招商银行

CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

Stock Code : 03968

2013 Interim Report

We are here Just for you

Contents

Important Notice

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

2. The fourth meeting of the Ninth Session of the Board of Directors of the Company was held in Dalian on 16 August 2013. The meeting was presided by Fu Yuning, Chairman of the Board of Directors. 15 out of 18 eligible Directors attended the meeting in person. Wei Jiafu (Vice Chairman) entrusted Sun Yueying (Director) to vote on his behalf, and Yi Xiqun and Yan Lan (both being an Independent Non-executive Director) entrusted Wong Kwai Lam (Independent Non-executive Director) to vote on his/her behalf. 18 votes were valid. 5 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

3. The Company would not distribute interim dividend for the first half of 2013, nor would it capitalize the capital reserve.

4. The Company's 2013 interim financial report is unaudited.

5. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

6. Fu Yuning (Chairman of the Company), Tian Huiyu (Principal of the Company), Li Hao (Senior Executive Vice President and Chief Financial Officer), and Zhou Song (the person in charge of the Planning and Finance Department) hereby ensure the truthfulness, accuracy and completeness of the financial statements in this report.

7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates, and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay more attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performance of the Group, and are subject to certain uncertainties which may cause substantial difference to the actual results.

Definitions

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

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

China Banking Regulatory Commission or CBRC: China Banking Regulatory Commission

China Securities Regulatory Commission or CSRC: China Securities Regulatory Commission

China Insurance Regulatory Commission or CIRC: China Insurance Regulatory Commission

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

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

Wing Lung Bank or WLB: Wing Lung Bank Limited

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

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

CMB International Capital or CMBIC: CMB International Capital Corporation Limited

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

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

CM Securities: China Merchants Securities Co., Ltd.

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

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures, please refer to Section 3.12 for the details in relation to risk management.

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
Authorised Representatives: Tian Huiyu, Li Hao
Secretary of the Board of Directors: Xu Shiqing (whose qualification is subject to approval)
Joint Company Secretaries: Xu Shiqing, Seng Sze Ka Mee Natalia (FCIS, FCS(PE), FHKIoD, FTIHK)
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: SEHK
Abbreviated Name of H Share: CM BANK
Stock Code: 03968

1.7 **Domestic Auditor:** KPMG Huazhen Certified Public Accountants
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 Charter 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 Freehills

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

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

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

Place of maintenance of interim reports: 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
Organisation Code: 10001686-X

II Summary of Accounting Data and Financial Indicators

2.1 Key Financial Data

Operating Results

	January to June 2013	January to June 2012 (restated)	Changes over the corresponding period of the previous year +/(-)%
	(in millions of RMB)		
Net operating income[1]	**64,212**	57,261	12.14
Profit before tax	**34,848**	30,821	13.07
Net profit attributable to the Bank's shareholders	**26,271**	23,374	12.39

Per Share

	January to June 2013	January to June 2012	Changes over the corresponding period of the previous year +/(-)%
	(RMB)		
Basic earnings attributable to the Bank's shareholders	**1.22**	1.08	12.96
Diluted earnings attributable to the Bank's shareholders	**1.22**	1.08	12.96
Period-end net assets attributable to the Bank's shareholders	**9.84**	8.40	17.14

Financial Indicators

	As at 30 June 2013	As at 31 December 2012 (restated)	Changes over the end of the previous year +/(-)%
	(in millions of RMB)		
Total assets	**3,810,629**	3,408,099	11.81
of which: total loans and advances to customers	**2,098,078**	1,904,463	10.17
Total liabilities	**3,598,131**	3,207,698	12.17
of which: total deposits from customers	**2,797,578**	2,532,444	10.47
Total equity attributable to the Bank's shareholders	**212,343**	200,328	6.00

Notes: (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.

(2) The Group adopted the revised "International Accounting Standards" 19 "Employee Benefits", which effected and formally implemented in 2013, changed the accounting policy in relating to defined benefit plans, and adjusted retrospectively to comparable figures, please refer to note 3 "changes in accounting policies" of the financial report for details.

2.2 Financial Ratios

	January to June 2013	January to December 2012 (restated) (%)	January to June 2012 (restated)	Changes over the corresponding period of the previous year +/(-)
Profitability ratios[1]				
Return on average assets (after tax) attributable to the Bank's shareholders	**1.46**	1.46	1.53	Decreased by 0.07 percentage point
Return on average equity (after tax) attributable to the Bank's shareholders	**25.46**	24.78	27.00	Decreased by 1.54 percentage points
Net interest spread	**2.72**	2.87	2.96	Decreased by 0.24 percentage point
Net interest margin	**2.89**	3.03	3.11	Decreased by 0.22 percentage point
As percentage of net operating income				
– Net interest income	**73.88**	77.65	76.21	Decreased by 2.33 percentage points
– Net non-interest income	**26.12**	22.35	23.79	Increased by 2.33 percentage points
Cost-to-income ratio (excluding business tax and surcharge)	**31.34**	35.84	32.13	Decreased by 0.79 percentage point

	As at 30 June 2013	As at 31 December 2012 (%)	As at 30 June 2012	Changes over the end of the previous year +/(-)
Asset quality ratios				
Non-performing loan ratio	**0.71**	0.61	0.56	Increased by 0.10 percentage point
Non-performing loan allowance coverage ratio[2]	**304.72**	351.79	404.03	Decreased by 47.07 percentage points
Allowance-to-loan ratio[3]	**2.17**	2.16	2.24	Increased by 0.01 percentage point
Capital adequacy ratios				
Tier-1 capital adequacy ratio	**8.00**	8.34	8.32	Decreased by 0.34 percentage point
Capital adequacy ratio	**10.72**	11.41	11.55	Decreased by 0.69 percentage point
Total equity to total assets	**5.58**	5.88	5.46	Decreased by 0.30 percentage point

Notes: (1) The ratios are annualised;

(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;

(4) Since 1 January 2013, the Group has calculated its indicators for capital adequacy ratios in accordance with the "Measures for the Management of Capital of Commercial Banks (Trial Version)" issued by CBRC in 2012 and other relevant requirements, and has made retrospective adjustments to the data as at the end of 2012 by using the new Requirements.

III Report of the Board of Directors

3.1 General Analysis of Business Operation

From January to June 2013, despite the complicated and volatile external situation, the Group overcame various unfavourable factors, vigorously promoted the Second Transformation and achieved a sound development, reflected mainly in the following aspects:

Profitability improved steadily. In the first half of 2013, the Group accomplished a net profit attributable to the shareholders of RMB26.271 billion, representing an increase of RMB2,897 million or 12.39% as compared with the same period of the previous year, achieving a steady growth. In the first half of 2013, the Group realised a net interest income of RMB47.441 billion and a net non-interest income of RMB16.771 billion, representing an increase of RMB3,800 million or 8.71%, and an increase of RMB3,151 million or 23.14% respectively as compared with the same period of the previous year. The annualised ROAA and ROAE attributable to the shareholders of the Bank were 1.46% and 25.46%, decreased from 1.53% and 27.00% for the same period of 2012 respectively.

The scale of assets and liabilities expanded moderately. As at the end of June 2013, the Group's total assets amounted to RMB3,810.629 billion, representing an increase of RMB402.530 billion or 11.81%, as compared with the beginning of the year. The total loans and advances to customers amounted to RMB2,098.078 billion, representing an increase of RMB193.615 billion or 10.17%, as compared with the beginning of the year. The total deposits from customers amounted to RMB2,797.578 billion, representing an increase of RMB265.134 billion or 10.47%, as compared with the beginning of the year.

The non-performing assets increased while the allowance coverage ratio remained stable. As at the end of June 2013, the Group had a balance of non-performing loans of RMB14.925 billion, representing an increase of RMB3.231 billion as compared with the beginning of the year. The non-performing loan ratio was 0.71%, up by 0.10 percentage point as compared with the beginning of the year. The non-performing loan allowance coverage ratio was 304.72%, representing a decrease of 47.07 percentage points as compared with the beginning of the year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

	January to June 2013	January to June 2012 (restated)
	(in millions of RMB)	
Net interest income	**47,441**	43,641
Net fee and commission income	**14,164**	9,732
Other net income	**2,581**	3,861
Operating expense	**(24,238)**	(22,146)
Provision for insurance claims	**(167)**	(150)
Share of profits of associates	**17**	18
Share of profits in joint ventures	**9**	9
Impairment losses on assets	**(4,959)**	(4,144)
Profit before tax	**34,848**	30,821
Income Tax	**(8,582)**	(7,448)
Net Profit	**26,266**	23,373
Net profit attributable to the Bank's shareholders	**26,271**	23,374

From January to June 2013, the Group realised a profit before tax of RMB34.848 billion and an effective income tax rate of 24.63%, representing an increase of 13.07% and 0.46 percentage point respectively as compared with the same period in 2012.

3.2.2 Net operating income

From January to June 2013, the net operating income of the Group was RMB64.212 billion, representing an increase of 12.14% as compared with the same period in 2012. Among them, the net interest income accounted for 73.88% of the total net operating income, representing a decrease of 2.33 percentage points from the same period in 2012; the net non-interest income accounted for 26.12% of the total net operating income, representing an increase of 2.33 percentage points from the same period in 2012.

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

	January to June 2013 (%)	January to June 2012 (%)	January to June 2011 (%)
Net interest income	**73.88**	76.21	77.27
Net fee and commission income	**22.06**	17.00	17.66
Other net income	**4.02**	6.74	4.95
Share of profits in associates & joint ventures	**0.04**	0.05	0.12
Total	**100.00**	100.00	100.00

3.2.3 Net interest income

From January to June 2013, the Group's net interest income amounted to RMB47.441 billion, representing an increase of 8.71% from the same period in 2012, mainly due to the expansion of the balance of interest-earning assets.

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

	January to June 2013			January to December 2012			January to June 2012		
	Average balance	**Interest income**	**Annualised average yield (%)**	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualised average yield (%)
				(in millions of RMB, excluding percentages)					
Interest-earning assets									
Loans and advances	**2,007,856**	**60,707**	**6.10**	1,770,103	115,926	6.55	1,708,151	56,831	6.69
Bond investments	**459,140**	**8,644**	**3.80**	424,382	15,944	3.76	407,538	7,669	3.78
Balances of deposits with the central bank	**459,717**	**3,519**	**1.54**	415,349	6,392	1.54	407,023	3,108	1.54
Placements with other banks and financial institutions	**384,960**	**7,513**	**3.94**	311,589	11,839	3.80	295,953	6,211	4.22
Total interest-earning assets and interest income	**3,311,673**	**80,383**	**4.89**	2,921,423	150,101	5.14	2,818,665	73,819	5.27

	January to June 2013			January to December 2012			January to June 2012		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Annualised average cost (%)
	(in millions of RMB, excluding percentages)								
Interest-bearing liabilities									
Deposits from customers	**2,510,044**	**23,031**	**1.85**	2,214,822	42,308	1.91	2,136,299	20,316	1.91
Placements from other banks and financial institutions	**486,231**	**8,158**	**3.38**	449,871	16,648	3.70	438,078	8,573	3.94
Issued debts	**71,446**	**1,753**	**4.95**	56,843	2,771	4.87	53,448	1,289	4.85
Total interest-bearing liabilities and interest expense	**3,067,721**	**32,942**	**2.17**	2,721,536	61,727	2.27	2,627,825	30,178	2.31
Net interest income	**/**	**47,441**	**/**	/	88,374	/	/	43,641	/
Net interest spread	**/**	**/**	**2.72**	/	/	2.87	/	/	2.96
Net interest margin	**/**	**/**	**2.89**	/	/	3.03	/	/	3.11

From January to June 2013, the net interest spread of the Group was 2.72%, down by 24 basis points as compared with the same period in 2012. The average yield of interest-earning assets was 4.89%, down by 38 basis points as compared with the same period of the previous year while the average cost of interest-bearing liabilities was 2.17%, down by 14 basis points as compared with the same period of the previous year.

From January to June 2013, the net interest margin of the Group was 2.89%, down by 22 basis points as compared with the same period in 2012.

The following table sets out, for the period 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 2013 compared with January to June 2012		
	Increase/(decrease) due to volume	Interest rate	Net increase/ (decrease)
	(in millions of RMB)		
Assets			
Loans and advances	8,874	(4,998)	3,876
Bond investments	935	40	975
Balances of deposits with the central bank	411	–	411
Placements with other banks and financial institutions	1,713	(411)	1,302
Changes in interest income	11,933	(5,369)	6,564
Liabilities			
Deposits from customers	3,351	(636)	2,715
Placements from other banks and financial institutions	802	(1,217)	(415)
Issued debts	437	27	464
Changes in interest expense	4,590	(1,826)	2,764
Changes in net interest income	7,343	(3,543)	3,800

The following table sets forth the average balances of assets and liabilities, interest income/interest expense and the annualised 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 2013			April to June 2013		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, excluding percentages)					
Interest-earning assets						
Loans and advances	1,961,376	29,709	6.14	2,053,825	30,998	6.05
Bond investments	436,076	4,048	3.76	481,951	4,596	3.82
Balances of deposits with the central bank	450,061	1,701	1.53	469,267	1,818	1.55
Placements with other banks and financial institutions	340,071	3,127	3.73	429,356	4,386	4.10
Total interest-earning assets and interest income	3,187,584	38,585	4.91	3,434,399	41,798	4.88

	January to March 2013			April to June 2013		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
	(in millions of RMB, excluding percentages)					
Interest-bearing liabilities						
Deposits from customers	2,444,497	11,203	1.86	2,574,870	11,828	1.84
Placements from other banks and financial institutions	441,758	3,466	3.18	530,215	4,692	3.55
Issued debts	69,304	871	5.10	73,565	882	4.81
Total interest-bearing liabilities and interest expense	2,955,559	15,540	2.13	3,178,650	17,402	2.20
Net interest income	/	23,045	/	/	24,396	/
Net interest spread	/	/	2.78	/	/	2.68
Net interest margin	/	/	2.93	/	/	2.85

In the second quarter of 2013, the net interest spread of the Group was 2.68%, down by 10 basis points as compared with the first quarter of 2013. The average yield of the interest-earning assets was 4.88%, down by 3 basis points as compared with the first quarter of 2013 while the average cost of interest-bearing liabilities was 2.20%, up by 7 basis points as compared with that of the first quarter of 2013.

In the second quarter of 2013, affected by a decrease in average yield of interest-earning assets, the net interest margin of the Group was 2.85%, down by 8 basis points as compared with that of the first quarter of 2013.

3.2.4 Interest income

From January to June 2013, the Group recorded an interest income of RMB80.383 billion, an increase of 8.89% as compared with the same period in 2012, mainly due to the increase in the volume of interest-earning assets. 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 2013, the interest income from loans and advances of the Group was RMB60.707 billion, representing an increase of RMB3.876 billion or 6.82% as compared with the corresponding period of the previous year.

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

	January to June 2013			January to June 2012		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**1,207,366**	**34,972**	**5.84**	1,040,131	33,963	6.57
Retail loans	**709,253**	**23,412**	**6.66**	576,363	19,472	6.79
Discounted bills	**91,237**	**2,323**	**5.13**	91,657	3,396	7.45
Loans and advances	**2,007,856**	**60,707**	**6.10**	1,708,151	56,831	6.69

From January to June 2013, from the perspective of the terms of loans and advances of the Company, the average balance of short-term loans was RMB1,007.450 billion, with the interest income amounting to RMB32.163 billion, and the average yield reaching 6.44%; the average balance of medium to long-term loans was RMB842.735 billion, with the interest income amounting to RMB25.298 billion, and the average yield reaching 6.05%.

3.2.5 Interest expense

From January to June 2013, the interest expense of the Group was RMB32.942 billion, an increase of RMB2.764 billion or 9.16% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in the volume of interest-bearing liabilities.

Interest expense on deposits from customers

From January to June 2013, the Group's interest expense on deposits from customers increased by RMB2.715 billion or 13.36% as compared with the same period of the previous year, which was primarily attributable to the 17.49% increase of the average balance of deposits from customers as compared with the same period of the previous year.

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

	January to June 2013			January to June 2012		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**745,708**	**2,593**	**0.70**	668,860	2,554	0.77
Time	**856,162**	**13,269**	**3.13**	689,495	11,299	3.30
Subtotal	**1,601,870**	**15,862**	**2.00**	1,358,355	13,853	2.05
Deposits from retail customers						
Demand	**525,164**	**1,347**	**0.52**	451,438	1,296	0.58
Time	**383,010**	**5,822**	**3.07**	326,506	5,167	3.18
Subtotal	**908,174**	**7,169**	**1.59**	777,944	6,463	1.67
Total deposits from customers	**2,510,044**	**23,031**	**1.85**	2,136,299	20,316	1.91

3.2.6 Net non-interest income

From January to June 2013, the Group recorded a net non-interest income of RMB16.771 billion, representing an increase of RMB3.151 billion or 23.14% as compared with the same period of the previous year. Specifically, the net non-interest income from retail banking business amounted to RMB8.023 billion, an increase of 46.03% over the same period of the previous year, accounting for 47.84% of the Group's net non-interest income; the net non-interest income from wholesale banking business amounted to RMB7.691 billion, an increase of 7.82% over the same period of the previous year, accounting for 45.86% 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 2013	January to June 2012
	(In millions of RMB)	
Fee and commission income	**15,083**	10,411
Less: Fee and commission expense	**(919)**	(679)
Net fee and commission income	**14,164**	9,732
Other net non-interest income	**2,607**	3,888
Total net non-interest income	**16,771**	13,620

3.2.7 Net fee and commission income

From January to June 2013, net fee and commission income of the Group increased by RMB4.432 billion or 45.54% 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, financial advisory fees and agency services fees.

