48,742)**	(8,005)
Cash flows from financing activities			
Proceeds from issuance of long-term debt securities		**20,000**	–
Proceeds from issuance of certificates of deposit		**12,230**	12,339
Repayment of certificates of deposit issued		**(12,382)**	(2,811)
Interest paid on issued debts		**(92)**	(755)
Dividends paid		**(7,575)**	(5,123)
Cash received from minority shareholders		**3**	–
Cost of issuance of long-term debt securities		**(31)**	–
Net cash generated from financing activities		**12,153**	3,650
Net increase in cash and cash equivalents		**221,841**	83,749
Cash and cash equivalents at 1 January		**219,151**	177,220
Effect of exchange rate fluctuations on cash held		**382**	(5)
Cash and cash equivalents at 30 June	33(a)	**441,374**	260,964
Cash flows from operating activities include:			
Interest received		**64,952**	48,689
Interest paid		**25,302**	15,575

The notes on pages 108 to 162 form part of this interim financial report.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

1 REPORTING ENTITY

China Merchants Bank Co., Ltd. ("the Bank") is a bank domiciled in the People's Republic of China (the "PRC"). The unaudited consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2012 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The unaudited consolidated financial statements of the Group as at and for the year ended 31 December 2011 are available upon request from the Bank's registered office at China Merchants Bank Tower, Shenzhen, the PRC.

The particulars of the Bank's subsidiaries as at 30 June 2012 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in million)	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited	Hong Kong	HKD250	100%	Financial advisory services
CMB Finance Lease Co., Ltd.	Shanghai	RMB4,000	100%	Finance lease
Wing Lung Bank Limited ("WLB")	Hong Kong	HKD1,161	100%	Banking

2 BASIS OF PREPARATION

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

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for these changes in accounting policies set out in note 3.

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

This interim financial report contains unaudited consolidated financial statements and explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 2011 annual financial statements. The unaudited consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

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

(Expressed in millions of Renminbi unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES

A number of new IRFSs 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.

4 INTEREST INCOME

	Six months ended 30 June	
	2012	2011
Loans and advances (note)		
– Corporate loans	**33,963**	25,477
– Retail loans	**19,472**	14,734
– Discounted bills	**3,396**	2,233
Balances with central bank	**3,108**	2,446
Balances and placements with		
– banks	**3,811**	838
– other financial institutions	**801**	357
Amounts held under resale agreements	**1,599**	3,321
Debt security investments	**7,669**	5,665
Others	**–**	11
Interest income on financial assets that are not at fair value through profit or loss	**73,819**	55,082

Note: Included in the above is interest income of RMB91 million accrued on impaired loans (for the six months ended 30 June 2011: RMB69 million).

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

5 INTEREST EXPENSE

	Six months ended 30 June	
	2012	2011
Deposits from customers	**20,316**	14,060
Deposits and placements from		
– banks	**3,486**	2,238
– other financial institutions	**4,179**	1,808
Amounts sold under repurchase agreements	**908**	368
Issued debts	**1,289**	892
Interest expense on financial liabilities that are not at fair value through profit or loss	**30,178**	19,366

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2012	2011
Bank cards fees	**2,621**	2,260
Remittance and settlement fees	**1,088**	952
Agency services fees	**1,975**	1,907
Commissions from credit commitment and loan business	**1,186**	837
Commissions on trust and fiduciary activities	**2,333**	1,409
Others	**1,208**	1,381
	10,411	8,746

Note: Other than amounts included in determining the effective interest rate, included above is fee and commission income earned by the Group arising from financial assets and liabilities not carried at fair value through profit or loss of RMB3,213 million (for the six months ended 30 June 2011: RMB2,703 million).

7 OTHER NET INCOME

	Six months ended 30 June	
	2012	2011
Trading profits arising from		
– foreign exchange	**836**	764
– bonds, derivatives and other trading activities	**338**	308
Net gains on financial instruments designated at fair value through profit or loss	**165**	83
Net gains/(losses) on disposal of available-for-sale financial assets	**112**	(114)
Distributions on investment in funds	**16**	8
Rental income on operating leases assets	**53**	–
Gains on disposal of bills	**1,997**	892
Insurance operating income	**197**	181
Others	**147**	165
	3,861	2,287

(Expressed in millions of Renminbi unless otherwise stated)

8 OPERATING EXPENSES

	Six months ended 30 June	
	2012	2011
Staff costs		
– salaries, bonuses and staff welfare	**9,721**	7,656
– retirement benefit costs	**1,117**	985
– housing allowances	**449**	354
– others	**387**	325
	11,674	9,320
Business tax and surcharges	**3,749**	2,819
Depreciation		
– Fixed assets and investment properties depreciation	**1,356**	1,265
– Operating leases of fixed assets depreciation	**27**	27
Rental expenses	**1,184**	1,051
Other general and administrative expenses	**4,152**	3,363
	22,142	17,845

9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2012	2011
Loans and advances (Note 17(c))	**4,087**	3,932
Others	**57**	132
	4,144	4,064

10 INCOME TAX EXPENSE

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2012	2011
Current tax		
– Mainland China	**7,678**	6,452
– Hong Kong	**232**	169
– Overseas	**32**	11
Subtotal	**7,942**	6,632
Deferred tax	**(493)**	(1,056)
Total	**7,449**	5,576

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

11 OTHER COMPREHENSIVE INCOME FOR THE PERIOD

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

	Six months ended 30 June					
	2012			2011		
	Before-tax amount	**Tax (expense)/ benefit**	**Net-of-tax amount**	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences	**164**	**–**	**164**	(279)	–	(279)
Available-for-sale investments						
– net movement in fair value reserve	**2,559**	**(641)**	**1,918**	(872)	228	(644)
Cash flow hedging:						
– net movement in hedging reserve	**(63)**	**16**	**(47)**	8	(2)	6
Other comprehensive income	**2,660**	**(625)**	**2,035**	(1,143)	226	(917)

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

	Six months ended 30 June	
	2012	2011
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	**(47)**	6
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(47)**	6
Available-for-sale investments:		
Changes in fair value recognised during the period	**2,007**	(448)
Reclassification adjustments for amounts transferred to profit or loss:		
– losses on disposal	**(89)**	(196)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**1,918**	(644)

(Expressed in millions of Renminbi unless otherwise stated)

12 EARNINGS PER SHARE

Movements of the share capital are included in note 31.