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

	January to June 2013	January to June 2012
	(In millions of RMB)	
Fee and commission income	**15,083**	10,411
Bank card fees	**3,730**	2,621
Settlement and clearing fees	**1,250**	1,088
Agency services fees	**2,640**	1,975
Commissions from credit commitment and loan business	**1,436**	1,186
Commissions from custody and other trustee businesses	**3,456**	2,333
Others	**2,571**	1,208
Fee and commission expense	**(919)**	(679)
Net fee and commission income	**14,164**	9,732

Bank card fees increased by RMB1,109 million or 42.31% as compared with the same period of the previous year, benefiting from the rapid increase in the income from credit card repayment by instalments and other incomes.

Settlement and clearing fees increased by RMB162 million or 14.89% as compared with the same period of the previous year, benefiting from the steady increase in remittance and settlement volume.

Agency services fees increased by RMB665 million or 33.67% as compared with the same period of the previous year, benefiting from the steady growth in the fees from distribution of third-party insurance policies and fees from distribution of mutual fund.

Commissions from credit commitment and loan business increased by RMB250 million or 21.08% as compared with the same period of the previous year, benefiting from the steady growth in our international guarantee, domestic letter of credit, and factoring businesses.

Commissions from custody and other trustee businesses increased by RMB1.123 billion or 48.14% 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 sales of third party trust plan amounted to RMB1.284 billion, an increase of RMB189 million as compared with the same period of the previous year and income from entrusted wealth management was RMB1.553 billion, an increase of RMB748 million as compared with the same period of the previous year.

Other fee and commission income increased by RMB1.363 billion or 112.83% as compared with the same period of the previous year, which was mainly attributable to the increase of financial advisory fees income by RMB712 million as compared with the same period of the previous year.

3.2.8 Other net income

From January to June 2013, other net income of the Group decreased by RMB1.28 billion or 33.15% as compared with the same period of the previous year, which was mainly due to the decrease of bills spread income and net loss from fair value changes in financial instruments designated at fair value through profit or loss.

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

	January to June 2013	January to June 2012
	(In millions of RMB)	
Net trading profit/(loss)		
– Foreign exchange	**714**	836
– Securities, derivatives and other trading activities	**395**	338
Net gains or losses on financial instruments designated at fair value through profit or loss	**(472)**	165
Net gains/(losses) on disposal of available-for-sale financial assets	**114**	112
Gains on investment in funds	**12**	16
Rental income on assets under operating lease	**190**	53
Bills spread income	**1,252**	1,997
Insurance operating income	**220**	197
Others	**156**	147
Other net income in total	**2,581**	3,861

3.2.9 Operating expenses

From January to June 2013, operating expenses of the Group were RMB24.238 billion, representing an increase of 9.45% as compared with the same period of 2012, which is lower than that of the operating income of the same period. The cost-to-income ratio was 31.34%, representing a decrease of 0.79 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 2013	January to June 2012
	(In millions of RMB)	
Staff costs	**12,714**	11,678
Business tax and surcharges	**4,116**	3,749
Depreciation of fixed assets and investment properties	**1,608**	1,356
Depreciation of fixed assets under operating lease	**18**	27
Rental expenses	**1,344**	1,184
Other general and administrative expenses	**4,438**	4,152
Total operating expenses	**24,238**	22,146

3.2.10 Impairment losses on assets

From January to June 2013, impairment losses on assets of the Group were RMB4,959 million, an increase of 19.67% as compared with the corresponding period of 2012.

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

	January to June 2013	January to June 2012
	(In millions of RMB)	
Assets impairment charged/(released) on		
– Loans and advances	**4,975**	4,087
– Others	**(16)**	57
Total impairment losses on assets	**4,959**	4,144

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In the first half of 2013, impairment losses on loans were RMB4,975 million, representing an increase of 21.73% as compared with the same period of the previous year, which was mainly attributable to the increase in the volume of loans and the increase in the provision for impairment losses on loans because of the deteriorated loan quality. For details of the provision for impairment losses on loans, please refer to the section headed "Loan quality analysis" in this chapter.

3.3 Analysis of Balance Sheet

3.3.1 Assets

As at 30 June 2013, the total assets of the Group amounted to RMB3,810.629 billion, representing an increase of 11.81% as compared with the end of 2012, which was mainly attributable to the increase in loans and advances to customers, investment bonds, and other financial assets.

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

	30 June 2013		31 December 2012 (restated)	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Total loans and advances to customers	**2,098,078**	**55.06**	1,904,463	55.88
Provision for impairment losses on loans	**(45,479)**	**(1.19)**	(41,138)	(1.21)
Net loans and advances to customers	**2,052,599**	**53.87**	1,863,325	54.67
Investments	**617,804**	**16.21**	520,446	15.27
Cash, precious metal and balances deposited with the central bank	**485,929**	**12.75**	471,415	13.83
Balances with other banks and financial institutions	**49,695**	**1.30**	280,870	8.24
Inter-bank lending and financial assets purchased under repurchase agreements	**523,035**	**13.73**	210,385	6.17
Interest receivable	**16,686**	**0.44**	13,009	0.38
Investment in associates and joint ventures	**456**	**0.01**	455	0.01
Fixed assets	**20,568**	**0.54**	20,392	0.60
Investment properties	**1,610**	**0.04**	1,638	0.05
Intangible assets	**2,897**	**0.08**	2,851	0.09
Deferred tax assets	**5,062**	**0.13**	4,993	0.15
Goodwill	**9,598**	**0.25**	9,598	0.28
Other assets	**24,690**	**0.65**	8,722	0.26
Total assets	**3,810,629**	**100.00**	3,408,099	100.00

3.3.1.1 Loans and advances

As at 30 June 2013, total loans and advances of the Group amounted to RMB2,098.078 billion, representing an increase of 10.17% as compared with the end of the previous year; total loans and advances accounted for 55.06% of the total assets, representing a decrease of 0.82 percentage point 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 2013		31 December 2012	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Corporate loans	**1,278,770**	**60.95**	1,152,837	60.54
Discounted bills	**66,680**	**3.18**	64,842	3.40
Retail loans	**752,628**	**35.87**	686,784	36.06
Total loans and advances to customers	**2,098,078**	**100.00**	1,904,463	100.00

Corporate loans

As at 30 June 2013, the Group's total corporate loans amounted to RMB1,278.770 billion, representing an increase of 10.92% as compared with the end of the previous year. Total corporate loans accounted for 60.95% of total loans and advances to customers, representing an increase of 0.41 percentage point as compared with the end of the previous year. In 2013, taking into account the adjustment in total loan volume and structural adjustment, the Group supported the development of the real economy and accelerated the promotion of loans granted to small enterprises, thus optimising the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 30 June 2013, discounted bills amounted to RMB66.680 billion, representing an increase of 2.83% 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 optimised structure, centralised operation, accelerated circulation, and expanded volume to increase the overall return on bill assets.

Retail loans

As at 30 June 2013, retail loans amounted to RMB752.628 billion, representing an increase of 9.59% as compared with the end of the previous year. As at 30 June 2013, retail loans accounted for 35.87% of total loans and advances, down by 0.19 percentage point as compared with the end of the previous year. By adhering to the Second Transformation strategy, the Group deepened its comprehensive operation on the retail customers of small and micro enterprise business and continued to raise the proportion of the small and micro enterprise loans. For credit card business, the Group proactively adapted to the changing customer demands and external environment to build a differentiated competitive strength.

3.3.1.2 Investments

Investments

Investments of the Group in securities and other financial assets are composed of listed and unlisted securities denominated in Renminbi and 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 2013		31 December 2012	
	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	**22,613**	**3.66**	25,489	4.90
Derivative financial assets	**4,890**	**0.79**	1,975	0.38
Available-for-sale financial assets	**304,958**	**49.36**	285,344	54.83
Held-to-maturity investments	**196,841**	**31.86**	175,417	33.70
Investment receivables	**88,502**	**14.33**	32,221	6.19
Total investments	**617,804**	**100.00**	520,446	100.00

Available-for-sale financial assets

As at 30 June 2013, the value of the available-for-sale financial assets of the Group increased by RMB19.614 billion or 6.87% as compared with the end of 2012. The investment in this category, which was the largest investment category of the Group, was made mainly due to the need to allocate assets and liabilities and to improve operating efficiency and performance.

In the first half of the year, the central bank of China maintained its prudent monetary policy as the macro economy slowed down further at a low inflation rate. Liquidity remained loose in the first four months, but turned tight in the second half of the second quarter. In response to the market trends, the Group increased investments in bonds, primarily in interest-bearing bonds and moderately increased its holdings of credit bonds when prime opportunity emerged. As a result, the Group optimised its assets and liabilities structure and achieved solid investment performance.

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

	30 June 2013	31 December 2012
	(In millions of RMB)	
Bonds issued by the PRC government	**31,444**	29,829
Bonds issued by the PBOC	**1,682**	5,928
Bonds issued by policy banks	**39,294**	39,270
Bonds issued by commercial banks and other financial institutions	**117,797**	108,712
Other bonds	**113,289**	100,254
Equity investments	**1,431**	1,333
Fund investments	**21**	18
Total available-for-sale financial assets	**304,958**	285,344

Held-to-maturity investments

As at 30 June 2013, the net value of held-to-maturity investments of the Group increased by RMB21.424 billion or 12.21% as compared with the end of the previous year. Held-to-maturity investments are held by the Group for strategic purpose on a long-term basis. The Group moderately increased its holdings of middle to long term bonds bearing fixed interest rates when market yields rose to a higher level. The increase was mainly on bonds issued by the PRC government, policy banks, and commercial banks, which explains the significant growth of such category of investments.

The following table sets forth the components of held-to-maturity investments of the Group.

	30 June 2013	31 December 2012
	(In millions of RMB)	
Bonds issued by the PRC government	**77,357**	74,780
Bonds issued by the PBOC	**6,450**	15,373
Bonds issued by policy banks	**17,634**	10,503
Bonds issued by commercial banks and other financial institutions	**90,322**	70,444
Other bonds	**5,250**	4,491
Total amount of held-to-maturity investments	**197,013**	175,591
Less: provision for impairment losses	**(172)**	(174)
Net amount of held-to-maturity investments	**196,841**	175,417

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other investment in Debt Securities held by the Group, which are not publicly quoted in China or overseas. As at 30 June 2013, the Group's net investment receivables amounted to RMB88.502 billion, representing an increase of RMB56.281 billion as compared with the end of 2012, which was mainly due to increased investment in the Trust Beneficiary Rights and the Insurance Asset Management Plan.

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

	30 June 2013	31 December 2012
	(In millions of RMB)	
Bonds issued by the PRC government	**1,187**	1,769
Bonds issued by commercial banks and other financial institutions	**9,972**	11,422
Other bonds	**19,429**	19,093
Insurance Asset Management Plan	**12,080**	–
Trust Beneficiary Rights and others	**45,898**	–
Total investment receivables	**88,566**	32,284
Less: provision for impairment losses	**(64)**	(63)
Net investment receivables	**88,502**	32,221

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	967,042	116,537	18.28	–
V	Visa Inc	HK$	15,896	54,361	71,592	11.23	–
03988.HK	Bank of China Ltd.	HK$	58,973	18,860,000	59,786	9.38	–
02388.HK	BOC Hong Kong (Holdings) Limited	HK$	35,795	1,812,000	43,126	6.77	
01288.HK	Agricultural Bank of China Ltd.	HK$	32,323	10,000,000	32,000	5.02	–
00005.HK	HSBC Holdings plc	HK$	26,316	324,617	26,359	4.14	–
00488.HK	Lai Sun Development Company Limited	HK$	17,474	118,000,000	23,957	3.76	(1,554)
02778.HK	Champion Real Estate Investment Trust	HK$	31,755	6,164,000	21,697	3.40	–
00941.HK	China Mobile Ltd.	HK$	17,349	236,000	19,163	3.01	266
01125.HK	Lai Fung Holdings Limited	HK$	18,607	120,000,000	18,722	2.94	(812)
Other securities investments at the end of the period		HK$	154,287	N/A	204,365	32.07	7,895
Total		**HK$**	**411,464**	**N/A**	**637,304**	**100.00**	

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.

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 lack of a mature market for the investment receivables in the Group's investment portfolio and the Group's expectation of being able to fully recover their carrying values upon maturity, the Group has not made any assessment on their market value or fair value.

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

	30 June 2013		31 December 2012	
	Carrying Value	**Market/ Fair Value**	Carrying Value	Market/ Fair Value
	(In millions of RMB)			
Held-to-maturity listed investments	**194,245**	**195,252**	173,850	173,941

Analysis on investments in foreign currency bonds

As at 30 June 2013, the Group had a balance of investments in foreign currency bonds of US$5.657 billion, among which US$3.061 billion was held by the Company and US$2.596 billion was held by Wing Lung Group.

As at 30 June 2013, the investments in foreign currency bonds held by the Company are categorised by issuer as follows: 20.75% of the foreign currency bonds were issued by the PRC government and Chinese companies; 45.23% by overseas governments and institutions; 20.82% by overseas banks and 13.20% by overseas companies. The Company has made a provision for impairment losses of US$92 million for its investments in foreign currency bonds, with an evaluated unrealised profit of US$20 million.

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

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 at beginning and end of period (%)	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	701,019	596,828	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	158,649	121,781	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	4,000,000	100.00	N/A	4,000,000	684,701	696,294	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd	190,914	33.40	70,000,000	285,309	15,711	3,131	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$8,400	–	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	170,001	–	HK$(756)	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	20,000,000	HK$61,761	HK$7,008	HK$(2)	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	20	20,000	HK$8,367	HK$460	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$88,196	HK$(1,157)	HK$(229)	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	42,000,000	HK$49,786	HK$4,792	–	Equity investment
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$4,328	HK$1,128	HK$31	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$2,905	HK$30	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$7,248	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment

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

Derivative financial instruments

As at 30 June 2013, the major categories and amount of derivative financial instruments held by the Group are shown 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 2013			31 December 2012		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
	(In millions of RMB)					
Interest rate derivatives	**121,402**	**500**	**(801)**	107,557	509	(934)
Currency derivatives	**373,322**	**4,352**	**(11,519)**	173,562	1,430	(1,809)
Other derivatives	**1,754**	**38**	**(2)**	3,234	36	(2)
Total	**496,478**	**4,890**	**(12,322)**	284,353	1,975	(2,745)

3.3.1.3 Goodwill

As at 30 June 2013, 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 2013, the total liabilities of the Group amounted to RMB3,598.131 billion, representing an increase of 12.17% as compared with the end of 2012, which was primarily due to the growth in deposits from customers, deposits from other banks and financial institutions, and placements from other banks and financial institutions.

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

	30 June 2013		31 December 2012 (restated)	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from customers	**2,797,578**	**77.75**	2,532,444	78.95
Deposits from other banks and financial institutions	**350,117**	**9.73**	258,692	8.06
Placements from other banks and financial institutions	**117,790**	**3.27**	109,815	3.42
Financial liabilities at fair value through profit or loss	**28,807**	**0.80**	6,854	0.21
Derivative financial liabilities	**12,322**	**0.34**	2,745	0.09
Proceeds from disposal of financial assets repurchased	**132,570**	**3.68**	157,953	4.92
Accrued payroll	**4,140**	**0.12**	4,056	0.13
Taxes payable	**7,377**	**0.21**	6,679	0.21
Interest payable	**27,051**	**0.75**	24,065	0.75
Bonds payable	**88,784**	**2.47**	77,111	2.40
Deferred income tax liabilities	**787**	**0.02**	813	0.03
Other liabilities	**30,808**	**0.86**	26,471	0.83
Total liabilities	**3,598,131**	**100.00**	3,207,698	100.00

Deposits from customers

The Group always attaches great importance to deposit-taking and proactively expands deposits from customers. In the first half of 2013, despite the increasingly intense competition from peers, the Group managed to maintain a steady growth in its deposits from customers. As at 30 June 2013, deposits from customers of the Group amounted to RMB2,797.578 billion, representing an increase of 10.47% as compared with the end of 2012. Deposits from customers accounted for 77.75% 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 2013		31 December 2012	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**853,097**	**30.49**	797,577	31.49
Time	**922,580**	**32.98**	809,364	31.96
Subtotal	**1,775,677**	**63.47**	1,606,941	63.45
Deposits from retail customers				
Demand	**591,103**	**21.13**	524,970	20.73
Time	**430,798**	**15.40**	400,533	15.82
Subtotal	**1,021,901**	**36.53**	925,503	36.55
Total deposits from customers	**2,797,578**	**100.00**	2,532,444	100.00

As at 30 June 2013, the percentage of retail deposits to total deposits from customers of the Group was 36.53%, representing a slight decrease of 0.02 percentage point as compared with the end of 2012.

As at 30 June 2013, the percentage of demand deposits to total deposits from customers of the Group was 51.62%, representing a decrease of 0.60 percentage point as compared with the end of 2012. Among the figures, the proportion of corporate demand deposits accounted for 48.04% of the corporate deposits, representing a decrease of 1.59 percentage points as compared with the end of 2012, and the retail demand deposits accounted for 57.84% of the retail deposits, representing an increase of 1.12 percentage points as compared with the end of 2012.