(a) Basic earnings per share

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

	Six months ended 30 June	
	2012	2011
Net profit	**23,376**	18,600
Weighted average number of shares in issue (in million)	**21,577**	21,577
Basic earnings per share (in RMB)	**1.08**	0.86

(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:

	Six months ended 30 June	
	2012	2011
Net profit	**23,376**	18,600
Diluted net profit	**23,376**	18,600
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)	**1.08**	0.86

13 BALANCES WITH CENTRAL BANK

	30 June 2012	31 December 2011
Statutory deposit reserve funds (note (i))	**391,951**	360,890
Surplus deposit reserve funds (note (ii))	**13,679**	35,597
Fiscal deposits	**1,319**	1,092
	406,949	397,579

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

13 BALANCES WITH CENTRAL BANK *(continued)*

Notes:

(i) The statutory deposit reserve funds are deposited with 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 Renminbi deposits and foreign currency deposits respectively as at 30 June 2012 (31 December 2011: 19% and 5% for eligible Renminbi deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

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

14 BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2012	31 December 2011
Balances with banks	**234,141**	63,083
Balances with other financial institutions	**78**	55
	234,219	63,138
Less: Impairment allowance		
– banks	**(81)**	(88)
– other financial institutions	**(4)**	(4)
	(85)	(92)
	234,134	63,046

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	30 June 2012	31 December 2011
Money market placements		
– banks	**89,906**	105,165
– other financial institutions	**31,375**	26,220
	121,281	131,385
Less: Impairment allowance		
– banks	**(17)**	(4)
	121,264	131,381

(Expressed in millions of Renminbi unless otherwise stated)

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(b) Analysed by remaining maturity

	30 June 2012	31 December 2011
Maturing		
– within one month	**47,812**	46,377
– between one month and one year	**68,850**	82,078
– after one year	**4,602**	2,926
	121,264	131,381

16 AMOUNTS HELD UNDER RESALE AGREEMENTS

(a) Analysed by nature

	30 June 2012	31 December 2011
Amounts held under resale agreements		
– banks	**222,679**	69,550
– other financial institutions	**860**	4,425
	223,539	73,975

(b) Analysed by remaining maturity

	30 June 2012	31 December 2011
Maturing		
– within one month	**135,607**	53,671
– between one month and one year	**87,932**	20,304
	223,539	73,975

(c) Analysed by assets types

	30 June 2012	31 December 2011
Securities	**150,436**	57,787
Loans	**861**	2,700
Bills	**72,242**	13,488
	223,539	**73,975**

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2012	31 December 2011
Corporate loans	**1,091,963**	994,041
Discounted bills	**80,180**	75,826
Retail loans	**611,760**	571,208
Gross loans and advances to customers	**1,783,903**	1,641,075
Less: impairment allowances		
– individually-assessed	**(4,670)**	(5,125)
– collectively-assessed	**(35,341)**	(31,579)
Net loans and advances to customers	**1,743,892**	1,604,371

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	30 June 2012	31 December 2011
Domestic enterprises:		
State-owned enterprises	**187,699**	239,251
Joint-stock enterprises	**119,109**	95,914
Other limited liability enterprises	**375,043**	289,696
Others	**173,263**	151,463
	855,114	776,324
Foreign-invested enterprises	**135,983**	127,121
Enterprises operating in the Mainland	**991,097**	903,445
Enterprises operating outside the Mainland	**100,866**	90,596
Corporate loans	**1,091,963**	994,041
Discounted bills	**80,180**	75,826
Retail loans	**611,760**	571,208
Gross loans and advances to customers	**1,783,903**	1,641,075

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by industry sector:

Operation in Mainland China

	30 June 2012		31 December 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	**337,199**	**29**	299,734	29
Wholesale and retail	**172,091**	**44**	154,953	43
Transportation, storage and postal services	**138,501**	**29**	135,958	29
Property development	**73,061**	**73**	79,453	70
Production and supply of electric power, gas and water	**73,585**	**27**	64,470	24
Mining	**54,060**	**35**	35,481	28
Construction	**53,518**	**31**	43,273	30
Leasing and commercial services	**35,196**	**32**	37,328	36
Water, environment and public utilities management	**32,008**	**34**	33,752	36
Telecommunications, computer services and software	**10,323**	**36**	9,874	46
Others	**29,386**	**28**	24,110	29
Corporate loans	**1,008,928**	**36**	918,386	35
Discounted bills	**80,180**	**100**	75,826	100
Credit cards	**84,427**	**–**	72,964	–
Retail housing mortgage loans	**323,682**	**99**	315,760	99
Retail operating loans	**123,045**	**89**	89,174	94
Others	**69,457**	**93**	81,998	91
Retail loans	**600,611**	**82**	559,896	84
Gross loans and advances to customers	**1,689,719**	**55**	1,554,108	56

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 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

	30 June 2012		31 December 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	**33,006**	**61**	33,365	60
Wholesale and retail	**17,837**	**89**	14,538	90
Manufacturing	**11,167**	**62**	8,238	60
Financial concerns	**7,032**	**16**	5,392	20
Transportation and transportation equipment	**5,245**	**64**	4,992	64
Information technology	**824**	**78**	852	72
Recreational activities	**31**	**34**	30	31
Others	**7,893**	**26**	8,248	23
Corporate loans	**83,035**	**61**	75,655	59
Credit cards	**262**	**–**	341	–
Retail housing mortgage loans	**7,696**	**100**	7,880	100
Retail operating loans	**1,244**	**100**	1,255	100
Others	**1,947**	**92**	1,836	97
Retail loans	**11,149**	**96**	11,312	96
Gross loans and advances to customers	**94,184**	**65**	86,967	64

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by industry sector: (continued)

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

	30 June 2012			
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**
Manufacturing	**3,436**	**3,075**	**1,807**	**7,182**
Wholesale and retail	**2,344**	**1,806**	**1,133**	**3,749**
Retail housing mortgage loans	**4,350**	**642**	**–**	**2,905**

	31 December 2011			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing	2,570	2,682	1,804	6,117
Wholesale and retail	1,439	1,710	1,151	3,257
Retail housing mortgage loans	2,972	387	–	2,797

(iii) Analyses by borrowers' geographical areas

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. In 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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Six months ended 30 June 2012			
	Loans and advances	**Impaired loans and advances**		
	for which impairment losses are collectively assessed	**For which impairment losses are collectively assessed**	**For which impairment losses are individually assessed**	**Total**
At 1 January	**30,190**	**1,389**	**5,125**	**36,704**
Charge for the period (note 9)	**3,514**	**305**	**604**	**4,423**
Releases for the period (note 9)	**(11)**	**(1)**	**(324)**	**(336)**
Unwinding of discount	**–**	**–**	**(91)**	**(91)**
Recoveries of loans and advances previously written off	**–**	**7**	**23**	**30**
Write-offs	**–**	**(83)**	**(690)**	**(773)**
Transfers	**–**	**–**	**9**	**9**
Exchange difference	**31**	**–**	**14**	**45**
At 30 June	**33,724**	**1,617**	**4,670**	**40,011**

	For the year ended 31 December 2011			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	22,026	1,353	5,912	29,291
Charge for the year	8,258	31	759	9,048
Releases for the year	(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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	30 June 2012					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	24,167	–	1	24,168	–	–
– non-financial institution customers	1,749,786	2,420	7,529	1,759,735	0.57	1,770
	1,773,953	2,420	7,530	1,783,903	0.56	1,770
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(64)	–	(1)	(65)		
– non-financial institution customers	(33,660)	(1,617)	(4,669)	(39,946)		
	(33,724)	(1,617)	(4,670)	(40,011)		
Net loans and advances to						
– financial institutions	24,103	–	–	24,103		
– non-financial institution customers	1,716,126	803	2,860	1,719,789		
	1,740,229	803	2,860	1,743,892		

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	31 December 2011					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	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:

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

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

– collectively: that is portfolios of homogeneous loans and advances; 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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Finance lease and hire purchase contracts

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

	30 June 2012		31 December 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	**20,319**	**22,837**	15,251	16,950
After 1 year but within 5 years	**27,417**	**30,308**	19,034	21,104
After 5 years	**1,524**	**1,688**	1,236	1,453
	49,260	**54,833**	35,521	39,507
Impairment allowances:				
– individually-assessed	**(14)**	**(14)**	(3)	(3)
– collectively-assessed	**(643)**	**(643)**	(476)	(476)
Unearned future income on finance lease	**–**	**(5,573)**	–	(3,986)
Net investment in finance leases and hire purchase contracts	**48,603**	**48,603**	35,042	35,042

18 INVESTMENTS

	Note	**30 June 2012**	31 December 2011
Financial assets at fair value through profit or loss	18(a)	**19,227**	15,530
Derivative financial assets	35(b)	**1,948**	1,887
Available-for-sale investments	18(b)	**287,530**	275,860
Held-to-maturity debt securities	18(c)	**167,763**	145,586
Receivables	18(d)	**42,809**	22,085
		519,277	460,948

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

	Note	**30 June 2012**	31 December 2011
Trading financial assets	(i)	**15,327**	12,401
Financial assets designated at fair value through profit or loss	(iii)	**3,900**	3,129
		19,227	15,530

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

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

(i) Trading assets

	30 June 2012	31 December 2011
Listed		
In the Mainland		
– PRC government bonds	**4,005**	1,111
– bonds issued by PBOC	**142**	33
– bonds issued by policy banks	**1,321**	470
– bonds issued by commercial banks and other financial institutions	**5,113**	1,101
– other debt securities	**913**	5,274
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**368**	387
– other debt securities	**1,038**	374
– equity investments	**34**	21
	12,934	8,771
Unlisted		
In the Mainland		
– PRC government bonds	**5**	2
– bonds issued by commercial banks and other financial institutions	**26**	26
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**62**	157
– other debt securities	**2,288**	3,436
– investment in funds	**12**	9
	15,327	12,401

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

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

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

	30 June 2012	31 December 2011
Listed		
In the Mainland		
– bonds issued by policy banks	**608**	601
– bonds issued by commercial banks and other financial institutions	**1,656**	1,240
– other debt securities	**252**	46
Outside the Mainland		
– bonds issued by policy banks	**68**	68
– bonds issued by commercial banks and other financial institutions	**336**	325
– other debt securities	**654**	386
Unlisted		
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**261**	138
– other debt securities	**65**	325
	3,900	3,129
Financial assets at fair value through profit or loss (excluding derivative financial instruments)		
Issued by:		
Sovereigns	**6,850**	4,468
Banks and other financial institutions	**9,914**	4,892
Public sector entities	**4**	4
Corporates	**2,459**	6,166
	19,227	15,530

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	30 June 2012	31 December 2011
Listed		
In the Mainland		
– PRC government bonds	**23,059**	24,434
– bonds issued by PBOC	**15,435**	15,245
– bonds issued by policy banks	**46,138**	46,139
– bonds issued by commercial banks and other financial institutions	**103,420**	94,640
– other debt securities	**82,617**	74,252
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**1,988**	2,654
– other debt securities	**2,081**	2,090
– equity investments	**540**	539
– investments in funds	**16**	15
	275,294	260,008
Unlisted		
In the Mainland		
– bonds issued by policy banks	**10**	10
– bonds issued by commercial banks and other financial institutions	**704**	705
– equity investments	**669**	669
– other debt securities	**98**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**5,172**	8,380
– other debt securities	**5,158**	6,029
– equity investments	**69**	59
– investments in funds	**356**	–
	12,236	15,852
	287,530	275,860

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

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

	30 June 2012	31 December 2011
Issued by:		
Sovereigns	**39,122**	40,309
Banks and other financial institutions	**163,540**	159,136
Corporates	**84,868**	76,415
	287,530	275,860

(c) Held-to-maturity debt securities

	30 June 2012	31 December 2011
Listed		
In the Mainland		
– PRC government bonds	**69,252**	67,998
– bonds issued by PBOC	**15,367**	15,359
– bonds issued by policy banks	**12,904**	10,345
– bonds issued by commercial banks and other financial institutions	**65,740**	47,715
– other debt securities	**934**	933
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**838**	1,446
– other debt securities	**931**	1,038
	165,966	144,834
Less: Impairment allowances	**(83)**	(80)
	165,883	144,754

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

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

	30 June 2012	31 December 2011
Unlisted		
In the Mainland		
– PRC government bonds	**1,001**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**703**	713
– other debt securities	**271**	213
	1,975	926
Less: Impairment allowances	**(95)**	(94)
	1,880	832
	167,763	145,586
Issued by:		
Sovereigns	**85,666**	83,406
Banks and other financial institutions	**80,029**	60,063
Public sector entities	**10**	9
Corporates	**2,058**	2,108
	167,763	145,586
Fair value of listed debt securities	**168,686**	146,739
Movements of allowances for impairment losses		
At 1 January	**174**	180
Charge for the year	**1**	4
Exchange difference	**3**	(10)
At 30 June/31 December	**178**	174

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(d) Receivables

	30 June 2012	31 December 2011
Unlisted		
In the Mainland		
– PRC government bonds	**3,045**	3,714
– bonds issued by commercial banks and other financial institutions	**23,883**	7,220
– Other debt securities	**15,880**	11,152
	42,808	22,086
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**64**	62
	42,872	22,148
Less: Impairment allowances	**(63)**	(63)
	42,809	22,085
Issued by:		
Sovereigns	**3,045**	3,714
Banks and other financial institutions	**23,887**	7,220
Corporate	**15,877**	11,151
	42,809	22,085

Receivables are unlisted certificated bonds issued by the PRC government and other debt investments.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(e) Trading liabilities

	30 June 2012	31 December 2011
Short positions in exchange fund bill and notes at fair value:		
– listed	**15**	12
– unlisted	**–**	348
	15	360

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

	30 June 2012	31 December 2011
Unlisted		
In the Mainland		
– Precious metals from other banks	**8,865**	–
Outside the Mainland		
– certificates of deposit issued	**3,718**	4,364
Total	**12,583**	4,364

As at the end of reporting period, the difference between the fair value and the contractual payables at maturity of the Group's and the Bank's financial liabilities designated at fair value through profit or loss 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 material during the period/year presented and cumulatively as at 30 June 2012 and 31 December 2011.