3.3.3 Shareholders' equity

	30 June 2013	31 December 2012 (restated)
	(In millions of RMB)	
Share capital	**21,577**	21,577
Capital reserve	**37,508**	37,508
Investment revaluation reserve	**(327)**	37
Hedge reserve	**(298)**	(261)
Surplus reserve	**18,618**	18,618
Regulatory general reserve	**39,361**	39,195
Retained profits	**97,431**	71,326
Proposed profit distribution	**–**	13,593
Difference arising from converting financial statements denominated in foreign currency	**(1,527)**	(1,265)
Total equity attributable to shareholders of the Company	**212,343**	200,328
Non-controlling shareholders' equity	**155**	73
Total shareholders' equity	**212,498**	200,401

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 2013, the market share and ranking of the Bank among the 31 national small and medium-sized banks in terms of loans and deposits as at the end of the reporting period are as follows:

Items	Market share (%)	Ranking
Total deposits	10.73	1
Total savings deposits	17.84	1
Total loans	9.53	2
Total personal consumption loans	18.42	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, 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, etc.

3.4 Loan Quality Analysis

During the reporting period, the credit assets of the Group saw a steady growth in its scale, a continued optimisation of the customer mix, an increase in non-performing assets and a healthy allowance coverage. As at 30 June 2013, total loans and advances of the Group were RMB2,098.078 billion, representing an increase of 193.615 billion or 10.17%, as compared with the end of the previous year; the non-performing loan ratio was 0.71%, 0.1 percentage point up from the end of the previous year; whereas the non-performing loan allowance coverage ratio was 304.72%, representing a decrease of 47.07 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.

	30 June 2013		31 December 2012	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Normal	**2,060,208**	**98.20**	1,873,280	98.37
Special Mention	**22,945**	**1.09**	19,489	1.02
Substandard	**7,364**	**0.35**	5,281	0.28
Doubtful	**4,071**	**0.19**	3,064	0.16
Loss	**3,490**	**0.17**	3,349	0.17
Total loans and advances to customers	**2,098,078**	**100.00**	1,904,463	100.00
Total non-performing loans	**14,925**	**0.71**	11,694	0.61

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. In the first half of 2013, the banking industry was challenged by credit risks arising from the domestic economic slowdown and industrial restructuring. The Company prevented deterioration in asset quality by pre-emptively guarding against risks and speeding up structural adjustment and recovery and disposal of non-performing assets. As at the end of the reporting period, the non-performing loan ratio increased by 0.1 percentage point from the end of the previous year, mainly due to higher proportion of substandard and doubtful loans offset by stable proportion of loss loans through accelerating write-offs. The proportion of Special Mention loans increased by 0.07 percentage point over the end of the previous year.

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

	As at 30 June 2013				As at 31 December 2012			
	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	**1,278,770**	**60.95**	**10,516**	**0.82**	1,152,837	60.54	8,404	0.73
Working capital loans	**745,285**	**35.52**	**7,597**	**1.02**	707,806	37.18	6,149	0.87
Fixed asset loans	**275,984**	**13.15**	**754**	**0.27**	277,737	14.58	680	0.24
Trade finance	**171,794**	**8.19**	**702**	**0.41**	100,804	5.29	650	0.64
Others[2]	**85,707**	**4.09**	**1,463**	**1.71**	66,490	3.49	925	1.39
Discounted bills[3]	**66,680**	**3.18**	**–**	**–**	64,842	3.40	–	–
Retail loans	**752,628**	**35.87**	**4,409**	**0.59**	686,784	36.06	3,290	0.48
Residential mortgages	**314,268**	**14.98**	**935**	**0.30**	335,746	17.63	733	0.22
Personal operating loans	**260,088**	**12.40**	**1,533**	**0.59**	182,012	9.56	822	0.45
Credit card loans	**123,513**	**5.89**	**1,254**	**1.02**	106,519	5.59	1,136	1.07
Others[4]	**54,759**	**2.60**	**687**	**1.25**	62,507	3.28	599	0.96
Total loans and advances to customers	**2,098,078**	**100.00**	**14,925**	**0.71**	1,904,463	100.00	11,694	0.61

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

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

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

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

In 2013, the Group took initiatives to make adjustments to its credit structure to actively support the trade finance businesses with true trade background, short term and fast turnover period, leading to an increase in trade finance as a percentage in total corporate loans during the reporting period. In respect of retail loans, the Group devoted to develop loans granted to micro enterprises, such that the percentage of retail operating loans increased while that of residential mortgages decreased in the reporting period. As at the end of the reporting period, the ratio of non-performing corporate loans was 0.82%, up by 0.09 percentage point as compared with the end of the previous year; and the ratio of non-performing retail loans was 0.59%, up by 0.11 percentage point as compared with the end of the previous year. It was mainly because the repayment ability of enterprises and some individual borrowers deteriorated due to the domestic economic downturn.

3.4.3 Distribution of loans and non-performing loans by industry

	As at 30 June 2013				As at 31 December 2012[3]			
	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	**1,278,770**	**60.95**	**10,516**	**0.82**	1,152,837	60.54	8,404	0.73
Manufacturing	**401,206**	**19.12**	**4,788**	**1.19**	364,904	19.16	3,623	0.99
Wholesale and retail	**290,825**	**13.86**	**3,558**	**1.22**	223,672	11.74	2,401	1.07
Transportation, storage and postal services	**142,040**	**6.77**	**470**	**0.33**	143,051	7.51	484	0.34
Property development	**105,572**	**5.03**	**610**	**0.58**	108,453	5.69	711	0.66
Production and supply of electric power, heat, gas and water	**82,634**	**3.94**	**241**	**0.29**	81,300	4.27	408	0.50
Construction	**66,645**	**3.18**	**240**	**0.36**	60,725	3.19	170	0.28
Mining	**60,459**	**2.88**	**–**	**–**	54,645	2.87	–	–
Leasing and commercial services	**33,910**	**1.62**	**138**	**0.41**	32,067	1.68	112	0.35
Water, environment and public utilities	**28,087**	**1.34**	**1**	**–**	29,208	1.53	1	–
Information transmission, software and IT service	**13,890**	**0.66**	**75**	**0.54**	11,921	0.63	93	0.78
Others[2]	**53,502**	**2.55**	**395**	**0.74**	42,891	2.27	401	0.93
Discounted bills	**66,680**	**3.18**	**–**	**–**	64,842	3.40	–	–
Retail loans	**752,628**	**35.87**	**4,409**	**0.59**	686,784	36.06	3,290	0.48
Total loans and advances to customers	**2,098,078**	**100**	**14,925**	**0.71**	1,904,463	100	11,694	0.61

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

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

(3) The Company has implemented the new National Standard of the Classifications and Codes of National Economy Industries (GT/T4754-2011) since January 2013, and made respective adjustments to the figures as at 31 December 2012 accordingly.

In 2013, the Group actively pushed forward the adoption of a sustainable development business model for small enterprises, granted credit facilities to high-value customers in the real economy, growth enterprises and green industry, steadily developed emerging financing businesses, optimise the policies on granting loans to local government financing platforms and the real estate industry, prospectively prevented the systematic risks arising from high-risk areas, industries with surplus production capacity, and large amount enterprise customers, reasonably allocated credit assets, and promoted the optimisation of its portfolio, so as to achieve an overall balance among risk, return, and cost. During the period, the new non-performing corporate loans of the Group were mainly related to two industries: manufacturing and distribution (including wholesale and retail), which in aggregate accounted for 71.87% of all new non-performing corporate loans.

3.4.4 Distribution of loans and non-performing loans by region

	As at 30 June 2013				As at 31 December 2012			
	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	**201,438**	**9.60**	**3,090**	**1.53**	176,736	9.28	2,569	1.45
Yangtze River Delta	**421,036**	**20.07**	**5,756**	**1.37**	401,335	21.07	4,210	1.05
Bohai Rim	**302,786**	**14.43**	**1,091**	**0.36**	282,158	14.82	1,016	0.36
Pearl River Delta and West Side of Taiwan Strait	**327,478**	**15.61**	**2,056**	**0.63**	302,650	15.89	1,555	0.51
North-east China	**118,133**	**5.63**	**422**	**0.36**	104,387	5.48	373	0.36
Central China	**230,365**	**10.98**	**1,415**	**0.61**	209,435	11.00	1,024	0.49
Western China	**271,700**	**12.95**	**912**	**0.34**	249,786	13.12	619	0.25
Overseas	**51,891**	**2.47**	**18**	**0.03**	34,055	1.79	22	0.06
Subsidiaries	**173,251**	**8.26**	**165**	**0.10**	143,921	7.55	306	0.21
Total loans and advances to customers	**2,098,078**	**100.00**	**14,925**	**0.71**	1,904,463	100.00	11,694	0.61

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

In 2013, the Group flexibly adjusted its regional credit granting policies to allocate its credit resources scientifically and took the initiative to prevent the occurrence of regional risk through tightening the loan approval standard for the risk concentrated regions. At the end of the reporting period, the percentage of the balance of loans extended to the subsidiaries, overseas bodies, the Head Office, and the North-east part of China increased while that for other regions all decreased, of which loans to the Yangtze River Delta experienced the slowest growth of 4.91% in the first half of 2013. During the reporting period, 62.92% of the increased non-performing loans of the Group occurred in the Yangtze River Delta and the West Side of Taiwan Strait.

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

	As at 30 June 2013				As at 31 December 2012			
	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	**418,259**	**19.94**	**1,455**	**0.35**	393,596	20.67	1,301	0.33
Guaranteed loans	**468,783**	**22.34**	**5,565**	**1.19**	457,914	24.04	4,299	0.94
Collateralised loans	**883,975**	**42.13**	**7,111**	**0.80**	807,496	42.40	5,506	0.68
Pledged loans	**260,381**	**12.41**	**794**	**0.30**	180,615	9.49	588	0.33
Discounted bills	**66,680**	**3.18**	**–**	**–**	64,842	3.40	–	–
Total loans and advances to customers	**2,098,078**	**100.00**	**14,925**	**0.71**	1,904,463	100.00	11,694	0.61

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

During the period of economic downturn, the Group emphasised risk prevention through various mitigation measures, including demanding more collateral. As at the end of the reporting period, the percentage of pledged loans increased significantly by 2.92 percentage points as compared with the end of the previous year, while the percentage of credit and guaranteed loans declined by 0.73 percentage point and 1.70 percentage points respectively as compared with the end of the previous year.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan balance as at 30 June 2013 (in millions of RMB)	% of net capital	% of total loans
A	Transportation, storage and postal services	6,233	2.31	0.30
B	Transportation, storage and postal services	5,000	1.86	0.24
C	Transportation, storage and postal services	4,128	1.53	0.20
D	Production and supply of electric power, heat, gas and water	4,000	1.48	0.19
E	Wholesales and retail sales	3,669	1.36	0.17
F	Wholesales and retail sales	2,981	1.11	0.14
G	Manufacturing	2,977	1.10	0.14
H	Mining	2,927	1.09	0.14
I	Transportation, storage and postal services	2,877	1.07	0.14
J	Transportation, storage and postal services	2,700	1.00	0.13
Total		**37,492**	**13.91**	**1.79**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB6.233 billion, representing 2.31% of the Group's net capital. The loan balance of the top ten single borrowers totalled RMB37.492 billion, representing 13.91% of the Group's net capital and 1.79% of the Group's total loan balance respectively.

3.4.7 Distribution of loans by overdue term

	As at 30 June 2013		As at 31 December 2012	
	Amount	**Percentage of total loans (%)**	Amount	Percentage of total loans (%)
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	**15,773**	**0.76**	10,987	0.57
Overdue from 3 months up to 1 year	**6,544**	**0.31**	4,550	0.24
Overdue from 1 year up to 3 years	**3,830**	**0.18**	2,016	0.11
Overdue more than 3 years	**3,350**	**0.16**	3,847	0.20
Total overdue loans	**29,497**	**1.41**	21,400	1.12
Total loans and advances to customers	**2,098,078**	**100.00**	1,904,463	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB29.497 billion, up by RMB8.097 billion from the end of the previous year and accounting for 1.41% of its total loans, representing an increase of 0.29 percentage point as compared with the end of the previous year. Among all the overdue loans, collateralised and pledged loans accounted for 57.50%, guaranteed loans accounted for 24.06%, while credit loans accounted for 18.43%, the majority of which were those overdue loans of credit cards.

3.4.8 Restructured loans

	As at 30 June 2013		As at 31 December 2012	
	Amount	**Percentage of total loans (%)**	Amount	Percentage of total loans (%)
	(in millions of RMB, excluding percentages)			
Restructured loans	**700**	**0.03**	1,060	0.06
Of which: restructured loans overdue for more than 90 days	**422**	**0.02**	553	0.03

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 0.03%, a decrease of 0.03 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 RMB956 million. After deduction of allowances for impairment losses of RMB895 million, the net repossessed assets amounted to RMB61 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 recognised through profit or loss for the current period, as measured by the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable. Loans that 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 2013 (in millions of RMB)	2012
Balance at the beginning of the period	**41,138**	36,704
Charge for the period	**5,341**	6,276
Release for the period	**(366)**	(785)
Unwinding of discount on impaired loans(note)	**(167)**	(215)
Recovery of loans and advances previously written off	**32**	65
Write-offs	**(448)**	(891)
Transfers in/out	**0**	13
Foreign exchange rate movements	**(51)**	(29)
Balance at the end of the period	**45,479**	41,138

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

The Group continued to adopt a stable and prudent policy in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans amounted to RMB45.479 billion, representing an increase of RMB4.341 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 304.72%, representing a decrease of 47.07 percentage points as compared with the end of the previous year; the loan allowance ratio was 2.17%, representing an increase of 0.01 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

The Group continued to optimise its business structure and enhance capital management, and satisfied the minimum capital requirements, the reserve capital requirements and the counter-cyclical capital requirements under the transitional arrangements of CBRC during the reporting period.

As at the end of June 2013, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Group was 10.72% and 8.00% respectively, representing a decrease of 0.69 percentage point and 0.34 percentage point as compared with those at the beginning of the year. The decrease in the capital adequacy ratio as compared with the beginning of the year was mainly due to the distribution of cash dividend of RMB13.593 billion in respect of the profit for the previous year and the amortisation of old subordinated bonds of RMB4.17 billion during this year. Taking the above factors aside, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Group increased by 0.02 percentage point and 0.20 percentage point respectively as compared with those at the beginning of the year.

	At the end of the reporting period 30 June 2013	At the end of last year 31 December 2012	Increase/decrease at the end of the reporting period as compared to the end of last year (%)
	(in millions of RMB, excluding percentages)		
The Group			
Capital adequacy ratios under the new Requirements[(1)]			
1. Net core tier 1 capital	**201,078**	189,555	6.08
2. Net tier 1 capital	**201,078**	189,555	6.08
3. Net capital	**269,493**	259,377	3.90
4. Risk-weighted assets	**2,514,757**	2,274,044	10.59
Of which: Credit risk weighted assets	**2,322,275**	2,084,076	11.43
Market risk weighted assets	**15,730**	13,216	19.02
Operational risk weighted assets	**176,752**	176,752	–
5. Core tier 1 capital adequacy ratio	**8.00%**	8.34%	Decrease of 0.34 percentage point
6. Tier 1 capital adequacy ratio	**8.00%**	8.34%	Decrease of 0.34 percentage point
7. Capital adequacy ratio	**10.72%**	11.41%	Decrease of 0.69 percentage point
Capital adequacy ratios under the previous Requirements[(2)]			
8. Core capital adequacy ratio	**8.12%**	8.49%	Decrease of 0.37 percentage point
9. Capital adequacy ratio	**11.39%**	12.14%	Decrease of 0.75 percentage point

Note 1: the "new Requirements" herein refers to the "Measures for the Management of Capital of Commercial Banks (Trial Version)" issued by CBRC on 7 June 2012. Under the new Requirements, the core tier 1 capital adequacy ratio and the tier 1 capital adequacy ratio of the Group and the Company remain consistent at present. Under the New Requirements, the capital adequacy ratio of the Group shall reflect China Merchants Bank Co., Ltd. and its subsidiaries. The capital adequacy ratio of the Company shall reflect all domestic and overseas branches and sub-branches of China Merchants Bank Co., Ltd. As of 30 June 2013, the Group's subsidiaries for calculating its capital adequacy ratio include WLB, CMBIC and CMBFL.

Note 2: the "previous Requirements" herein refers to the "Guidelines for the Resolution on Revision of the Regulation Governing Capital Adequacy Ratio of Commercial Banks" issued by CBRC on 28 December 2006.

As at the end of June 2013, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Company was 10.43% and 7.73% respectively, representing a decrease of 0.62 percentage point and 0.27 percentage point as compared with those at the beginning of the year. After eliminating the bonus distribution and the amortisation of subordinated bonds, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Company increased by 0.14 percentage point and 0.31 percentage point respectively as compared with those at the beginning of the year.