(g) *(i) CIGNA & CMC Life Insurance Company Limited*

On 5 May 2008, the Bank entered into an equity transfer agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interest in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance") for a total consideration of RMB141.9 million for a valid period of two years. On 4 May 2010, the Bank renewed the equity transfer agreement with identical terms with Dingzun. The acquisition requires approval from the China Banking Regulatory Commission and the China Insurance Regulatory Commission. As at 30 June 2012, the proposed acquisition was still awaiting approval from the regulatory authorities.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

19 INTEREST IN ASSOCIATES

	30 June 2012	31 December 2011
Share of net assets	**200**	184
Goodwill	**114**	114
	314	298
Less: Impairment allowance	**–**	(1)
	314	297

The following list contains only the particulars of associates as at 30 June 2012, which are unlisted corporate entities and principally affected the results or assets of the Group:

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

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

20 INTEREST IN JOINTLY CONTROLLED ENTITIES

	30 June 2012	31 December 2011
Share of net assets	**138**	128
Loan to jointly controlled entities	**29**	31
	167	159

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

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

(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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

21 FIXED ASSETS

2012

	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	–	594	163	220	123	145	1,245
Transfers	96	(218)	1	–	73	11	(37)
Disposals/write-offs	(2)	–	(46)	(9)	–	(117)	(174)
Exchange difference	34	–	1	–	3	–	38
At 30 June 2012	10,832	4,399	4,507	4,292	1,200	4,668	29,898
Accumulated depreciation:							
At 1 January 2012	2,808	–	3,191	2,047	54	3,226	11,326
Depreciation	261	–	327	400	27	314	1,329
Transfers	3	–	–	–	–	–	3
Written back on disposals/ write-offs	(1)	–	(43)	(8)	–	(116)	(168)
Exchange difference	7	–	–	–	–	–	7
At 30 June 2012	3,078	–	3,475	2,439	81	3,424	12,497
Net book value:							
At 30 June 2012	7,754	4,399	1,032	1,853	1,119	1,244	17,401
At 1 January 2012	7,896	4,023	1,197	2,034	947	1,403	17,500

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

21 FIXED ASSETS *(continued)*

2011

	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
Written back on 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

Note: The Bank reclassified the "ATM machine" from "computer equipment" to "Motor vehicles and others" in the beginning of the year 2011. As at 30 June 2012, the cost and accumulated depreciation of the equipment transferred from "computer equipment" is RMB2.07 billion and RMB16.4 billion.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

22 INVESTMENT PROPERTIES

	30 June 2012	31 December 2011
Cost:		
At 1 January	**2,175**	2,334
Transfers	**37**	(77)
Exchange difference	**16**	(82)
At 30 June/31 December	**2,228**	2,175
Accumulated depreciation		
At 1 January	**465**	388
Depreciation	**54**	112
Transfers	**(3)**	(24)
Exchange difference	**1**	(11)
At 30 June/31 December	**517**	465
Net book value:		
At 30 June/31 December	**1,711**	1,710
At 1 January	**1,710**	1,946

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

23 INTANGIBLE ASSETS

2012

	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2012	**1,009**	**1,230**	**10**	**1,064**	**3,313**
Additions	**108**	**166**	**–**	**–**	**274**
Write-offs	**–**	**–**	**(10)**	**–**	**(10)**
Exchange difference	**2**	**–**	**–**	**12**	**14**
At 30 June 2012	**1,119**	**1,396**	**–**	**1,076**	**3,591**
Amortization:					
At 1 January 2012	**121**	**455**	**10**	**122**	**708**
Additions	**11**	**114**	**–**	**20**	**145**
Write-offs	**–**	**–**	**(10)**	**–**	**(10)**
At 30 June 2012	**132**	**569**	**–**	**142**	**843**
Net book value:					
At 30 June 2012	**987**	**827**	**–**	**934**	**2,748**
At 1 January 2012	**888**	**775**	**–**	**942**	**2,605**

2011

	Land use right	Software	Trademark	Core deposit	Total
Cost/valuation:					
At 1 January 2011	1,100	855	10	1,114	3,079
Additions	57	375	–	–	432
Write-offs	(139)	–	–	–	(139)
Exchange difference	(9)	–	–	(50)	(59)
At 31 December 2011	1,009	1,230	10	1,064	3,313
Amortization:					
At 1 January 2011	156	205	10	88	459
Additions	22	257	–	40	319
Write-offs	(56)	(7)	–	–	(63)
Exchange difference	(1)	–	–	(6)	(7)
At 31 December 2011	121	455	10	122	708
Net book value:					
At 31 December 2011	888	775	–	942	2,605
At 1 January 2011	944	650	–	1,026	2,620

(Expressed in millions of Renminbi unless otherwise stated)

24 GOODWILL

	30 June 2012	31 December 2011
Cost	**10,177**	10,177
Less: Impairment	**(579)**	(579)
At 30 June/31 December	**9,598**	9,598

The acquisition of Wing Lung Bank at a consideration of HK$19,300 million was approved at the 21st meeting of the Seventh Session of the Board of Director on 14 May 2008. The acquisition was completed on 30 September 2008. Wing Lung Bank is a licensed bank incorporated in Hong Kong which provides various personal and commercial banking products and services.

25 DEFERRED TAX ASSETS/LIABILITIES

	30 June 2012	31 December 2011
Deferred tax assets	**4,193**	4,337
Deferred tax liabilities	**(861)**	(864)
Total	**3,332**	3,473

(a) Nature of deferred tax assets and liabilities

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

	30 June 2012	31 December 2011
Impairment losses on loans and advances to customers and other assets	**3,507**	3,984
Investment revaluation reserve	**(668)**	(26)
Salary payable	**1,533**	559
Others	**(1,040)**	(1,044)
Total	**3,332**	3,473

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

25 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(b) Movements of deferred tax

	Impairment losses on loans and advances to customers and other assets	**Investment revaluation reserve**	**Salary payable**	**Others**	**Total**
At 1 January 2012	**3,984**	**(26)**	**559**	**(1,044)**	**3,473**
Recognised in the consolidated statement of comprehensive income	**(477)**	**–**	**975**	**(5)**	**493**
– due to timing differences	**(477)**	**–**	**975**	**(5)**	**493**
Recognised in reserves	**–**	**(641)**	**–**	**16**	**(625)**
– due to timing differences	**–**	**(641)**	**–**	**16**	**(625)**
Due to exchange difference	**–**	**(1)**	**(1)**	**(7)**	**(9)**
At 30 June 2012	**3,507**	**(668)**	**1,533**	**(1,040)**	**3,332**

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Salary payable	Others	Total
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

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 in areas other than Shenzhen changed from 33% to 25% on 1 August, 2008. The tax rate applicable to the Bank's business in Shenzhen will gradually increase from 15% to the standard rate of 25% in 5 years (being 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

(Expressed in millions of Renminbi unless otherwise stated)

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2012	31 December 2011
Deposits from banks		
– In the Mainland	**204,387**	79,937
– Outside Mainland	**5,575**	4,220
Deposits from other financial institutions		
– In the Mainland	**130,233**	121,542
	340,195	205,699

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2012	31 December 2011
Banks in the Mainland	**88,170**	53,265
Banks outside the Mainland	**18,232**	14,219
	106,402	67,484

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

28 AMOUNTS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by geographical location

	30 June 2012	31 December 2011
Balances under repurchase		
– banks in the Mainland	**79,603**	31,153
– other financial institutions in the Mainland	**4,539**	6,674
	84,142	37,827
Rediscounted bills		
– banks in the Mainland	**17,033**	4,237
	101,175	42,064

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

28 AMOUNTS SOLD UNDER REPURCHASE AGREEMENTS *(continued)*

(b) Analysed by assets type

	30 June 2012	31 December 2011
Securities	**84,142**	34,827
Loans	**–**	3,000
Discounted bills	**17,033**	4,237
	101,175	**42,064**