	At the end of the reporting period 30 June 2013	At the end of last year 31 December 2012	Increase/decrease at the end of the reporting period as compared to the end of last year (%)
	(in millions of RMB, excluding percentages)		
The Company			
Capital adequacy ratios under the new Requirements			
1. Net core tier 1 capital	**179,628**	168,848	6.38
2. Net tier 1 capital	**179,628**	168,848	6.38
3. Net capital	**242,478**	233,223	3.97
4. Risk-weighted assets	**2,324,617**	2,110,063	10.17
Of which: Credit risk weighted assets	**2,147,090**	1,934,317	11.00
Market risk weighted assets	**8,725**	6,945	25.63
Operational risk weighted assets	**168,801**	168,801	-
5. Core tier 1 capital adequacy ratio	**7.73%**	8.00%	Decrease of 0.27 percentage point
6. Tier 1 capital adequacy ratio	**7.73%**	8.00%	Decrease of 0.27 percentage point
7. Capital adequacy ratio	**10.43%**	11.05%	Decrease of 0.62 percentage point
Capital adequacy ratios under the previous Requirements			
8. Core capital adequacy ratio	**8.48%**	8.86%	Decrease of 0.38 percentage point
9. Capital adequacy ratio	**11.10%**	11.73%	Decrease of 0.63 percentage point

3.6 Segment Operating Results

The following segment operating results are presented by business segments and geographical segments. As business segment information can better reflect 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 internal 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, reflects the profits or losses of funds allocation to the business segments through the internal 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 2013, the cost-to-income ratio (excluding business tax and surcharges) of the wholesale banking business of the Group decreased to 22.68% from 23.25% for the corresponding period of 2012, and the cost-to-income ratio (excluding business tax and surcharges) of the retail banking business of the Group decreased to 40.75% from 44.14% for the corresponding period of 2012. The following table summarises the operating results of the business segments of the Group for the periods indicated.

Items	January-June 2013		January-June 2012	
	Profit before tax by segment	**Percentage (%)**	Profit before tax by segment (restated)	Percentage (%)
	(in millions of RMB, excluding percentages)			
Wholesale banking business	**23,998**	**68.86**	22,451	72.84
Retail banking business	**12,103**	**34.73**	9,500	30.83
Financial market business	**(1,087)**	**(3.12)**	(730)	(2.37)
Other businesses and adjustments	**(166)**	**(0.47)**	(400)	(1.30)
Total	**34,848**	**100.00**	30,821	100.00

Geographical Segments

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

	Total Assets 30 June 2013		Total Liabilities 30 June 2013		Total Profit January-June 2013	
	Amount	Amount Percentage (%)	Amount	Amount Percentage (%)	Amount	Amount Percentage (%)
	(in millions of RMB, excluding percentages)					
Head Office	**1,480,271**	**39**	**1,313,685**	**37**	**1,480**	**4**
Yangtze River Delta	**486,648**	**13**	**481,273**	**13**	**7,175**	**21**
Bohai Rim	**359,806**	**9**	**354,987**	**10**	**6,436**	**18**
Pearl River Delta and West Side of Taiwan Strait	**442,802**	**12**	**437,572**	**12**	**6,962**	**20**
North-eastern China	**151,015**	**4**	**149,579**	**4**	**1,908**	**5**
Central China	**274,973**	**7**	**271,970**	**8**	**3,981**	**11**
Western China	**306,593**	**8**	**303,088**	**8**	**4,661**	**14**
Overseas	**68,716**	**2**	**68,585**	**2**	**258**	**1**
Subsidiaries	**239,805**	**6**	**217,392**	**6**	**1,987**	**6**
Total	**3,810,629**	**100**	**3,598,131**	**100**	**34,848**	**100**

	Total Assets 31 December 2012		Total Liabilities 31 December 2012		Total Profit January-June 2012 (restated)	
	Amount	Amount Percentage (%)	Amount	Amount Percentage (%)	Amount	Amount Percentage (%)
	(in millions of RMB, excluding percentages)					
Head Office	1,275,164	37	1,138,797	36	(2,693)	(8)
Yangtze River Delta	447,120	13	436,498	14	8,066	26
Bohai Rim	310,429	9	301,591	9	6,736	22
Pearl River Delta and West Side of Taiwan Strait	460,229	14	450,917	14	6,928	22
North-eastern China	119,457	4	117,013	4	1,887	6
Central China	242,866	7	237,551	7	3,802	12
Western China	273,931	8	267,868	8	4,312	14
Overseas	76,043	2	75,700	2	342	1
Subsidiaries	202,860	6	181,763	6	1,441	5
Total	3,408,099	100	3,207,698	100	30,821	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 derivative financial instruments, 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 2013, the balance of credit commitments was RMB839.142 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 2013, the Group did not have any outstanding overdue debts.

3.8 Development Strategies

3.8.1 Second Transformation

In 2010, the Company started implementing the "Second Transformation" strategy in a bid to accelerate the transformation into an organic and intensive development model, and identified five major objectives, i.e. higher capital utilisation efficiency, stronger loan risk pricing capability, higher operating efficiency, larger proportion of high-net-worth customers and better risk control. Despite the volatile and complicated external environment in 2013, the Company continued to press forward with the "Second Transformation" and achieved remarkable results.

Capital utilisation efficiency remained stable. As at 30 June 2013, the capital adequacy ratio and tier 1 capital adequacy ratio of the Company were 10.43% and 7.73% respectively, which increased by 0.14 percentage point and 0.31 percentage point as compared with the beginning of the year respectively, excluding the effect caused by such factors as the distribution of dividend and the amortisation of subordinated bonds. The annualised return on average equity (ROAE) was 23.60%, representing an increase of 0.71 percentage point as compared with the previous year. The risk adjusted return on capital after tax (RAROC) was 21.25%, representing an increase of 0.04 percentage point (calculated on the same statistical calibres) as compared with the previous year.

Risk pricing of loans kept improving. As at 30 June 2013, the floating range of weighted average interest rates of newly granted corporate loans in RMB (weighted at actual amounts, same as below) increased by 0.66 percentage point to 12.46% as compared with the previous year. The floating range of weighted average interest rates of newly granted retail loans in RMB increased by 7.16 percentage points to 30.11% as compared with the previous year.

Operational efficiency continued to improve. As at 30 June 2013, the cost-to-income ratio of the Company was 31.64%, representing a decrease of 4.51 percentage points as compared with the previous year; the annualised profit before tax per person was RMB1.36 million (calculated on the same statistical calibres), representing an increase of 12.40% as compared with the previous year; the annualised profit before tax per outlet was RMB67.68 million, representing an increase of 11.15% as compared with the previous year.

Proportion of high-net-worth customers increased continuously. As at 30 June 2013, the number of sunflower-level and above customers (retail customers of the Company with minimum total daily average assets of RMB500,000 per month) increased by 9.76% as compared with the beginning of the year, representing an increase of 0.08 percentage point in customer proportion as compared with the beginning of the year; the number of private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month) increased by 15.82% as compared with the beginning of the year.

Overall risk is under control in terms of asset quality. As at 30 June 2013, the allowance coverage ratio of our non-performing loans was 299.72%, representing a decrease of 52.75 percentage points as compared with the end of the previous year, and the non-performing loan ratio of the Company was 0.77%, representing an increase of 0.12 percentage point as compared with the end of the previous year, while the percentage of special mention loans to the total was 1.07%, which was 0.03 percentage point up as compared with that at the end of the previous year. The percentage of credit cost was 0.51%, an increase of 0.20 percentage point as compared with the end of the previous year. Non-performance loan formation rate was 0.58%. Affected by the macro-economic downturn, enterprises are facing mounting risks in their operation, which accelerated the occurrence of non-performing and special mention loans. In response, the Company took timely and effective risk management and control measures so as to ensure that the overall risk was under control.

3.8.2 Small and micro enterprises strategy

During the reporting period, the Company adopted certain measures to implement the small and micro enterprises strategy and achieved satisfactory results, including continuously pushing forward the system reform and process optimisation, actively establishing a professional management system in line with the development of small and micro enterprise businesses, and focusing on enhancing the capabilities of small and micro enterprise businesses in respect of market planning, marketing development, customer service, product innovation, risk management and operation management.

In order to objectively reflect corporate customers' operation scale and risk-withstanding ability, the Company redefined its corporate customer classification standards from "annual sales + loan balance" to "annual sales + credit exposure amount". Based on the bank's adjusted caliber, as at 30 June 2013, balance of the Company's loans to small and micro enterprises totalled RMB525.314 billion, representing an increase of RMB147.764 billion or 39.14% over the beginning of the year (calculated on the same statistical calibres), and accounted for 28.95% of domestic general loans (excluding discounted bills), representing an increase of 6.36 percentage points over the beginning of the year, of which: balance of the small enterprises loans amounted to RMB270.202 billion, up by 34.82% as compared with the beginning of the year (calculated on the same statistical calibres), and the proportion of small enterprises loans to domestic corporate loans reached 25.09%, representing an increase of 5.04 percentage points as compared with the beginning of the year; balance of micro enterprises loans amounted to RMB255.112 billion, up by 44.02% as compared with the beginning of the year, and the proportion of micro enterprises loans to total retail loans reached 34.58%, representing an increase of 8.22 percentage points as compared with the beginning of the year. The non-performing loan ratios of loans granted to small enterprises and micro enterprises remained at a low level of 1.48% and 0.60% respectively; and the floating ranges of weighted average interest rate of newly granted small enterprises and micro enterprises loans were 22.86% and 32.61% respectively, up by 0.80 percentage point and 3.20 percentage points as compared with the previous year respectively, demonstrating an increasing pricing capability.

3.9 Core Competitive Advantages

The Company has gained a leading position in retail banking business such as wealth management, private banking, credit card and electronic banking, etc. The Company also accelerated the development of new emerging wholesale banking business such as cash management, assets custody, investment banking and corporate annuity, etc., and gained a competitive advantage in the market. It has made significant achievements in strategic transformation in terms of further optimization of its business structure, customer base and revenue structure. The Company vigorously promoted e-channels innovation and proactively explored new operating models for mobile banking and internet banking and steadily strengthened its advantages in IT platform. The Company has established the service philosophy of "we are here just for you" through years of practice in banking business, hence high quality service has constituted an important element of its core competitiveness. The Company has a rapidly developing cross-border finance platform. With continuously expanding brand influence, the Company has gained increasing recognition in domestic and overseas markets.

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

During the first half of 2013, domestic economic growth slowed down due to continuously weak internal and external demands caused by various factors including slow growth of global economy, domestic industrial restructuring and overcapacity. Domestic policies were aimed to balance steady growth and industrial restructuring, and the PBOC maintained a sound monetary policy. As a result, the total loans extended by financial institutions were generally in line with our expectation, and the financing scale of the whole society was on the rise. As affected by a number of factors including movements in funds outstanding for foreign exchange, the monetary market was highly volatile, thereby posing relatively high pressure on commercial banks in liquidity management. In addition, the interest rate liberalisation was further promoted. The PBOC decided to completely deregulate the lending rates of financial institutions by cancelling the lower limit requirement of 0.7 time of lending rate, effective from 20 July 2013 onwards.

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

1. Liquidity management

Given its well-established quota limit management system and pre-warning mechanisms and supported by stress tests and contingency drillings conducted on a regular basis, the Company has maintained sound liquidity management. During the first four months of 2013, the total currency in circulation remained at high levels with generally loose market liquidity due to various factors including a significant increase in funds outstanding for foreign exchange. However, a systematic liquidity crisis erupted since late May, caused by an abrupt squeeze in liquidity of the monetary market due to the combined effects of a number of factors including a slower increase in funds outstanding for foreign exchange, settlement of income tax and deposit reserve payment at the central bank. Such squeeze in market liquidity, though fully expected in itself, is out of our expectation in its severity and duration, thus posing some degree of impact on the Company. The liquidity was under relatively high pressure as a result of various factors including the decrease of our customer deposit in the middle of June, the significant amounts of interbank borrowings due in June, increased difficulty in refinancing debts falling due, the payment of deposit reserve and the proposed payment of A share dividend, which led to the substantial increase of funding cost with market interest rate hikes. In response, the Company addressed the crisis by adopting the following measures: i) convening two bank-wide video conferences on liquidity management for unified deployment of work including steady increase of deposits, steady granting of loans, etc.; ii) establishing cross-department liquidity management and consultation mechanisms to discuss liquidity management and control strategies; iii) ensuring stable liquidity by raising funds via multiple channels; and iv) actively reporting the liquidity conditions and countermeasures of the Company to relevant regulatory authorities. In general, despite the decrease of the Company's liquidity, the Bank maintained an adequate payment reserve level, ensuring the smooth operation of the Company's liquidity. Currently the Company's operating conditions remain healthy and sound.

Looking forward, the Company will further promote the dynamic and balanced management of liquidity, optimise FTP pricing mechanisms, enhance treasury operation and control capabilities, strengthen the general control over various treasury businesses including inter-bank transactions, bills and wealth management, refine the management model of interbank lending activities, replenish high-liquidity assets, improve the liquidity risk quota limit system, stress tests and emergency plans to enhance liquidity management capabilities in a comprehensive manner.

2. Interest rate liberalisation

During the first half of the year, the Company further promoted its strategic transformation, proactively coped with interest rate liberalisation, and increased its effort in optimising asset-liability structure and customer base. Firstly, the Company actively optimised its loan structure to vigorously develop its small and micro enterprise businesses. Secondly, the Company continued to strengthen loan pricing management in an effort to improve its risk pricing capability and return on loans. Thirdly, the Company increased the proportion of fixed interest rates loans and extended the re-pricing cycle of floating interest rates loans while continuously expanding off-balance-sheet hedging operations and improving the stability of the growth in net interest income. Fourthly, in response to interest rate liberalisation, the Company actively explored relevant pricing framework and differential deposit pricing strategy in the market-oriented environment. Against the background of interest rate cuts and continuous promotion of interest rate liberalisation in 2012, during the first half of 2013, the Company achieved a net interest margin of 2.96%, representing a decrease of 6 basis points as compared with the second half of 2012, thus maintaining a relatively steady net interest margin. It is anticipated that the net interest margin may drop slightly during the second half of the year, but the overall decrease rate is expected to be limited.

The PBOC announced to remove the lower limit of lending rate from 20 July onwards. Such adjustment is expected to have limited impacts on the Company in the short term, but will put the domestic banking industry in the more fierce pricing competition in the medium to long term. In response, the Company formulated the following countermeasures: firstly, further promoting the rapid development of its intermediary business, refining its income structure and reducing its reliance on interest spread between deposits and loans; secondly, optimising customer base to boost the development of retail banking business and small and micro enterprise businesses; thirdly, further improving loan risk pricing mechanisms to enhance risk pricing capabilities; fourthly, strengthening the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management; and fifthly, strengthening the risk management of lending rates, analysing the movement of interest rates under the market-oriented environment, improving its risk measurement methods and models, and further optimising its risk management strategy. In addition, the Company has formulated relevant plans from the perspective of business and system in response to the expected removal of the upper limit of deposit interest rate.

3. Assets quality of key areas

To proactively cope with the impact of cyclical and structural adjustment of economy on its asset quality, the Company pre-emptively prevented and controlled the potential risks associated with loans extended to local government financing platforms, real estate enterprises and overcapacity industries. It also attached great importance to guarding against external risks relating to microfinance companies, pawnshops, guarantee agencies, private financing activities and illegal fund-raising.

In respect of loans extended to local government financing platforms, in adherence to the basic guidance of "prioritising loans to projects under construction, limiting loans to reconstruction projects and controlling loans to new construction projects", the Company implemented control on the total loan amounts and optimised loan portfolios by extending loans to the most promising sectors. As at the end of the reporting period, the balance of our loans extended to local government financing platforms amounted to RMB86.116 billion, representing a decrease of RMB4.340 billion or 4.80% as compared with the end of the previous year, which accounted for 4.47% of the total loans granted by the Company, down by 0.67 percentage point as compared with the end of the previous year, and the non-performing loan ratio was 0.04%, representing a decrease of 0.13 percentage point as compared with the end of the previous year.

In respect of loans extended to real estate enterprises, the Company imposed a cap on the total loan amounts, while moderately involved in real estate loan business, optimised loan structure and adopted closed-end loan management. As at the end of the reporting period, according to the new national standards after adjustment, the balance of our corporate loans to the real estate market was RMB79.118 billion, representing a decrease of RMB1,342 million as compared with the end of the previous year, which accounted for 4.11% of the Company's total loans, down by 0.46 percentage point as compared with the end of the previous year, and the non-performing loan ratio was 0.74%, down by 0.03 percentage point as compared with the end of the previous year.

For overcapacity industries, the Company focused on "controlling total loan amounts, adjusting loan structure, increasing guarantees and exiting risks", and pre-emptively prevented systematic risks in those industries through setting loan limits, centralising the approval for loan granting, raising the minimum requirements for loan application, specifying the criteria for loan exit, and strengthening the examination, monitoring and assessment of credit risk. As at the end of the reporting period, the balance of our loans extended to photovoltaic and steel trade industry decreased, but with a higher non-performing loan ratio; while both the balance of loans extended to shipbuilding industry and the corresponding non-performing loan ratio decreased.

For areas such as the Yangtze River Delta and the West Side of Taiwan Strait with concentrated risk exposure, the Company timely adjusted its regional credit policy, raised the minimum requirements for loan extension and slowed down the pace of loan granting, while enhancing risk pre-warning and inspection so as to keep the regional risks under control.