29 DEPOSITS FROM CUSTOMERS

	30 June 2012	31 December 2011
Corporate customers		
– Demand deposits	**795,715**	754,904
– Time deposits	**759,018**	661,866
	1,554,733	1,416,770
Retail customers		
– Demand deposits	**518,413**	456,688
– Time deposits	**383,290**	346,602
	901,703	803,290
	2,456,436	2,220,060

30 DEBT ISSUED

	Note	**30 June 2012**	31 December 2011
Certificates of deposit issued		**15,477**	14,980
Subordinated notes issued	30(a)	**31,207**	31,187
Long-term debt securities issued	30(b)	**19,971**	–
		66,655	46,167

(Expressed in millions of Renminbi unless otherwise stated)

30 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	Fixed annual interest rate (%)	Nominal value (in RMB million)	Carrying amount 30 June 2012	Carrying amount 31 December 2011
Fixed rate notes (note (i))	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from the 6 year onwards, if the notes are not called by the Bank)	19,000	**18,990**	18,985
Fixed rate notes (note (i))	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from the 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 the 6 years onwards, if the notes are not called by the Bank)	4,000	**3,998**	3,997
					29,978	29,971

As at the end of the reporting period, subordinated note issued by WLB was as follows:

Particulars	Terms	Date of issue	Fixed annual interest rate (%)	Nominal value (in HK$ million)	Carrying amount 30 June 2012	Carrying amount 31 December 2011
Fixed rate notes	144 months	28 December 2009	5.70	1,500	**1,229**	1,216
					31,207	31,187

* R represents the 1-year fixed deposit rate ("Rate") promulgated by PBOC. The basic rate for the first interest period is 4.14%. The Rate on 4 September 2008, 2009, 2010 and 2011 was 4.14%, 2.25%, 2.25% and 3.50% respectively.

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

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

30 DEBT ISSUED *(continued)*

(b) Long-term debt securities issued

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 30 June 2012
12 CMB 01	60 months	14 March 2012	4.15	6,500	6,491
12 CMB 02	60 months	14 March 2012	R*+0.95	13,500	13,480
					19,971

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%.

Note: The CBRC and PBOC approved the Bank's issuance of RMB20 billion long-term debt securities on 17 January 2012 (Yin Jian Fu [2011] No.557 entitled "The Approval of the issuance of long-term debt securities by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Group issued RMB6.5 billion fixed rate debt and RMB13.5 billion floating rate debt on 14 March 2012 on the China Interbank Bond Market.

31 SHARE CAPITAL

By type of share:

	Registered capital No. of shares (in million)	Amount
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 30 June 2012	**21,577**	**21,577**
At 1 January 2011 and at 31 December 2011	21,577	21,577

(Expressed in millions of Renminbi unless otherwise stated)

32 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	Six months ended 30 June 2012	Year ended 31 December 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

	Six months ended 30 June 2012	Year ended 31 December 2011
Dividends:		
– cash dividends: Nil (2011: RMB4.20 per every 10 shares)	**–**	9,062

2011 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 28 March 2012 and was approved in the 2011 annual general meeting.

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	30 June 2012	30 June 2011
Cash and balances with central bank	**24,376**	62,948
Balance with banks and other financial institutions	**222,456**	37,129
Placements with banks and other financial institutions	**49,311**	32,335
Amounts held under resale agreements	**139,748**	117,916
Debt security investments	**5,483**	10,636
	441,374	260,964

(b) Significant non-cash transactions

There are no other significant non-cash transactions during the year.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

34 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 business lines and geography.

Operating segments information disclosed is 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 advisory, 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

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties and 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 regularly amended these assumptions and estimates according to the actual situation.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

34 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities

	Wholesale banking		Retail banking		Treasury business		Others		Total	
	Six months ended 30 June 2012	Six months ended 30 June 2011	**Six months ended 30 June 2012**	Six months ended 30 June 2011	**Six months ended 30 June 2012**	Six months ended 30 June 2011	**Six months ended 30 June 2012**	Six months ended 30 June 2011	**Six months ended 30 June 2012**	Six months ended 30 June 2011
External net interest income	**23,187**	18,709	**12,669**	10,002	**7,538**	6,665	**247**	340	**43,641**	35,716
Internal net interest income/(expense)	**4,923**	4,229	**4,310**	2,228	**(8,759)**	(5,957)	**(474)**	(500)	**–**	–
Net interest income	**28,110**	22,938	**16,979**	12,230	**(1,221)**	708	**(227)**	(160)	**43,641**	35,716
Net fee and commission income	**4,110**	3,341	**5,398**	4,420	**120**	266	**104**	136	**9,732**	8,163
Other net income/(expense)	**3,023**	2,162	**91**	333	**615**	(296)	**(65)**	(93)	**3,664**	2,106
Insurance operating income	**–**	–	**5**	5	**–**	–	**192**	176	**197**	181
Operating income/(expense)	**35,243**	28,441	**22,473**	16,988	**(486)**	678	**4**	59	**57,234**	46,166
Operating expenses										
– depreciation and amortisation	**(525)**	(512)	**(729)**	(742)	**(12)**	(14)	**(63)**	(116)	**(1,329)**	(1,384)
– others	**(9,151)**	(7,018)	**(11,246)**	(9,098)	**(210)**	(189)	**(206)**	(156)	**(20,813)**	(16,461)
Charge for insurance claims	**–**	–	**–**	–	**–**	–	**(150)**	(136)	**(150)**	(136)
	(9,676)	(7,530)	**(11,975)**	(9,840)	**(222)**	(203)	**(419)**	(408)	**(22,292)**	(17,981)
Reportable segment profit before impairment losses	**25,567**	20,911	**10,498**	7,148	**(708)**	475	**(415)**	(349)	**34,942**	28,185
Impairment losses	**(3,114)**	(3,356)	**(996)**	(641)	**(22)**	(97)	**(12)**	30	**(4,144)**	(4,064)
Share of profit of associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**27**	55	**27**	55
Reportable segment profit/(loss) before tax	**22,453**	17,555	**9,502**	6,507	**(730)**	378	**(400)**	(264)	**30,825**	24,176
Capital expenditure (Note)	**754**	467	**896**	682	**12**	11	**11**	12	**1,673**	1,172

	Wholesale banking		Retail banking		Treasury business		Others		Total	
	30 June 2012	30 June 2011	**30 June 2012**	30 June 2012	**30 June 2012**	30 June 2012	**30 June 2012**	30 June 2012	**30 June 2012**	30 June 2012
Reportable segment assets	**1,630,504**	1,400,446	**775,117**	726,250	**868,020**	624,272	**28,506**	24,050	**3,302,147**	2,775,018
Reportable segment liabilities	**1,922,138**	1,629,388	**950,651**	847,357	**235,205**	124,683	**15,958**	13,333	**3,123,952**	2,614,761
Interest in associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**481**	456	**481**	456

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for certain length period of time.

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

34 OPERATING SEGMENTS *(continued)*

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

	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenues		
Total revenues for reportable segments	**57,234**	46,166
Consolidated revenue	**57,234**	46,166
Profit		
Total profit or loss for reportable segments	**30,825**	24,176
Consolidated profit before income tax	**30,825**	24,176

	30 June 2012	31 December 2011
Assets		
Total assets for reportable segments	**3,302,147**	2,775,018
Goodwill	**9,598**	9,598
Intangible assets	**934**	942
Deferred tax assets	**4,193**	4,337
Other unallocated assets	**5,829**	5,076
Consolidated total assets	**3,322,701**	2,794,971
Liabilities		
Total liabilities for reportable segments	**3,123,952**	2,614,761
Current taxation	**7,449**	4,090
Deferred tax liabilities	**861**	864
Other unallocated liabilities	**9,077**	10,246
Consolidated total liabilities	**3,141,339**	2,629,961

34 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 operating in Hong Kong, New York; subsidiaries operating in Hong Kong and Shanghai and representative offices in London, 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 non-current assets 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, Shaanxi 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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

34 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Total asset		Total liabilities		Non-current assets	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
Headquarter	**1,272,186**	1,059,543	**1,135,058**	951,393	**16,250**	16,005
Yangtze River Delta region	**428,558**	393,691	**422,513**	383,458	**2,312**	2,446
Bohai Rim region	**319,038**	274,620	**313,998**	266,715	**1,533**	1,572
Pearl River Delta and West Coast region	**414,916**	322,628	**409,708**	314,040	**1,660**	1,726
Northeast region	**135,764**	108,851	**134,348**	106,714	**662**	712
Central region	**235,548**	190,155	**232,697**	185,660	**1,224**	1,286
Western region	**272,115**	223,127	**268,867**	217,964	**1,812**	1,642
Overseas	**48,030**	53,225	**47,803**	52,954	**25**	24
Subsidiaries	**196,546**	169,131	**176,347**	151,063	**6,294**	6,456
Total	**3,322,701**	2,794,971	**3,141,339**	2,629,961	**31,772**	31,869

Geographical information	Revenues		Net income	
	Six months ended 30 June 2012	Six months ended 30 June 2011	**Six months ended 30 June 2012**	Six months ended 30 June 2011
Headquarter	**(2,693)**	(1,474)	**6,070**	6,611
Yangtze River Delta region	**8,066**	6,331	**12,090**	9,874
Bohai Rim region	**6,736**	5,076	**9,642**	7,155
Pearl River Delta and West Coast region	**6,928**	5,410	**10,419**	8,168
Northeast region	**1,887**	1,408	**2,952**	2,246
Central region	**3,802**	2,817	**6,094**	4,589
Western region	**4,312**	3,300	**6,830**	5,119
Overseas	**342**	213	**521**	338
Subsidiaries	**1,445**	1,095	**2,616**	2,066
Total	**30,825**	24,176	**57,234**	46,166

(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

(i) Credit commitments

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

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

	30 June 2012	31 December 2011
Contractual amount		
Irrevocable guarantees	**118,093**	112,147
Irrevocable letters of credit	**106,360**	81,063
Bills of acceptances	**297,804**	251,656
Irrevocable loan commitments		
– with an original maturity of under one year	**2,717**	1,685
– with an original maturity of one year or over	**31,377**	33,036
Credit card commitments	**146,833**	131,479
Shipping guarantees	**2**	19
Others	**6,608**	4,790
	709,794	615,875

Irrevocable loan commitments only include credit limits granted to onshore and offshore syndicated loans and offshore institutions to offshore customers. 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 RMB2,417,243 million at 30 June 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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012
(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES *(continued)*

(a) Credit commitments *(continued)*

(i) 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.

	30 June 2012	31 December 2011
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	**291,556**	250,446

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

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

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

(ii) Capital commitments

Authorised capital commitments were as follows:

	30 June 2012	31 December 2011
For purchase of fixed assets:		
– Contracted for	**865**	1,048
– Authorised but not contracted for	**146**	117
	1,011	1,165

(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES *(continued)*

(a) Credit commitments *(continued)*

(iii) Operating lease commitments

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

	30 June 2012	31 December 2011
Within 1 year	**1,425**	1,598
After 1 year but within 5 years	**6,075**	6,250
After 5 years	**2,503**	2,490
	10,003	10,338

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.

(iv) Outstanding litigations

At 30 June 2012, the Group was a defendant in certain pending litigations with gross claims of RMB577 million (2011: RMB508 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Group 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.

(v) Redemption obligations

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

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	30 June 2012	31 December 2011
Redemption obligations	**10,680**	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 Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group's derivatives are all OTC derivatives.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. Derivative financial instruments include but are not limited to foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, credit default swaps, bond options, equity swaps, interest rates and credit derivatives. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge derivative financial instruments and derivative financial instruments, which are managed together with financial instruments designated at fair value through profit or loss according to the purposes of holding.

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

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

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

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	30 June 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	5,609	15,177	9,448	213	30,447	109	(112)
Currency derivatives							
Spot	5,988	–	–	–	5,988	10	(7)
Forwards	28,278	58,600	2,723	–	89,601	821	(751)
Foreign exchange swaps	173,333	72,651	737	–	246,721	486	(485)
Options purchased	3,505	99	–	–	3,604	68	–
Options written	4,457	98	–	–	4,555	–	(82)
	215,561	131,448	3,460	–	350,469	1,385	(1,325)
Other derivatives							
Equity swaps	–	–	–	–	–	–	–
Credit default swaps	127	1,716	484	–	2,327	5	(1)
Equity options purchased	46	–	–	–	46	–	–
Equity options written	46	–	–	–	46	–	(1)
	219	1,716	484	–	2,419	5	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	2,097	8,263	40,050	–	50,410	416	(109)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	532	594	3,451	–	4,577	32	(43)
Current derivatives							
Foreign exchanges swaps	86	250	–	64	400	1	–
Other derivatives							
Equity options written	–	2	–	–	2	–	(1)
	618	846	3,451	64	4,979	33	(44)
Total						1,948	(1,592)
						(Note 18)	

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	31 December 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)
Current derivatives							
Foreign exchanges swaps	–	86	–	–	86	–	–
Other derivatives							
Equity options written	–	25	23	–	48	–	(2)
	1,499	669	1,608	–	3,776	22	(81)
Total						1,887	(1,469)
						(Note 18)	

(Expressed in millions of Renminbi unless otherwise stated)

35 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

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

Credit risk weighted amounts

	30 June 2012	31 December 2011
Interest rate derivatives	**613**	575
Currency derivatives	**4,826**	3,350
Other derivatives	**298**	264
	5,737	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.