4. Non-interest income

During the first half of the year, the Company proactively adjusted its business development strategies, and vigorously expanded wealth management, credit cards, international guarantee and factoring, and other cross-border coordination businesses, thus facilitating a rapid growth in the net non-interest income. In the same period, the Company realised a net non-interest income of RMB15.185 billion, representing a year-on-year increase of RMB2,759 million or 22.20%. The proportion of the net non-interest income to our net operating income was 24.93%, up by 3.68 percentage points as compared with the end of the previous year. Among the total non-interest income, fees and commission income from wealth management services amounted to RMB4,638 million, representing a year-on-year increase of 28.37% (a breakdown of these fees and commission income is as follows: income from sales of wealth management products amounted to RMB1,553 million, representing a year-on-year increase of 92.92%; income from sales of mutual fund amounted to RMB785 million, representing a year-on-year increase of 44.33%; income from sales of third party insurance policies amounted to RMB1,016 million, representing a year-on-year increase of 23.30%; income from sales of third-party trust plans amounted to RMB1,284 million, representing a year-on-year increase of 17.26%); bank card fees amounted to RMB3,683 million, representing a year-on-year increase of 42.70%; and fees from international guarantee and factoring amounted to RMB562 million, representing a year-on-year increase of 148.28%. In addition, settlement and clearing fees amounted to RMB1,238 million, representing a year-on-year increase of 14.31%. Affected by the low interest rates on the bills market in the first half of the year, the bills spread income amounted to RMB1,252 million, representing a year-on-year decrease of 37.31%.

In the second half of the year, based on its existing competitive businesses such as wealth management, credit cards and cross-border coordination business, the Company will fully exert its advantages in comprehensive operations, overseas platform, and distribution channels, enhance business innovation, develop corporate banking services such as investment banking, cash management, assets custody and precious metals, and capitalise on its enormous retail customer base to develop personal consumption banking services such as credit card instalments, etc, thus realising a rapid growth in relevant net non-interest income.

5. Wealth management

In March 2013, the CBRC promulgated the "Notice on Issues of Regulating Investment Operation in the Wealth Management Business of Commercial Banks" which strictly regulated the fund pool operation mode of wealth management business of banks, and set specific limits on the investment of non-standard debt assets of wealth management fund. In response, the Company actively took the following measures to ensure the compliance of its wealth management business operation with those requirements.

Firstly, the Company proactively improved its existing asset pool operation manner, implemented the "core asset pool + satellite asset pool" business development strategies, and conducted a successful trial run in its Beijing Branch. The cumulative amounts of issued products reached RMB7,800 million as at the end of the reporting period, and the Bank currently applied its successful experience in Shanghai Branch and Shenzhen Branch. The Company proactively issued the "Bu Bu Sheng Jin" No. 2 products, and chose single flexible-term products for its investment portfolio to replace the multiple-in-multiple-out asset pool operation mode. As at the end of the reporting period, the balance amount of the "Bu Bu Sheng Jin" No. 2 products exceeded RMB30 billion. In addition, the Company steadily issued the "one-to-one" wealth management products in accordance with relevant regulatory requirements, with a balance amount under management reaching RMB52.3 billion as at the end of the reporting period.

Secondly, the Company invested its "non-standard debt assets" in strict compliance with relevant regulatory requirements. As at the end of the reporting period, the balance of our wealth management investments in "non-standard debt assets" amounted to RMB138.6 billion, accounting for less than 25% of the balance of our wealth management products, which was far lower than the upper limit of 35%, though exceeded 4% of the Group's total assets (namely RMB136.3 billion) by RMB2,300 million. During the second half of the year, the Company will continue to operate prudently, invest in "non-standard debt assets" in strict compliance with relevant regulatory requirements, and gradually reduce investment scale through transfer, maturity, and early repayment of "non-standard debt assets", aiming to meet the CBRC's requirements in the second half of the year.

Thirdly, the Company will continue to enrich product portfolios and linked objects, and increase its structured deposits. As at the end of the reporting period, the cumulative transaction amounts of our structured deposits hit RMB31.2 billion, with a balance amount exceeding RMB20 billion. The cumulative amounts of our structured wealth management products reached RMB2,600 million, with a balance surpassing RMB1,700 million.

6. Funding cost

During the first half of the year, the Company controlled its funding cost effectively and kept the net interest spread relatively stable at 2.80%. The annualised average cost ratio of interest-bearing liabilities was 2.16%, of which the ratio of customer deposits and placements from other banks and financial institutions was 1.88% and 3.29% respectively. Our funding cost was relatively low as a whole. On one hand, it was attributable to the higher proportion of demand deposits and the lower average interest ratio of deposits. On the other hand, it was also the result of effective control over structured deposits, agreement deposits, active liability taking and other higher cost funds. In the second half of the year, given the liquidity crisis in June, it is estimated that the money market will remain tight as a whole. The interest rates on the money market, in particular the medium and long-term interest rates, will probably remain high, thus posing a negative impact on the net interest spread and net interest income. In the medium to long run, with financial disintermediation and interest rate liberalisation in process, banks will face mounting pressure from funding cost. In order to maintain its competitive edge in low funding cost, the Company intends to take the following initiatives: firstly, proceeding with product and service innovation to attract low-cost deposits, facilitating the effective growth of core deposits, and strengthening its advantage in the cost of liabilities; secondly, making accurate judgments on the trends in market liquidity and interest rates, optimising the duration structure of funds, strengthening the duration gap management, and effectively preventing the refinancing and re-pricing risk; thirdly, strengthening management of active liability taking, and proactively increasing the sources of low-cost funds such as the issuance of debt and large certificates of deposit while keeping high-cost funds under control.

3.11 Business Operation

3.11.1 Retail banking

Business overview

During the first half of 2013, faced with the complicated and changing external economic environment, the Company continued to operate with the customer-centric philosophy, promote refined management and process optimisation, intensify its effort to manage and expand retail customer base as well as small and micro-sized enterprise customers. In addition, the Company further consolidated and expanded its competitive edges and value contribution of its retail banking by focusing on key business areas, improving efficiency and brand recognition, expanding revenue sources and reducing operational cost.

During the first half of 2013, the number of our high-value retail customers continued to grow rapidly, and the customer structure was further optimised. The number of our Sunflower-level customers and above increased by 88,900 as compared with that at the beginning of the year, representing an increase of 9.76%. The wealth management business of the Company maintained a rapid growth. The Company was in the forefront among domestic banks in terms of both new sales and stock volume of mutual fund; the agency insurance sales and commission income ranked first among domestic small and medium-sized banks. In addition, sales of wealth management products and precious metals continued to maintain a rapid growth. Our retail deposits and loans grew steadily. Our retail deposits increased by RMB98.518 billion as compared with the beginning of the year and its balance reached RMB962.288 billion, accounting for 35.86% of total customer deposits. Among them, foreign currency deposits increased by US$362 million as compared with the beginning of the year and its balance reached US$5,633 million. The balance of total retail loans recorded RMB737.647 billion, accounting for 38.32% of total loans to customers, representing an increase of RMB65.747 billion as compared with the beginning of the year. According to the data released by the People's Bank of China, the Company ranked first among domestic small and medium-sized banks in terms of the balance of retail deposits, among them, the Company ranked fifth among all domestic banks in terms of the increase of retail deposits, next only to the Big Four state-owned commercial banks, ranked third among domestic banks in terms of the balance and increase of foreign currency deposits; ranked fifth among domestic banks in terms of the balance of retail loans, among them, the Company ranked first among domestic banks in terms of the growth amount and growth rate of personal operating loans for the period.

During the first half of 2013, profit from our retail banking business grew rapidly. Profit before tax reached RMB12.072 billion, representing a year-on-year increase of 27.89%. The proportion of retail profit to total profit increased to 36.73%, representing a year-on-year increase of 4.58 percentage points. Net operating income from retail banking business grew rapidly to RMB26.897 billion, up by 21.62% year-on-year, representing 44.16% of our net operating income, 3.67 percentage points higher than the corresponding period of the previous year. Among them, net interest income from retail banking business reached RMB18.990 billion, increasing by 13.72% year-on-year and accounting for 70.60% of net operating income from retail banking business; net non-interest income from retail banking business amounted to RMB7,907 million, up by 45.99% year-on-year and accounting for 29.40% of net operating income from retail banking business and 52.07% of net non-interest income. During the first half of 2013, the Company recorded a commission income of RMB3,636 million from bank cards (including credit cards), an increase of 43.21% year-on-year; fee and commission income from retail wealth management business was RMB3,711 million, increasing by 30.95% year-on-year and accounting for 49.07% of net fee and commission income from retail banking business.

During the reporting period, the Company further enhance its brand influence and won a number of awards, including the "Best Joint Stock Retail Bank in China" by *The Asian Banker* for the ninth consecutive year, the "Best Private Bank in China for 2013" by *Euromoney*, and the "Best Private Bank in China", the "Best Wealth Management Institution in China", the "Best Wealth Management Brand of Banks in China", the "Best Credit Card Brand", the "World's Best Call Centre", the "Best Mobile Banking Product in China" and the "Excellent SME Banking Business in China" by other authoritative media at home and abroad.

Wealth management

In order to provide its customers with comprehensive financial services, and realise the preservation and appreciation of the value of their assets, in the first half of 2013, the Company established a professional wealth management research and support system, developed a professional asset deployment system and improved the wealth management product system. With these efforts, the Company constantly enhanced team building, improved the professional wealth management capabilities and sales management of its teams and further promoted the robust development of its wealth management business.

During the first half of 2013, the Company recorded RMB1,755.1 billion in accumulated sales of personal wealth management products, distributed RMB170.7 billion in open-ended mutual funds and RMB30.6 billion in standard premiums from third-party insurance policies. Fee and commission income from retail wealth management business was RMB3,711 million. Among them, income from entrusted wealth management amounted to RMB693 million, representing a year-on-year increase of 69.85%; income from distribution of mutual fund amounted to RMB783 million, representing a year-on-year increase of 44.46%; income from distribution of third-party insurance policies amounted to RMB1,009 million, representing a year-on-year increase of 22.60%; income from distribution of third-party trust plans amounted to RMB1,226 million, representing a year-on-year increase of 15.55%.

Private banking

Our private banking business follows the philosophy of "It's our job to build your everlasting family fortune". The Company provided customers with the professional "1+N" investment advisory services and various investment opportunities. Our private banking business maintained a rapid and steady growth, with continuous increase in the number of high-net-worth customers and the size of total customer assets under management, thus contributing to our strong brand influence.

As at 30 June 2013, the Company had 22,606 private banking customers, representing an increase of 15.82% as compared with the beginning of the year; the total assets under management from private banking customers amounted to RMB509.8 billion, representing an increase of 17.41% over the beginning of the year. During the reporting period, the Company established one new private banking center in Changsha city which brought the total number of private banking center to 30, covering major economic regions in China.

In addition to the "Family Office" targeting at ultra-high-net-worth customers, launched in China in August 2012, during the reporting period, the Company further introduced the "Wealth Inheritance Family Office" aiming at niche markets and became the first domestic private bank to make breakthrough in the "Family Trust" (namely wealth inheritance trust) business. The "Family Office", as a premium version of private banking service, further enhanced our capabilities in meeting the comprehensive and complicated demands of high-end and ultra-high-end customers.

In addition, during the reporting period, the Company also issued the "China Private Wealth Report for 2013", giving detailed analysis on popular investments in recent two years. The report demonstrates an in-depth knowledge of domestic private wealth market, high-net-value individuals and private banking, and directly reflects the investment appetites and features of domestic private wealth market and high-net-value individuals in recent years, as well as the changes and future development trends of domestic private banking industry.

Bank card business

All-in-one Card

During the first half of 2013, the Company further expanded its retail customer base. In adherence to the customer-centric concept, and with an aim to cater to the customers' needs. The Company endeavored to satisfy new customers especially those in the starting period, launched the "All-in-one Card" M+ cards targeting at younger generations, vigorously promoted the circulation of financial IC cards, consolidated the resources of merchant offers, expanded the "Using All-in-one Card to Enjoy Numerous Merchant Offers" merchant offers platform, proactively carried out the joint marketing activities of cross-industry brands, and constantly cultivated the card-using habits of customers. As a result, the Company further enhanced its customer loyalty and achieved a continuous and stable growth in All-in-one Card transactions.

As at 30 June 2013, a cumulative total of 64.77 million All-in-one Cards were issued. The total deposit balance of All-in-one cards was RMB758.475 billion, accounting for 78.82% of the total retail deposits. The average balance per card amounted to RMB11,700, up by RMB1,165 as compared with the beginning of the year. For the first half of the year, the transaction value of All-in-one Cards via POS amounted to RMB266.6 billion, up by 49.61% year-on-year.

Credit cards

In the first half of 2013, the Company adhered to the guiding principle of "Deepening Management Reform and Speeding Up the Second Transformation", actively catered to demands and responded to the changes in the external environment, and maintained a balance between profit growth, continuous innovation and customer experience so as to establish a sustainable business structure and build a differentiated competitive edge of CMB credit cards.

During the reporting period, the overall credit card business of the Company maintained a good momentum of growth. In respect of products and services, the Company steadily promoted the project of mobile service platform, constantly improved the efficiency of customer acquisition, and enhanced customer experience in application process. The Company launched GQ (Zhizu 智族) co-branded credit card products to attract valued customers, and promoted tourism-based marketing with the themes of "Extraordinary Hong Kong" (非常香港), "Extraordinary USA" (非常美國), and "Extraordinary Europe" (非常歐洲) to build the brand of choice for customers' consumption and payment abroad. The Company capitalised on new technologies in an innovative way to optimise the functions of "CMB Life (掌上生活)", the mobile user application, to build the best toolbox for credit cards. The Company also pioneered in launching smart "Customer Service at Weibo" to innovate the smart communication channel with customers. In respect of risk management and control, by strengthening our risk prevention system, improving risk pre-warning mechanism, promoting optimisation in asset structure and accelerating the disposal of non-performing assets, the loan quality of our credit card business remained stable and a reasonable risk asset structure was maintained.

As at the end of the reporting period, the Company issued 47.68 million credit cards in total with 23.44 million active in use. The cumulative transaction value of credit cards for the first half of 2013 was RMB418.0 billion and the average transaction value per month of each active card was RMB3,064. The percentage of revolving balances of credit cards was 33.17%, up by 1.44 percentage points as compared with the end of the previous year. Interest income from credit cards amounted to RMB3,896 million, an increase of 36.13% over the corresponding period of the previous year. Non-interest income from credit cards was RMB3,468 million, an increase of 42.42% over the corresponding period of the previous year.

Retail loans

During the first half of 2013, the Company further strengthened the development of its small and micro-sized customers, deepened the comprehensive operation of small and micro-sized customer base, vigorously developed the small and micro-sized loan business, and fully improved the risk pricing capability to realise higher capital return on its retail loans, thus significantly enhancing the profitability of its retail loan business. The creditworthiness and solvency of certain individual customers deteriorated due to the macro-economic downturn, resulting in the increase of non-performing loans. However, given that the vast majority of such new non-performing loans were fully secured by collaterals, the possibility of sustaining eventual losses on such loans is slim. As at 30 June 2013, our total retail loans amounted to RMB737.647 billion, representing an increase of RMB65.747 billion as compared with that at the end of the previous year, among which, our loans extended to small and micro enterprises amounted to RMB255.112 billion, representing an increase of 44.02% as compared with that at the end of the previous year, which accounted for 34.58% of our retail loans, up by 8.22 percentage points as compared with that at the end of the previous year. Non-performing loan ratio was 0.59%, up by 0.11 percentage point as compared with that at the end of the previous year.

Retail customer deposits

Our retail banking business focuses on meeting customers' demands in wealth management, consumer finance, and loan facilities. With three mainstays, namely, the small and micro-sized enterprise business, mass customer base and wealth management, the Company has effectively expanded and stabilised sources of deposits, and developed its retail business rapidly. As at the end of June 2013, the total retail customer deposits of the Company amounted to RMB962.288 billion, up by 11.41% against the end of the previous year, of which the demand deposits accounted for 59.30% of the total retail customer deposits. The total retail customer deposits accounted for 35.86% of the Company's total deposits.

Retail customers

During the first half of 2013, the Company continued to optimise its retail customer business strategies and consolidate and expand its retail customer base, thereby laying a solid foundation for the rapid development of its retail business. As at the end of the reporting period, the number of our high-value retail customers kept growing at a fast pace. The total number of retail customers was 56,530,000, of which the total number of Sunflower-level or above customers was 1,000,000, representing an increase of 9.76%. The balance of total deposits from Sunflower-level or above customers was RMB452 billion. The balance of total assets under management from our Sunflower-level or above customers amounted to RMB1,870.4 billion, representing an increase of 11.87% as compared with that at the beginning of the year, accounting for 72.12% of the balance of total assets under management from our retail customers. In addition, the Company opened 54 new wealth management centers, thereby further raising our professional service level and expanding banking service network for middle to high-end customers.

3.11.2 Wholesale banking

Business overview

The Company provides corporate customers, financial institutions and government agencies with a wide range of high quality wholesale banking products and services. During the first half of 2013, the Company operated its wholesale banking business in strict compliance with the requirements of the "Second Transformation", thereby facilitating the rapid and healthy development of its various businesses. According to the classification standards set out in the "Notice on Issuing the Provisions on the Classification Standards for Small and Medium-sized Enterprises" (《關於印發中小企業劃型標準規定的通知》) (Lian Qi Ye [2011] No. 300) (the "National Standards") promulgated by the Ministry of Industry and Information Technology, the total amount of loans extended to domestic small and medium-sized enterprises increased by 15.82% as compared with that at the end of the previous year, up by 3.91 percentage points as compared with its proportion to total domestic corporate loans at the end of the previous year. The Company fully promoted the "Qian Ying Zhan Yi (千鷹展翼)" plan, with an increase of 69.53% in the number of customers as compared with that at the beginning of the year. The Company's key performance indicators of offshore businesses (such as offshore deposits and offshore net non-interest income) continued to hold the largest market share of domestic offshore banking market (based on information exchange among banking peers). The Company is the only joint-stock commercial bank receiving the "Grade-A Bank for Implementation of Foreign Exchange Regulations" award from the State Administration of Foreign Exchange for the third consecutive year, and the first Chinese member enlisted as the "Best Export Factoring Providers" by the Factors Chain International (FCI). In addition, the Company's assets custody business won the "Best Custody Bank in China" award by *The Asset* for the fourth consecutive year, and its cash management, corporate wealth management, new "Cross-border Finance" service, investment banking and other businesses continued to grow rapidly and have gained market recognition.