36 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

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

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

Entrusted 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 income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	30 June 2012	31 December 2011
Entrusted loans	**88,460**	123,116
Entrusted funds	**88,460**	123,116

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

36 TRANSACTIONS ON BEHALF OF CUSTOMERS *(continued)*

(b) Wealth management services

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

At the end of the reporting period, funds received from customers under wealth management services were as follows:

	30 June 2012	31 December 2011
Funds received from customers under wealth management services	**341,588**	221,008

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

37 MATURITY PROFILE

	30 June 2012							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	24,376	–	–	–	–	–	393,270	417,646
Amounts due from banks and other financial institutions	20,274	324,552	123,233	104,869	6,009	–	–	578,937
Loans and advances to customers (note (ii))	10,428	82,712	246,409	655,402	339,202	405,386	4,353	1,743,892
Investments (note (iii))	45	22,432	20,170	77,048	256,208	139,775	3,599	519,277
– at fair value through profit or loss	45	1,535	2,115	2,855	9,394	3,282	1,949	21,175
– available-for-sale	–	7,024	9,750	54,614	178,138	36,354	1,650	287,530
– held-to-maturity	–	1,419	3,417	17,711	52,747	92,469	–	167,763
– receivables	–	12,454	4,888	1,868	15,929	7,670	–	42,809
Other assets	7,781	8,039	4,250	4,480	424	871	37,104	62,949
Total assets	62,904	437,735	394,062	841,799	601,843	546,032	438,326	3,322,701
Amounts due to banks and other financial institutions	74,191	273,452	104,824	93,916	935	454	–	547,772
Deposits from customers (note (iv))	1,324,707	247,737	269,790	417,556	190,103	6,543	–	2,456,436
Financial liabilities at fair value through profit or loss	13	529	8,582	436	3,038	–	1,592	14,190
Debt issued	–	782	3,442	9,294	21,930	31,207	–	66,655
Other liabilities	15,135	15,157	3,932	13,452	5,374	2,014	1,222	56,286
Total liabilities	1,414,046	537,657	390,570	534,654	221,380	40,218	2,814	3,141,339
(Short)/long position	(1,351,142)	(99,922)	3,492	307,145	380,463	505,814	435,512	181,362

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

37 MATURITY PROFILE *(continued)*

	31 December 2011							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	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:

(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.

(Expressed in millions of Renminbi unless otherwise stated)

38 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Transaction terms and conditions

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

	2012	2011
Short-term loans	**5.85% to 6.56%**	5.35% to 6.31% p.a.
Medium to long-term loans	**6.40% to 7.05%**	5.85% to 6.80% p.a.
Saving deposits	**0.40% to 0.50%**	0.36% to 0.50% p.a.
Time deposits	**2.85% to 5.50%**	2.25% to 5.25% p.a.

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

(b) Shareholders and their related companies

The Bank's largest shareholder China Merchants Group ("CMG") and its related companies hold 18.63% (2011: 18.63%) shares of the Bank as at 30 June 2012 (among them 12.40% shares are held by China Merchants Steam Navigation Company Limited ("CMSNCL") (2011: 12.40%)). The Group's transactions and balances with CMG and its related companies are disclosed as follows:

	Group	
	30 June 2012	31 December 2011
On-balance sheet:		
Loans and advances	**4,981**	5,218
Investments	**1,918**	877
Deposits from customers	**26,019**	20,763
Off-balance sheet:		
Irrevocable guarantees	**395**	444
Irrevocable letters of credit	**98**	16
Bills of acceptances	**68**	76

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

38 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

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

	Six months ended 30 June 2012	2011
Average balance of loans and advances	**2,308**	2,118
Interest income	**211**	87
Interest expense	**197**	169
Net fees and commission income	**127**	127

(c) Companies controlled by directors and supervisors other than those under Note 38(b) above

	Group 30 June 2012	31 December 2011
On-balance sheet:		
Loans and advances	**4,810**	3,428
Investments	**4,320**	4,415
Deposits from customers	**18,257**	16,336
Off-balance sheet:		
Irrevocable guarantee	**794**	1,275
Irrevocable letters of credit	**50**	81
Bill of acceptances	**540**	652

(Expressed in millions of Renminbi unless otherwise stated)

38 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(c) Companies controlled by directors and supervisors other than those under Note 38(b) above *(continued)*

	Six months ended 30 June	
	2012	2011
Average balance of loans and advances	**1,283**	1,871
Interest income	**190**	150
Interest expense	**56**	86
Net fees and commission income	**67**	89

(d) Investment in associate and jointly controlled entities other than those under Note 38(b) above

	Group	
	30 June 2012	31 December 2011
On-balance sheet:		
Loans and advances	**14**	14
Deposits from customers	**691**	375

	Six months ended 30 June	
	2012	2011
Average balance of loans and advances	**14**	19
Interest expense	**2**	5
Net fees and commission income	**99**	60

Notes to the Interim Financial Report

Interim financial report for the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

38 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(e) Subsidiaries

	30 June 2012	31 December 2011
On-balance sheet:		
Investments	**1,229**	1,215
Deposits from customers	**666**	354
Deposits with other banks	**845**	1,952
Placement with other banks	**2,673**	880
Deposits from other banks	**45**	2
Placement from other banks	**1,548**	447

	Six months ended 30 June	
	2012	2011
Interest income	**105**	30
Interest expense	**6**	5
Net fees and commission income	**(4)**	(5)

39 NON-CONTROLLING INTERESTS

Non-controlling interests was due to a non-wholly-owned subsidiary set up by CMB's subsidiary CMBI.

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

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

The capital adequacy ratios and related components of the Group as at 30 June 2012 and as at 31 December 2011, calculated based on PRC GAAP, were as follows:

	30 June 2012	31 December 2011
Core capital adequacy ratio	**8.32%**	8.22%
Capital adequacy ratio	**11.55%**	11.53%
Components of capital base		
Core capital:		
– Paid up ordinary share capital	**21,577**	21,577
– Reserves	**151,601**	134,771
Total core capital	**173,178**	156,348
Supplementary capital:		
– General provisions for doubtful debts	**32,534**	29,251
– Term subordinated bonds	**30,000**	30,000
– Other supplementary capital	**1,352**	255
Total supplementary capital	**63,886**	59,506
Total capital base before deductions	**237,064**	215,854
Deductions:		
– Goodwill	**9,598**	9,598
– Investment in unconsolidated subsidiary and others	**1,661**	1,589
– Investment in non-self use property	**1,711**	1,710
Total capital base after deductions	**224,094**	202,957
Risk weighted assets	**1,940,988**	1,760,884

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(B) LIQUIDITY RATIOS

	30 June 2012	31 December 2011
Liquidity ratios		
RMB current assets to RMB current liabilities	**43.4%**	39.5%
Foreign currency current assets to foreign currency current liabilities	**75.5%**	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) 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 security investments.

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.

	30 June 2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	**30,126**	**5,739**	**91,868**	**127,733**
– of which attributed to Hong Kong	**22,843**	**4,823**	**86,480**	**114,146**
Europe	**13,191**	**45**	**634**	**13,870**
North and South America	**10,910**	**809**	**6,653**	**18,372**
	54,227	**6,593**	**99,155**	**159,975**

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

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

	31 December 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

(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

(i) By geographical segments

	30 June 2012	31 December 2011
Headquarters	**1,963**	1,863
Yangtze River Delta region	**2,602**	1,610
Bohai Rim region	**739**	656
Pearl River Delta and West Coast region	**1,163**	1,038
Northeast region	**316**	252
Central region	**908**	946
Western region	**558**	779
Subsidiaries	**30**	21
Total	**8,279**	7,165

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

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

(ii) By overdue period

	30 June 2012	31 December 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	**1,445**	589
– between 6 and 12 months	**1,309**	416
– over 12 months	**5,525**	6,160
Total	**8,279**	7,165
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.08%**	0.04%
– between 6 and 12 months	**0.07%**	0.02%
– over 12 months	**0.31%**	0.38%
Total	**0.46%**	0.44%

(iii) Collateral information

	30 June 2012	31 December 2011
Secured portion of overdue loans and advances	**2,057**	1,192
Unsecured portion of overdue loans and advances	**6,222**	5,973
Value of collaterals held against overdue loans and advances	**2,067**	1,208
Provision of overdue loans and advances for which impairment losses are individually assessed	**3,998**	4,264

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(E) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(i) By geographical segments

	30 June 2012	31 December 2011
Yangtze River Delta region	**1**	2
Bohai Rim	**–**	4
	1	6

(ii) By overdue period

	30 June 2012	31 December 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

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

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

(iii) Collateral information

	30 June 2012	31 December 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, (d) and (e), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

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

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

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

The collaterals of the 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

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(F) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	30 June 2012	**% of total loans and advances**	31 December 2011	% of total loans and advances
Rescheduled loans and advances to customers	**1,200**	**0.07%**	1,298	0.08%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**667**	**0.04%**	662	0.04%
Rescheduled loans and advances overdue less than 90 days	**533**	**0.03%**	636	0.04%

The Group has no rescheduled loans and advance to financial institutions as at 30 June 2012 (2011: RMB143.8 million).

(G) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 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 exposures by counterparty have been disclosed in the notes to the interim financial report.

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(H) CURRENCY CONCENTRATIONS OTHER THAN RMB

	30 June 2012			
	US Dollars	**HK Dollars**	**Others**	**Total**
	(in millions of RMB)			
Non-structural position				
Spot assets	**190,378**	**81,755**	**38,318**	**310,451**
Spot liabilities	**(186,246)**	**(78,672)**	**(47,510)**	**(312,428)**
Forward purchases	**137,793**	**11,361**	**33,130**	**182,284**
Forward sales	**(133,623)**	**(5,406)**	**(23,550)**	**(162,579)**
Net option position	**(179)**	**(33)**	**212**	**–**
Net long position	**8,123**	**9,005**	**600**	**17,728**
Net structural position	**269**	**41,943**	**57**	**42,269**

	31 December 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

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

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

– Capital and statutory reserves of overseas branches; and

– Investment in subsidiaries.

(I) RISK MANAGEMENT

(i) Credit risk

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

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

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

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

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

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

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

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

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(I) RISK MANAGEMENT *(continued)*

(i) Credit risk *(continued)*

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 17.

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

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rate, interest rate, commodity price, stock price and other observable market tractors. 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.

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(I) RISK MANAGEMENT *(continued)*

(ii) 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 light of the development of the Bank's management practices and changes in regulatory requirements, during the first half of 2012 the Group further refined its market risk management policies, comprehensively strengthened its policies and practices for financial market risk management, bolstered the market risk management of its subsidiaries and overseas branches, continued to develop its market risk management techniques, and enhanced its market risk management system.

In the first half of 2012, domestic economic growth momentum slowed down amid increased volatility in global financial markets. In China, economic growth slowed down notably and the central bank accelerated its loosening of monetary policy. Abroad, the ongoing Euro debt crisis impacted finance, trade and confidence globally, making the road to recovery difficult.

(iii) Currency risk

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

The Group mainly uses the foreign exchange exposure analysis, scenario simulation analysis, stress testing and VaR methods to measure and analyse foreign currency risk. The Group regularly measures and analyses changes in foreign exchange exposure, uses a limit framework to monitor and report interest rate risk on a monthly basis, and mitigates exchange related risk by adjusting foreign exchange exposure based on changing exchange rate trends.

In the first half of 2012, the Group refined its tools and methods for measuring exchange rate risk. It did so by using FTP tools to adjust the structure of assets and debts denominated in foreign currencies and taking proactive measures. The consolidated financial statement management of exchange rate risk covers the entire group, and standard processes have been established.

In the first half of 2012, the unilateral rise in the RMB's central parity against the US Dollar was replaced by a state of fluctuation. As at the end of June, the RMB/USD exchange rate had depreciated 0.38%, mitigating exchange rate risk.

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(I) RISK MANAGEMENT *(continued)*

(iv) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss on the overall income and economic value of bank accounts. The Group's interest rate risk arises from basis risk, re-pricing risk, yield curve risk and option risk. Basis risk and re-pricing risk are the major sources of risk. The overall objective of the Group's interest rate risk management is to meet sound risk preference and achieve steady growth in net interest income and economic value within the tolerance level of interest rate risk.

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

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

In the first half of 2012, the Group continued to manage its interest rate risk proactively by adopting a forward-looking approach. On the balance sheet, this was achieved through a synergetic integration of interest rate risk management with FTP. Assets' business structure and interest rate risk characteristics were adjusted, as were the durations of loan and debt investments, and more debts were taken up. The Group also took greater off-balance sheet measures to hedge against risk.

In the first half of 2012, the People's Bank of China (PBOC) twice lowered benchmark interest rates for deposits and loans denominated in *renminbi*, decreasing the benchmark interest rate for one-year fixed-term deposits by a total of 0.5%. In light of the sensitivity of the Group's assets to interest rate risk, lower benchmark interest rates for deposits and loans may have a negative impact on the Group's net interest income. With a view towards long-term development, the Group will further enhance its interest rate risk management and achieve stable growth in both net interest income and economic value.

(I) RISK MANAGEMENT *(continued)*

(v) Liquidity risk

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

The Group's major source of funding is customer deposits which are primarily from corporate and retail customers and financial institutions. The Group's deposits have been growing continuously in recent years, with an increased variety of deposit products with various maturities. This source of funding is increasingly stable.

In the first half of 2012, the Group further improved its policy and processes by amending the *China Merchants Bank's Operating Procedures for Investment and Financing Business*, and improved its ability to handle liquidity crises by formulating a liquidity contingency plan.

In the first half of 2012, the Group began using risk limits to manage the liquidity risk of its subsidiaries, monitoring their risk limit indicators on a quarterly basis.

In the first half of 2012, in light of its internal liquidity position and the external market environment, the Group adopted specific risk management measures to ensure the liquidity of the Bank's local and foreign currencies. Specifically, it adjusted the flexibility of its investment and financing amounts, used readily available liquidity to purchase more bonds for higher return, and used local and foreign currency swaps to reduce financing costs amid tight *renminbi* liquidity. It flexibly adjusted yield curves and guided interbank rates to increase the predictability of yield curves and better guide interest rates. It optimised the structure of interbank assets and liabilities to ensure the Bank's liquidity at critical points. It also adopted proactive liabilities strategies, and exhibited flexibility in accepting treasury deposits and deposit agreements, so as to improve the Bank's renminbi liquidity structure in light of the liquidity gap.

In the first half of 2012, the PBOC twice lowered the required reserve ratio for RMB deposits. As at the end of June 2012, 18% (2011: 19%) and 5% (2011: 5%) of eligible RMB deposits and foreign currency deposits respectively were deposits in PBOC, as required.

(vi) Operational risk

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

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

Unaudited Supplementary Financial Information

For the six months ended 30 June 2012

(Expressed in millions of Renminbi unless otherwise stated)

(J) CAPITAL MANAGEMENT

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

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

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

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

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