During the first half of 2013, as for its wholesale banking business, the Company continued to optimise the pricing mechanism and system construction, comprehensively improved its risk pricing capability, and strove to establish new profitability mode. During the reporting period, with respect to its wholesale banking business, the Company posted RMB28.751 billion in net interest income, representing a year-on-year increase of 5.07%; net non-interest income amounted to RMB6,777 million, representing a year-on-year increase of 2.98%; net operating income was RMB35.528 billion, representing a year-on-year increase of 4.67%, and accounting for 58.33% of the net operating income of the Company; profit before tax amounted to RMB22.487 billion, accounting for 68.41% of profit before tax of the Company.

Corporate loans

Corporate loans of the Company include working capital loans, fixed asset loans, trade finance loans and other loans, such as merger and acquisition loans and corporate mortgage loans. As at 30 June 2013, total corporate loans of the Company were RMB1,128.869 billion, representing an increase of 9.22% as compared with the end of the previous year and accounting for 58.65% of total customer loans. Among them, the balance of the medium to long-term loans to domestic enterprises amounted to RMB361.246 billion, a decrease of 1.68 percentage points as compared with the end of the previous year, accounting for 33.54% of the total loans to domestic enterprises. The non-performing loan ratio of our corporate loans was 0.92%, an increase of 0.13 percentage point as compared with the end of the previous year, which was mainly due to the weaker debt repayment ability of enterprises as a result of the economic downturn.

During the first half of 2013, the Company further optimised the structure of corporate loans, gave priority to industries undergoing structural upgrading, traditionally competitive industries, the strategic emerging industries, modern service sectors, and green 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. As at 30 June 2013, the balance of green credit loans (based on the green loan classification determined by the CBRC in March 2013) was RMB111.2 billion, representing an increase of RMB1,653 million as compared with that at the end of the previous year, which accounted for 9.85% of the total corporate loans of the Company. The balance of our loans to strategic emerging industries amounted to RMB50.731 billion, which accounted for 4.49% of the total corporate loans of the Company, up by RMB808 million as compared with that at the end of the previous year.

During the first half of 2013, the Company proactively promoted the rapid and healthy development of its SME business. According to the national standards, the total balance of loans extended to domestic small and medium-sized enterprises amounted to RMB605.344 billion as at 30 June 2013, representing an increase of 15.82% as compared with that at the end of the previous year, and accounting for 56.21% of our total domestic corporate loans. The non-performing loan ratio of the loans extended to small and medium-sized enterprises was 1.46%, up by 0.19 percentage point from that at the end of the previous year.

Syndicated loans

During the first half of 2013, 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 2013, the balance and management fee income of syndicated loans amounted to RMB65.985 billion and RMB31.58 million, respectively.

Discounted bills

During the first half of 2013, after taking overall consideration of its total credit, liquidities, gains and risks, the Company effectively allocated and promoted its discounted bills business. As at 30 June 2013, the balance of discounted bills amounted to RMB58.311 billion, an increase of 5.83% as compared with that at the end of the previous year, accounting for 3.03% of total customer loans.

Corporate customer deposits

During the first half of 2013, the Company's corporate customer deposits maintained a sound growth momentum. As at 30 June 2013, the balance of corporate customer deposits amounted to RMB1,721.487 billion, representing a year-on-year increase of 10.16%, accounting for 64.14% of the total customer deposits; while its daily balance amounted to RMB1,553.086 billion, representing a year-on-year increase of 13.43%.

The Company focused on enhancing the returns on corporate customer deposits. By vigorously developing innovative services such as online corporate banking and cash management, the Company constantly improved the quality of marketing activities and expanded the sources of deposits, thus bringing in a large amount of low cost corporate customer deposits. Meanwhile, in line with market changes, liquidity management, and other needs, the Company absorbed an appropriate portion of deposits with longer maturities, and further optimised the structure of corporate customer deposits. As at 30 June 2013, demand deposits accounted for 48.97% of total deposits from our corporate customers, 1.46 percentage points lower than that at the end of the previous year.

"Qian Ying Zhan Yi" Program

Since the official launch of the "Qian Ying Zhan Yi (千鹰展翼)" program to nurture innovative emerging enterprises in October 2010, the Company continues to make innovations in marketing methods, product support, service channels, and technical means for the program, and is committed to building a new brand which is distinguished by an "equity financing plus bond financing" mode designed to support innovative small enterprises.

As at 30 June 2013, the total number of innovative emerging enterprises served under the "Qian Ying Zhan Yi" program was 12,852, representing a surge of 69.53% as compared with that at the end of the previous year. Loan balance was RMB110 billion, representing an increase of 68.20% as compared with that at the end of the previous year. The Company has licensed to establish 77 "Qian Ying Zhan Yi Innovative Sub-branches" across the country to serve innovative emerging enterprises in the program.

In the future, the Company will further explore and nurture innovative emerging enterprises, license to establish 100 "Qian Ying Zhan Yi Innovative Sub-branches" across the country in the next one to two years as the incubators for technologically innovative and growth enterprises, continue to enhance corporation with domestic and international private equity institutions to expand cooperative scope, and promote innovation in financial products and services.

Settlement and cash management business

Cash management business is of fundamental and strategic importance to coping with the challenge of liberalised interest rate. The cross-bank cash management products and online supply chain finance service of the Company generated higher overall yields and have enjoyed a leading position in the industry. The Company provided various types of customers with all-inclusive, multi-model, and integrated cash management services, contributing to the acquisition and retention of customers, acquisition of low cost corporate settlement related deposits, and the cross-sales of other corporate and retail products. As at 30 June 2013, the total number of customers using cash management services reached 265,044. The fundamental cash management business sustained healthy development with cross-bank cash management product being applied by more than 300 conglomerates with more than 10,000 companies under management. With a firm grip on core customers on the industrial chain, the financial transaction value from the electronic supply channel increased rapidly over RMB500 billion during the year. The number of customers on the financial e-commerce platform has exceeded 10,000. The balance of deposits from cash management customers without loans exceeded RMB700 billion, accounting for over 70% of deposits from the Company's customers without loans. Percentage of deposits from small enterprises without loans and using cash management services increased steadily. In the first half of 2013, intermediary business income from cash management business amounted to RMB760 million, representing a year-on-year increase of 79.46%.

With regard to online corporate banking business, the Company has established the domestically leading e-banking channels with low cost cross-sales capability and high replacement ratio. The online platform integrated the products and services of wholesale banking businesses including account management, payment and settlement, online borrowing, trade finance and investment appreciation. As at 30 June 2013, the number of online corporate customers increased steadily to a total of 262,688, representing an increase of 14.17% as compared with the end of the previous year. Among the online corporate banking customers, active customers have become the mainstream users of our online banking, which have effectively lowered the costs of the whole bank. As at 30 June 2013, the Company had more than 60,000 small corporate customers handling all their settlement transactions online, completing a total of 3.45 million transactions with an aggregate amount of over RMB800 billion during the year. The actual usage of U-BANK, an online corporate banking platform by our small enterprise customers was further strengthened, with the number of small enterprises using the U-BANK service exceeding 210,000 and the volume of settlement transactions amounting to 11.17 million during the year, accounting for 47.63% of the total transactions via online corporate banking services across the Company. Our online corporate bank, as an important channel for products sales, has become profitable with strong sales capability. It effectively bolstered the development of wholesale banking businesses across the Company.

As for corporate card business, through coordinated marketing of retail and corporate lines, the Company had issued a total of 73,364 corporate cards during the year as at 30 June 2013. Intermediary business income from corporate cards amounted to RMB51,765,900 in the first half of 2013, representing an increase of 17.91% over the same period of the previous year, among which, non-interest income from domestic transactions amounting to RMB36,073,000, non-interest income from overseas transactions amounting to RMB9,031,900 and intermediary business income from the business travel platform amounting to RMB6,661,000.

As for the settlement business of funds under custody, the Company proactively expanded its settlement business of funds under custody when the rectification actions in commodities and emerging trading markets was drawing to a close, the "Measures for the Custody Service of Reserve Funds for Non-financial Institutions" was introduced and the "Policy on Custody Service for Funds Received in Advance from Single-purpose Prepaid Card " was implemented. As at 30 June 2013, the balance of deposits in the Company from exchanges, payment institutions and issuers of single-purpose cards totaled RMB14.159 billion, representing an increase of RMB359 million as compared with that at the beginning of the year. Income from this business amounted to RMB158 million, representing a year-on-year increase of 9.19%.

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 2013, the sales of our corporate wealth management products totaled RMB649.6 billion, representing a year-on-year increase of 13.90%, and realising an income of RMB637 million from the sales of corporate wealth management products, representing a substantial year-on-year increase of 176.96%.

With respect to the asset custody business, in the first half of 2013, the Company enhanced its effort in marketing high yield custody products and achieved record high income from custody fees and assets under custody despite the declining stock markets in China. The Company's custody business recorded an income of RMB521 million, representing an increase of 48.86% over the previous year. The balance of assets under custody was RMB1,442.079 billion, representing a year-on-year increase of 58.86% and daily average deposits under custody was RMB25.558 billion.

International business and offshore business

As for international business, the Company has utilised its unique advantage of cross-border finance to innovate products and services, especially "Shang Mao Tong (商貿通)", "Zi Ben Tong (資本通)", "Cai Fu Tong (財富通)", cross-border RMB settlement, and trade finance for small and micro enterprises. Among them, "E Hui Tong (E匯通)" is the first of its kind in China to enable online corporate banking customers to both buy and sell foreign exchange. Meanwhile, the trade finance product of "Small and Micro Enterprise Xin Bao Yi (小微企業信保易)" has been the most widely used credit insured trade finance product according to the statistics from China Export & Credit Insurance Corporation. As at 30 June 2013, balance of our cross-border foreign currency deposits reached US$23.515 billion, representing an increase of 5.92% as compared with that at the beginning of the year. The business volume of each of our two featured products, namely international factoring and forfeiting grew by more than 100% over the same period of the previous year. The Company completed international settlements of US$187.579 billion. Other figures include cross-border Renminbi settlements of RMB124.803 billion, foreign exchange settlements of US$59.021 billion, accumulated trade financing of US$17.598 billion and international factoring of US$5,788 million. The non-interest income from international business amounted to RMB1.922 billion, representing a year-on-year growth of 31.76% according to the same statistical caliber.

With regard to offshore business, as at 30 June 2013, the number of offshore customers reached 23,700, representing an increase of 6.76% from the beginning of the year. Deposits from offshore customers amounted to US$8,404 million, representing an increase of 33.65% from the beginning of the year. Offshore trade financing balance reached US$3,405 million, representing an increase of 35.23% from the beginning of the year. Asset quality remains sound with neither new overdue loans nor new non-performing loans. The non-interest income reached US$52,695,500, representing an increase of 17.03% from the previous year.

Financial institutions business

With regard to businesses with financial institutions, the Company focused on expanding its inter-bank cooperation channels; optimised the structure of over-the-counter inter-bank lending and borrowing business to improve profitability; seized the opportunity of RMB internationalisation to put more effort in marketing through cross-border RMB inter-bank collaboration; and promoted the sustained and rapid growth of its precious metal leasing business. As at 30 June 2013, the balance of inter-bank placements from other financial institutions reached RMB344.566 billion, representing an increase of 36.12% 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, credit assets purchased for resale and beneficial rights transfer amounted to RMB137.693 billion as at the end of the reporting period, representing a decrease of 48.35% as compared with that at the beginning of the year. The balance of funds under third-party custody amounted to RMB44.238 billion. As for third party custody business, the Company had a total of 3,860,000 clients. The Company recorded a sales value of RMB68.930 billion in respect of wealth management products sold through inter-bank channels. The amount of inter-bank cross-border RMB clearing service reached RMB128.916 billion in value, while the total number of clearing accounts totalled 59. As for margin trading and short selling business, the Company maintained business cooperation with 49 securities firms including 6 newly added ones; and the volume of precious metal leasing with customers amounted to 20.56 tons, representing an increase of 106.63% as compared with the corresponding period of the previous year.

Investment banking

With respect to investment banking business, the Company aggressively developed underwriting business for debt financing instruments with a focus on the ultra short-term financing bonds and instruments issued through private placement, and actively expanded high-end financial advisory business including M&A advisory business, refinancing of listed companies and structured financing. As at 30 June 2013, a total income of RMB1,139 million from the investment banking business was achieved, representing a year-on-year increase of 74.43%. The debt financing instruments underwritten by our investment banking department amounted to RMB73.421 billion, representing a year-on-year increase of 30.18%. There were 108 bonds underwritten by the Company, representing a year-on-year increase of 45.95%.

Wholesale customers

As at 30 June 2013, the Company has developed 516,100 corporate depositors and 40,200 corporate borrowers, including 68,251 wholesale high-net-worth customers (wholesale customers with overall contribution to the Company of more than RMB100,000), representing an increase of 5.02% as compared with that at the end of the previous year.

3.11.3 Financial Market Business

Operating strategy

RMB investment business: As China's economic growth is slowing down, inflation is lower than expected while enterprises' "destocking" continues; high level of social financing has not resulted in a significant increase in aggregate demand, and the regulation and rectification on financing and wealth management market has caused an universal effect of "deleveraging". All these have led to gradually tightening funds. Under such background, the Company, after making an intensive study of the situation in the domestic market, grasped the trend of local-currency bond market and formulated its investment plan in a scientific way. Firstly, the Company "progressively handled longer duration portfolio", increased investments in medium to long-term bonds with maturity of 5 years or above, and moderately controlled its investment pace in line with the macro-economic trend and policies. In addition, for the purpose of risk prevention, the Company prioritised its investments in government bonds, policy financial bonds, and the credit bonds with good credit standing. As at the end of the reporting period, the balance of the Company's RMB bonds was RMB471.526 billion, with a duration of 3.3 years. Among them, our total investments in government bonds and policy financial bonds accounted for 69%. Secondly, by capitalising on the opportunities of fluctuations in interest rates and credit spreads, the Company proactively adjusted the structure of its debt portfolios and constantly optimised portfolio management to increase the level of earnings. The annual yield rate of the Company's RMB debt portfolios reached 4.02%; Thirdly, the Company aggressively exploited important customers such as local quality enterprises and participated in the underwriting and sub-underwriting of their bonds issued in the primary market.

Foreign currency investment: After a new round of global interest rate cuts, the US economy stood out with relatively powerful recovery, and an exit plan of quantitative easing was beginning to emerge. In the meantime, the European economy was still in the doldrums and Japan launched its aggressive stimulus policies which would significantly enlarge the volatility of the global financial markets. The Company seized opportunities to implement stable operation based on its judgment on the international market. This has laid a good foundation for the fulfillment of the Company's annual investment plan. Firstly, the Company had a prudent investment strategy in place and the investment pace was appropriately controlled. Except for the exchange fund bills issued by the Hong Kong Monetary Authority for liquidity management, new investments were mainly made in high-quality credit bonds issued by Chinese and Hong Kong companies while the duration of new investments has been properly controlled. At the same time, the Company actively participated in the spread transactions of newly issued bonds and range trading operation to realise interest spread gains. Secondly, the Company proactively developed derivative business to increase returns of debt portfolio. As at the end of the reporting period, balance of the Company's foreign exchange bonds amounted to US$3,061 million, of which US$1,233 million was attributable to the exchange fund bills issued by the Hong Kong Monetary Authority.

Business development

As for traditional wealth management business, 1,815 wealth management products were launched with a total sales value of RMB2,500 billion, representing a year-on-year increase of 22.55%. Balance at the end of the period was RMB399.937 billion, representing an increase of 8.05% over the beginning of the year. Daily average balance was RMB538.828 billion, representing an increase of 46% as compared with that in the corresponding period of the previous year.

As at the end of June 2013, the Company's proprietary investments reached RMB595.128 billion, representing an increase of 17.81% as compared with the beginning of the year.

3.11.4 Distribution channels

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

Physical Distribution Channels

The efficiently-operated outlets of the Company are primarily located in China's economically developed regions such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, and some large and medium cities in other regions. As at 30 June 2013, the Company had 105 branches, 867 sub-branches, 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 2,190 self-service centers, and 9,116 cash self-service machines (including 2,593 automatic teller machines and 6,523 cash recycle machines) in more than 110 cities of Mainland China, and a wholly-owned subsidiary, CMB Financial Leasing. The Company also has a number of wholly-owned subsidiaries including Wing Lung Bank Ltd. and CMB International, and a branch in Hong Kong; a branch and a representative office in New York, the United States; a representative office in London and Taipei respectively; and a branch in Singapore still under construction.

E-banking Channels

The Company attaches great importance to developing and improving e-banking channels such as online banking, direct banking and mobile banking and have effectively relieved the pressure on outlets of the Company. In the first half of 2013, the overall counter replacement ratio in respect of retail e-banking channels reached 91.85%, representing an increase of 1.19 percentage points over the previous year and overall counter replacement ratio in respect of corporate e-banking channels reached 57.49%; whereas it was 90.27% in respect of transaction settlement using online corporate banking services, representing an increase of 5.09 percentage points and 1.80 percentage points respectively.

Online banking

The Company's retail online banking business continued to grow rapidly in the first half of 2013, due to substantial growth of the customer base and increasing transaction activities of customers. As at 30 June 2013, the number of active users of the retail online banking professional edition of the Company reached 13,836,900, and the relevant replacement ratio in respect of retail online banking was 88.23%, representing an increase of 2.22 percentage points as compared with that in the previous year. The total cumulative number of retail online banking transactions was 491,329,600, up by 51.92% as compared with that in the previous year; and the accumulated transaction amount was RMB9,127.071 billion, up by 26.36% as compared with that in the previous year. Specifically, the accumulative number of online payment transactions was 378,134,400, up by 53.35% as compared with that in the previous year; and the accumulative amount of online banking transactions was RMB170.592 billion, up by 72.20% as compared with that in the previous year.

In the past few years, U-BANK, the online corporate banking platform of the Company, achieved comprehensive development at a rapid pace, with the customer base being constantly solidified and the efficiency of channels being constantly enhanced, and thus has become an efficiently operated channel connecting the majority of customers across various wholesale banking areas, evolving toward a tool for customer management, value exploitation, cross-selling and industry extension. As at 30 June 2013, the accumulated number of transactions done through U-BANK was 23.45 million, up by 16.09% as compared with that in the previous year. The accumulated transaction amount was RMB15,290 billion, an increase of 32.15% as compared with that in the previous year.

Direct banking

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

In the first half of 2013, the number of transactions conducted through direct banking reached 3,639,600 and the transaction value amounted to RMB416.115 billion, up by 20.59% as compared with that in the previous year. The sales of various types of funds (including money market funds), trust and wealth management products amounted to RMB173.149 billion, up by 38.48% from the same period of the previous year. The total loans granted through "Online Loan" amounted to RMB9.794 billion, representing an increase of 652.81%.

Mobile banking

The personal mobile banking service of the Company continued to maintain a rapid growth in the first half of 2013 and was awarded the "Best Mobile Banking in China" by *The Asian Banker*. In addition, the Company became the first domestic bank to launch new concept services called "Weixin smart customer service", "Weixin Banking" and "online smart customer service". The mobile banking vigorously expanded its service scope to forge a smart integrated service platform that incorporates debit card and credit card services, for all mobile banking users. As at 30 June 2013, the number of downloads of mobile phone applications exceeded 10 million. Our developments were drastic in terms of mobile banking user groups, transaction value, and mobile payment. The total number of mobile banking contracts signed reached 12,434,000 (among which, the number of active customers reached 4,237,900), up by 28.65% from the beginning of the year; the cumulative transactions amounted to 17,222,800 (excluding mobile payment), up by 358.93% as compared with the same period of the previous year; and the accumulated transaction value reached RMB420.800 billion, up by 228.49% as compared with the same period of the previous year. The aggregate number of mobile payment amounted to 69,961,000, up by 413.87% as compared with the same period of the previous year; and the cumulative transaction volume was RMB12.719 billion, up by 248.85% as compared with the same period of the previous year. The accumulated number of transactions and transaction volume of both mobile banking business and mobile payment exceed those recorded in 2012.

3.11.5 Overseas businesses

Hong Kong Branch

The Company established its Hong Kong Branch in 2002, which is principally engaged in wholesale and retail banking. In particular, wholesale banking services provided by Hong Kong Branch include loans and deposits, remittance, factoring, international trade facilities and settlement, syndicated loans as a leader or a participant, inter-bank transaction of funds, bonds and foreign exchange trading. Retail banking mainly includes cross-border electronic banking services for individual customers in Hong Kong and Mainland China. The featured products are the "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express". The cardholders of "Hong Kong All-in-one Card" can withdraw cash from ATM and swipe cards via POS through "China UnionPay", "Hong Kong JETCO" and "EPS" in Hong Kong, Mainland China and overseas, and enjoy on-the-counter and online remittance services at home and abroad. 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 2013, the Hong Kong Branch seized opportunities of business coordination between Hong Kong Branch and branches in Mainland China to improve operation and management like product innovation, creation of files for VIP customers, cross-marketing, and formulating pricing strategies for deposits acquisition. To cope with the increasing stringency of local regulatory requirements, Hong Kong Branch strengthened compliance management. It built an anti-money laundering system and improved the anti-money laundering workflow. Meanwhile, it enhanced the confidentiality of customer information and provided a more secure transaction platform for customers through system upgrade and gradual replacement of chip cards for All-in-one Card customers.

In the first half of 2013, the Hong Kong Branch realised operating income of HK$643 million, up by 35% as compared with the same period of the previous year; among which, net interest income of HK$375 million, net non-interest income of HK$268 million, and operating profit of HK$557 million, up by 38% as compared with the same period of the previous year.

New York Branch

Established in 2008, the New York Branch of the Company is positioned as a bank committed to facilitating economic and trade cooperation between China and the U.S. It provides tailored services for Chinese companies "going global" and US enterprises investing in China. In addition, our New York Branch also acts as a showcase and platform in improving our internationalisation and global service capabilities. Its services include corporate deposits, corporate loans, project financing, trade financing, merger and acquisition financing, financial advisory, and cash management.

In the first half of 2013, our New York Branch realised an operating income of US$22.31 million, including net interest income of US$7.43 million, and intermediate business income of US$14.88 million, representing a cost-to-income ratio of 26.53%.

3.11.6 Information technology and research & development

During the reporting period, the Company continued to improve and invest in its IT infrastructure, so as to provide strong technological support for the "customer-centric" management reform and business development. Firstly, we continued to improve our IT management system, and made improvement in organisation, development, operation, and safety management. Secondly, we strengthened product and service innovation in key areas and completed 870 development projects in the first half of 2013. For example, the Company gradually launched third-generation system project group in separate versions, initiated the implementation plans for the next-generation data warehouse platform; released combo financial products with mobile banking and mobile wallet features and recorded more than 10 million downloads of mobile banking and PAD banking applications; introduced Weixin banking system based on internet socialisation concept; released corporate online banking (UBANK8 version), a new business service accessible via the Small Business E Home(Trial) platform; promoted financial IC cards and social security IC cards within the Bank, opening up additional potential for cross-trade cooperation; accelerated branch data applications by relying on business systems to achieve full coverage of information management applications. Thirdly, the Company prioritised information technology operation and management, improved the business continuity mechanism, upgraded the financial services level. During the reporting period, our bank-wide information system was stable, outperforming our peers in terms of indicators provided by UnionPay.

3.11.7 Wing Lung Group

3.11.7.1 Profile of Wing Lung Bank

Wing Lung Bank, founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with prudence, service with sincerity" in providing personalised and sincere services to the public. The principal operations of Wing Lung Group comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities brokerage, asset management, wealth management services, insurance business, financial lease, property trustee, and nominees service. As of 30 June 2013, the registered capital of WLB was HK$1.5 billion.

3.11.7.2 Overall operation overview of Wing Lung Group

For the period ended 30 June 2013, profits attributable to the shareholders of Wing Lung Group was HK$1.291 billion, representing an increase of 25.02% as compared with the corresponding period of 2012 (as restated), which was mainly attributable to a year-on-year increase of HK$164 million in operating income from its major businesses, and substantial increase in the value of investment properties which resulted in a year-on-year increase of HK$215 million in gains on the fair value of investment properties to HK$265 million in the first half of the year. During the first half of 2013, Wing Lung Group recorded a net interest income of HK$1.360 billion, representing a year-on-year increase of 7.53%, which was mainly attributable to the increase in loan amount; the net interest margin for the first half of 2013 was 1.52%, down by 5 basis points as compared with that for the year of 2012. Net non-interest income was HK$651 million, representing an increase of 11.76% as compared with the corresponding period of 2012. Net fees and commission income amounted to HK$315 million, representing an increase of 47.62% as compared with the corresponding period of 2012, primarily attributable to the increase in the income from securities brokerage, investment services, and loan services. Insurance business posted net operating income of HK$66.53 million, representing an increase of 15.27% as compared with the corresponding period of 2012, primarily due to steady improvement in the operation performance of Wing Lung Insurance Company Limited ("Wing Lung Insurance"). However, net trading gains decreased by 18.14% to HK$159 million, primarily due to the net loss arising from the financial instruments through profit or loss at fair value and the decrease in net gain from foreign exchange trading. Mainly due to the increase of total loans, the impairment charge for credit losses increased by HK$22.53 million year-on-year to HK$32.07 million. However, the non-performing loan ratio was lower than that in the corresponding period of 2012. Operating expenses amounted to HK$760 million, representing an increase of 16.71% as compared with the corresponding period of 2012, primarily due to the increase in payroll, depreciation, rental of premises, and system consultancy fee, etc. The cost-to-income ratio for the first half of 2013 was 37.77%, representing an increase of 2.54 percentage points as compared with the corresponding period of 2012.

As at 30 June 2013, the total assets of Wing Lung Group amounted to HK$210.936 billion, representing an increase of 17.98% as compared with that at the end of 2012 (as restated). Total equity attributable to shareholders amounted to HK$18.253 billion, representing an increase of 7.31% as compared with that at the end of 2012 (as restated). Loan-to-deposit ratio was 64.83%, up by 1.88 percentage points as compared with that at the end of 2012. As at 30 June 2013, the total capital ratio and tier 1 capital ratio of Wing Lung Group were 13.83% and 9.08%, respectively, and the average liquidity ratio for the reporting period was 40.61%, all above statutory requirements. For detailed financial information on Wing Lung Group, please refer to the 2013 interim results of Wing Lung Bank ("WLB"), which is published at the website of WLB (www.winglungbank.com).

Deposits

As at 30 June 2013, total deposits of Wing Lung Group grew by 9.16% to HK$144.195 billion as compared with that at the end of 2012.

Among the various kinds of deposits, Hong Kong Dollar deposits increased by HK$651 million or 0.90%; US Dollar deposits after translation increased by HK$8.489 billion or 39.53%; RMB deposits after translation rose by HK$3.057 billion or 13.16%; and deposits in other foreign currencies after translation decreased by HK$95.88 million or 0.64%, as compared with those at the end of 2012.

Advances to customers

As at 30 June 2013, the balance of total advances to customers, including trade bills, of Wing Lung Group rose by 22.25% to HK$121.430 billion as compared with that at the end of 2012 and the non-performing loan ratio, including that of trade bills, was only 0.11%, implying a sound loan quality on the whole.

Investments

As at 30 June 2013, the balance of Wing Lung Group's debt securities investment amounted to HK$28.552 billion, representing an increase of 47.16% as compared with that at the end of 2012. 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$20.086 billion. Approximately 77% of the foreign currencies (including Hong Kong dollar) debt securities were rated A3 or above and were therefore exposed to relatively low risks.

Treasury business

In the first half of 2013, WLB cooperated with China Merchants Bank to conclude a number of foreign currency transactions and, for the purpose of providing a variety of services, actively offered currency swap contracts for corporate customers in response to market conditions and customer demands, which led to a year-on-year increase of 18.86% in revenue from foreign exchange trading business to HK$52.23 million. In addition, revenue from foreign money exchanges increased by 8.53% to HK$36.30 million as compared with the corresponding period of 2012. However, revenue from currency swaps decreased by 41.38% to HK$50.70 million.

Financial institution business

As regards the banking businesses with financial institutions, WLB actively contacted existing customers and developed new customers, constantly introduced new products, cooperated with its peers in credit extension, cross-border trade finance, customer referrals, settlements and other services, expanded the cooperation scope of export payment services, cross-currency forfeiting and unfunded risk participation, increased asset operation and transfer channels, and broadened the scope of cooperation with domestic small and medium-sized banks, thereby facilitating the balanced development of its businesses with financial institutions.

Wealth management

During the first half of 2013, revenue from Wing Lung Group's wealth management business amounted to HK$36.32 million, representing a year-on-year increase of 67.20%, mainly due to the increase of fund-related commission income resulted from the introduction of effective investment strategies for sales promotion and the popularity of the incentives offered for fund investments.

Credit cards

WLB issued more than 250,000 credit cards as at 30 June 2013. The credit card receivables amounted to HK$303 million, representing a decrease of 25.98% as compared with the end of 2012 due to intense competition in personal loan business. However, the merchant business turnover amounted to HK$2.655 billion, representing a year-on-year increase of 35.09%, due to WLB's vigorous effort in promoting its merchant business and continuous growth in the Hong Kong consumption market.

Securities broking

During the first half of 2013, the Hong Kong stock market experienced a continuous fall in response to internal and external economic headwinds. However, it rebounded subsequently as the People's Bank of China announced to maintain the stability of monetary market and released liquidity to certain financial institutions until the end of this June, prompting institutional investors to make a large number of closing transactions, which was a boost to a slight increase in trading amounts. Faced with the grim market environment, Wing Lung Securities Limited was keen to promote various incentives. As a result, the number of newly opened accounts nearly doubled as compared with the corresponding period of 2012, and it realised securities brokerage commission and related income of HK$80.41 million, representing a year-on-year increase of 21.95%.

Insurance

During the first half of 2013, Wing Lung Insurance realised a gross premium income of HK$412 million, representing a year-on-year increase of 3.96%. Total insurance claims increased by 13.48% to HK$209 million. Underwriting business recorded a year-on-year profit growth of 14.50% to HK$27.81 million.

Branch network

At present, WLB has a total of 44 banking offices in Hong Kong.

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

Human resources

As at 30 June 2013, the total number of employees of WLB is 1,696, of which 1,502 are in Hong Kong, 139 in Mainland China, 38 in Macau, and 17 overseas.

3.11.7.3 *Progress of Integration with WLB*

In the first half of 2013, the Company continued to promote the integration of WLB in an active and steady manner, thus giving a strong boost to the sustainable and healthy development of all businesses of WLB and the enhancement of its profitability. Firstly, coordinated business grew rapidly and signs of synergies emerged. WLB has introduced "Quan Dai Tong" cross-border loan business in March 2013, and made the service of Account Opening Witnessed by CMB Manager available to all Diamond Private Customers across China. The construction of an offshore financial service platform for small and medium-sized banks has progressed smoothly, and WLB has signed business cooperation agreements with more than 20 domestic institutions. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with corporate deposits of HK$16.031 billion and corporate loans of HK$59.684 billion. The Company has successfully recommended individual customers to WLB with retail deposits of HK$3.037 billion and retail loans of HK$369 million, and the balance of total customer assets under management amounted to HK$5.848 billion. Secondly, internal management was strengthened continually and key competencies were gradually enhanced. The reform on the organisation management system of "Customer-centric" retail service of WLB was officially implemented and the process re-engineering of the Operations Centre has made remarkable progress. The electronic banking service capability has kept improving and Android App and Disaster data-recovery system construction have progressed smoothly. WLB has been implementing new Capital Accord steadily, with a continuous improvement in its performance management standard and financial management standard. Domestic branches of WLB have launched the new core systems and new general ledger system. Encouraging results were achieved 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.

3.11.8 CMB Financial Leasing

CMB Financial Leasing 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-sized equipment in manufacturing, electricity, transportation, construction and mining sectors, as well as financial leasing for domestic large enterprises and SMEs and overseas customers. It satisfies different needs of lessees in respect of procurement of equipment, promotion of sales, activation of assets, balance of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

As at 30 June 2013, CMBFL had a registered capital of RMB4 billion and 113 employees; total assets of RMB69.568 billion, up by 24.47% as compared with the end of the previous year; net assets of RMB6,396 million, up by 11.78% as compared with the end of the previous year. In the first half of 2013, it made a net profit of RMB675 million, up by 69.60% as compared with the same period of the previous year.

3.11.9 CMB International Capital

CMB International Capital 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 2013, CMBIC had a registered capital of HK$250 million and 77 employees.

In the first half of 2013, in light of market changes, CMBIC enhanced its coordination mechanism, made full use of its unique platform and prudently accelerated its sustainable development, resulting in improved business operations and internal control management. As at the end of June 2013, it had total assets of HK$885 million, and net assets of HK$653 million. In the first half of the year, it achieved an operating income of HK$271 million, representing an increase of 131.06%, and a net profit of HK$172 million, representing an increase 183.28% as compared with the same period of the previous year.

3.11.10 China Merchants Fund

China Merchants Fund was the first sino-foreign joint venture fund manager approved by China Securities Regulatory Commission. CMFM was established on 27 December 2002 with a registered capital of RMB210 million. As at the end of the reporting period, the Company had 33.4% equity interests in CMFM. For details about further acquisition of the equity interest in CMFM, please refer to Section 4.11.2. The businesses of CMFM include fund establishment, fund management and other operations approved by CSRC.

As at 30 June 2013, CMFM reported total assets of RMB892 million, net assets of RMB673 million, and a workforce of 203 employees. CMFM operated 32 open-ended mutual funds, 4 social security portfolios, 13 annuity portfolios, 29 private wealth management portfolios and 1 QFII portfolio. The total assets under management were RMB83.152 billion. In the first half of 2013, CMFM realised an operating income of RMB315 million and net profit of RMB80 million.

3.12 Risk Management

In recent years, the Company has implemented its Second Transformation based on the principles of comprehensiveness, professionalism, independence, and checks and balances, and accelerated the development of a risk management system that is focused on risk-adjusted value creation. In the first half of 2013, against the background of complicated and volatile economic environment at home and abroad and the increasing risks in bank operations, the Company continued to improve its comprehensive risk management system and proactively tackled and prevented various risks.

3.12.1 Credit risk management

Credit risk refers to risks arising from failure to fulfil the obligations by the borrowers or the counterparties under the negotiated terms and conditions. Credit risks borne by the Company were mainly from credit business, investment business, financing business and other businesses on and off balance sheet. The Company endeavors to formulate an advanced credit risk management system with independent functions, checked and balanced 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.

In the first half of 2013, the Company continued to enhance its credit risk management in terms of comprehensiveness, forward-looking and sensitiveness under the principles of “making full risk coverage, upholding the baseline, seeking changes through innovation and encouraging transformation”. To this end, the Company took the following initiatives: optimised the “customer-centric” process and established a new credit risk management system meeting the requirements of the Second Transformation across the Bank; innovated the small and micro enterprise businesses and products and sped up the optimisation of small and micro enterprise business processes; encouraged the healthy development of emerging financing business, growth companies in emerging industries and green loans while managing relevant risks; set limits on the extension of loans to local government financing platforms, real estate enterprises, the industries labelled as “high pollution, high energy consumption and overcapacity” and other risk-sensitive areas; conducted specific risk examination on photovoltaic, steel trade, shipbuilding and other sensitive industries to prevent the occurrence of systemic risks; optimised internal assessment tools and promoted the management and use of risk quantification results; officially implemented the 10-tier classification system across the Bank to strengthen the risk classification deviation management; and took various approaches to accelerate the disposal of non-performing assets. During the reporting period, the Company recorded an increase in its non-performing loans due to the impact of economic downtown at home and abroad. However, benefiting from the Company’s comprehensive countermeasures including risk mitigation, clearance and recovery of non-performing loans and accelerating the progress of writing off loss loans, the asset quality of the Company remained stable. For details of the Company’s loan structure, please refer to section “3.4 Loan quality analysis” in this report.

3.12.2 Country risk management

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

The Company incorporates country risk management into its overall risk management system, dynamically monitors the change in its country risk in accordance with relevant regulatory requirements, sets limit on its country risk based on the rating results from international rating agencies, and evaluates its country risk and makes provisions on a quarterly basis. As at the end of June 2013, the assets of the Company exposed to the country risks remained limited, which indicated low country risk levels. Moreover, we have made adequate provision for country risks according to the regulatory requirements; as a result, country risks will not have material effect on our operations.

3.12.3 Market risk management

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

In light of the development of internal management practices and the changes in external regulatory requirements, during the first half of 2013, the Company further refined its market risk management policies and procedures, developed its market risk management techniques, continuously optimised the risk measurement tools for various financial products, continued to improve the system related to the financial market business and market risk management of its domestic and overseas organisations, and strengthened the supervision on and direction to the market risk management of its subsidiaries and overseas branches.

In the first half of 2013, domestic economic growth momentum slowed down amid increased volatility in global financial markets. After intensive research on and updated tracking of economies, monetary policies, market liquidity and CPI movements at home and abroad, the Company developed corresponding investment strategies. At present, the Company's investment portfolios largely comprise bonds issued by the Chinese government, the People's Bank of China, Chinese policy banks, as well as leading Chinese enterprises and commercial banks with good credit ratings, on back of various favourable market risk indicators.

3.12.4 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, personnel, IT systems, or external events.

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

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

3.12.5 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 a reasonable cost.

Under the principle of keeping the formulation, implementation and monitoring functions of liquidity risk management policy separated, the Company established its liquidity risk management governance structure, specifying the roles and responsibilities of the Board of Directors, the Board of Supervisors, the senior management, special committees and related departments and to whom they shall report in the liquidity risk management for the effective liquidity risk management. The Company's cautious attitude towards liquidity risk is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems are in line with regulatory requirements and the Company's own management needs.

The Company's liquidity risk management was coordinated by the Head Office with the branches acting in concert. The Planning and Finance Department of the Head Office as a treasurer of the Company is in charge of routine liquidity risk management. Treasurer is responsible for managing liquidity on a prudent basis to meet regulatory requirement, and conducting global liquidity management through quota management, budget and control as well as internal funds transfer pricing, etc.

The Company measures, monitors and identifies liquidity risk for short-term reserves and duration structure and emergency purpose. It monitors the limit indicators closely at fixed intervals. Stress tests are used often to judge whether the Company is able to meet liquidity requirements under extreme circumstances. The Company has put in place liquidity contingency plans and organised liquidity contingency drillings to guard against any liquidity crisis.

In the first half of 2013, the market liquidity was loosened at first and then tightened. In June 2013, liquidity in the monetary market was extremely tightened and the market interest rate increased significantly. The Company also experienced certain liquidity pressure under the tightened market condition. Factors that caused the Company to experience liquidity pressure include significant decrease in deposits from customers, a large amount of deposits from other banks and financial institutions that was due in June 2013, the deposit to deposit reserve fund and the payment of dividends for A Shares. The Company has adopted various measures to tackle this liquidity crisis in monetary market and ensured sound liquidity of the whole bank. Firstly, the Company improved its FTP management and fine-tuning mechanism, so as to enhance the flexibility of its management under extreme market conditions. Secondly, the Company strengthened its overall management and control of fund, enhanced cash flow and balance management for investment activities, and strictly controlled the increase of assets of pure financing nature, so as to further broaden its financing channels and increase the amount of financing. In particular, the Company put in more efforts to increase deposits from other banks and financial institutions by rolling over mature inter-bank placements, and expanding scale of the placements. Thirdly, the Company promoted the irregular negotiations between treasury and business lines, to discuss its fund business strategies relating to liabilities from financial institutions. The Company also enhanced the propaganda and execution of its business strategies, further promoted the business of liabilities from financial institutions, so as to ensure the balanced development of the business of assets and liabilities from financial institutions, and thereby establishing the positive interaction between liquidity management and business with financial institutions, wealth management business as well as bill business.

In 2013, PBOC did not adjust the RMB statutory deposit reserve ratio. As at the end of June 2013, 18% (2012: 18%) of the total RMB deposits and 5% (2012: 5%) of the total foreign currency deposits of the Company were required to be placed with PBOC.

3.12.6 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.

The Company mainly adopts the scenario simulation analysis, re-pricing gap analysis, duration analysis, stress test among other methods to measure and analyse interest rate risk. The Group's monetary assets and liabilities are mainly in RMB. As the benchmark 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.

In the first half of 2013, the Company continued to manage its interest rate risk in a proactive and forward looking manner; and further improved various management measures for on-and-off balance sheet items, thus its interest rate risk showed a convergent trend. In respect of on-balance-sheet items, measures taken by the Company mainly include lengthening the duration of loans and debt investment and proactively taking liabilities with floating interest rates. In respect of off-balance-sheet items, the Company further promoted the hedging against interest rate risk, and continued to apply hedge accounting.

POBC announced to lift control on loan interest rate for financial institutions on 20 July 2013. However, the impact of this policy is not expected to be significant for the Company in the short run. With a view towards long-term development, the Company will further enhance its interest rate risk management and achieve stable growth in both net interest income and economic value.

3.12.7 Exchange rate risk management

Exchange rate risk refers to the impairment risk of bank's gross profit caused by losses in positions of foreign exchange and foreign exchange derivatives due to the unfavorable fluctuation in exchange rate. The Company's functional currency is RMB with majority of assets and liabilities denominated in RMB and the rest mainly in USD and HKD.

The primary exchange rate risk comes from the mismatch of non-RMB denominated assets and liabilities. The Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, Value at Risk ("VaR") and other methods to measure and analyse exchange rate risk. The Company regularly measures and analyses changes in its foreign exchange exposure and monitors and reports exchange rate risk on a monthly basis under its quota limit framework. Based on the trend of foreign exchange movements, the Company adjusts its foreign exchange exposure accordingly to mitigate the relevant foreign exchange risk. The Company takes prudent approach in exchange rate risk management, and in principle, the Company will not proactively expose itself to any risk, and this policy is suitable for the current development stage of the Company. Currently, the policy and system for exchange rate risk management is basically in compliance with regulatory requirements and is able to meet the Company's own management needs.

In the first half of 2013, the Company further improved its assessment system for exchange rate risk, so as to provide a scientific reference standard for the accurate assessment of exchange rate risk and formulating precise management strategies.

3.12.8 Reputation risk management

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

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

In the first half of 2013, the Company took the following steps to improve its reputation risk management. Firstly, the Company adopted measures to increase the precautionary management of reputation risks and perfect the risk mitigation system, resulting in an improved reputation risk accountability mechanism. Secondly, the Company improved the risk monitoring and reporting system and enhanced the capability and efficiency in reputation risk event management, so as to ensure reputation risk events are dealt with in a timely manner. Thirdly, the Company enhanced reputation risk assessment and inspection on key business and areas, and accordingly contingency plans were prepared in advance. Fourthly, the Company strengthened reputation risk training and publicity, raised the awareness of its employees on reputation risks, and cultivated a reputation risk management culture across the whole bank through regular professional trainings and precautionary notices.

3.12.9 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of violation of the laws, rules and guidelines. The board of directors of the Company is ultimately responsible for the compliance of the operating activities, and authorises the Risk and Capital Management Committee under the Board to supervise the compliance risk management. The Compliance Management Committee of the Head Office is the supreme body to manage the compliance risk of the whole company under the senior management.

During the reporting period, the Company proactively adapted to adjustments in regulatory policy that prioritised risk control, devoted to building a solid foundation for internal compliance management, effectively prevented and mitigated compliance risk and risk of economic sanctions, carried out legal compliance verification covering all businesses, products, systems and procedures by fully leveraging on the advantage of "Green Channel" investigation mechanism, and carefully identified and assessed the compliance risk associated with new businesses and key projects. In addition, the Company enhanced the compliance risk management techniques, strengthened the identification, assessment and monitoring of compliance risk, and raised its compliance management personnel's capability in risk management during the deepening of management reform, promotion of business innovation and steady development, and raised its staff's awareness of compliance.

3.12.10 Anti-money laundering management

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

During the reporting period, the Company proactively promoted the formulation of self monitoring standard for suspicious transactions, the establishment of anti-money laundering system and the reform of monitoring and analysis procedures in accordance with the requirement of comprehensive pilot for large-sum transactions and suspicious transactions reporting by the PBOC. In dealing with the frequent occurrence of money laundering crimes such as illegal fund-raising, underground banking services and bank card deception, the Company instructed its subsidiaries 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.

3.12.11 Implementation of Basel Accords

Since 2007, in order to implement its internationalisation strategy and improve its operation and management, the Company has strived to become one of the first banks approved by the CBRC to adopt the advanced methods for capital measurement under Basel Accords. Currently, having passed the on-site acceptance 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 Implementation of Advanced Methods for Capital Measurement under Basel Accords by CMB", and has officially submitted the application of implementing advanced methods for capital measurement under Basel Accords, and actively cooperated with the CBRC to carry out its verification and inspection.

3.13 Profit Appropriation

2012 Profit Appropriation Plan

2012 Profit Appropriation Plan of the Company was considered and passed at the 2012 Annual General Meeting of Shareholders held on 31 May 2013.

The Company's profit after tax as stated in the audited financial statement (domestic section) of 2012 amounted to RMB42.933 billion, and was appropriated, in accordance with the availability and the relevant regulatory requirements, as follows: 1) RMB4,293 million was appropriated to the statutory surplus reserve. 2) 1.5% of the total amount of the increased risk assets, totalling RMB20.278 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 RMB6.30 (tax included) for every 10 shares, payable in RMB for all A shareholders and in HKD for all H shareholders.The actual profit appropriations amount in HKD would be calculated based on the average rate of PBOC's RMB/HKD benchmark exchange rates one week before the date of general meeting (inclusive).The retained profits would be carried forward to the next year. No capital reserve was converted into capital for the year 2012.

The Board of Directors of the Company has already implemented the above-mentioned dividend appropriation plan. For further information, please refer to the announcement published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 3 June 2013.

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 on 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 authorised at the shareholders' meeting to approve interim dividend distribution policy;

   (3) the Company shall pay cash dividends and other amounts to holders of domestic shares and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant provisions on foreign exchange administration of the State;

   (4) in case 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 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 enhancing the reasonable return on shareholders' investments and to maintaining the consistency and stability of the Company's dividend appropriation policy.

3. The Company implemented the 2012 Equity Distribution Plan in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 43rd meeting of the Eighth Session of the Board of Directors of the Company and approved at the 2012 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 2012 that the equity distribution plans of the Company and their implementation process have adequately protected the legal rights and interests of minority shareholders.

3.14 Interim Dividend Appropriation for the Year 2013

The Company would not distribute interim dividend for the year 2013, nor would it capitalise the capital reserve (for January-June 2012: Nil).

3.15 Social Responsibility

In 2013, the Company continued to stick to the principle of "Gain from society and contribute to society", and proactively fulfilled its social responsibilities by improving customer services and customer experience, and committing itself to green environmental protection and vigorously launching charity projects. During the reporting period, the Company donated RMB6,000,000 to the quake-hit areas of Ya'an City through the One Foundation, opened a "green channel" for disaster relief donations at all its outlets at the same time and remitted all fees charged on donations to relevant civil affairs authorities and public welfare organisations through outlets, online banking. Meanwhile, the Head Office launched the 2013 children caring volunteer campaign themed with "A sunflower garden full of love" throughout the entire Bank. All branches and sub-branches, in cooperation with the Ocean Heaven program under One Foundation, organised a series of children-caring activities to show love for special children with autism and cerebral palsy, etc., with a view to encouraging the employees to actively participate in fulfilling corporate social responsibility.

3.16 Outlook and Measures

Currently, both domestic and global financial situations remain complicated and volatile, and various types of uncertainties are on the rise. Internationally, the global economic recovery has shown a divergent state. The overall economic recovery momentum in the United States is strong. European economies are suffering from lingering economic downturn, while emerging economies continue to grow at a slow speed. In addition, the global financial market remains in an unstable state, with the U. S. dollar index and the prices of gold and crude oil become more volatile. Domestically, the downward trend of economic growth becomes more prominent; the growth rate of aggregate social financing capacity tends to slow down; cross-border capital flow becomes more frequent; and funds outstanding for foreign exchange tend to decrease. In addition, the fluctuation of RMB exchange rates increases; the problem of excessive capacity becomes more severe, the price of real estate continues to increase; thus the adjustment of economic structure would remain a difficult mission. As at the end of the reporting period, the Company has basically reached its expectations for customer deposits and customer loans. The complicated and volatile economic and financial environment is likely to impose great difficulties on the Company's business development, risk prevention, profitability and internal management in the second half of the year.

Amidst the new environment and challenges, the Company will continue the Second Transformation with focus on services. In the second half of the year, the Company has the following priorities: Firstly, focusing on the development of retail business, building a solid retail customer base, and putting more efforts into better operation of small and micro-enterprise business, developing wealth management business and team building of customer managers in private banking sector. Secondly, vigorously promoting the development of wholesale business, deepening the market penetration regarding corporate customers, broadening the sources of corporate deposit, and expanding featured wholesale businesses such as financial market, investment banking, inter-bank business, asset custody, international business, offshore business and cash management. Thirdly, continuing to enhance the management of various types of risks, such as credit risk, liquidity risk, market risk, operational risk, and reputation risk, strengthening internal control and compliance management, so as to accelerate the implementation of the new Capital Accord. Fourthly, further enhancing the management of key expenses such as labor cost, fixed cost and sales and marketing expenses, so as to continually increase cost efficiency. Fifthly, ensuring good support such as performance evaluation and branch building, asset management and capital management, human resources management, education and training, as well as IT development and operational management. Sixthly, accelerating the integrating with and the transforming of Wing Lung Bank, and steadily increasing international presence and extend business scope.

By Order of the Board of Directors
Fu Yuning
Chairman

16 August 2013

IV Important Events

4.1 Shareholdings and trading in equity interest of other listed companies

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

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

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

4.3 Progress on Rights Issue

The "Proposal on the Rights Issue of A Shares and H Shares of China Merchants Bank Co., Ltd." was considered and approved at the 2011 First Extraordinary General Meeting, the 2011 First A Shareholders Class Meeting and the 2011 First H Shareholders Class Meeting of the Company. In order to ensure the compliance of the Rights Issue with relevant laws and regulations and the validity of relevant resolutions in implementing the Rights Issue, the Company considered and approved the extension of the validity period of the relevant resolutions on the Rights Issue for 12 months at the 33rd meeting of the Eighth Session of the Board of Directors held on 20 July 2012, and the 2012 First Extraordinary General Meeting, the 2012 First A Shareholders Class Meeting and the 2012 First H Shareholders Class Meeting held in sequence on 7 September 2012. Up to 16 August 2013, the Company has obtained approval from the CBRC and the CSRC in respect of the Rights Issue. The Board of Directors of the Company will implement the Rights Issue as soon as possible within the validity period and in accordance with the requirements stipulated therein and the authorization granted by the shareholders' general meetings and shareholders' class meetings of the Company.

4.4 Major investment not financed by the raised fund

As of 30 June 2013, the aggregate investment in Shanghai Lujiazui Project amounted to RMB1,705 million, among which RMB145 million was invested during the reporting period. The project was completed on schedule at the end of June 2013, and is currently in preparation for occupation.

During the reporting period, the Company entered into a purchase agreement with Financial Street Holdings Co., Ltd., to purchase an office complex in Beijing. It is expected that the ultimate total consideration for such purchase will not exceed RMB4,214.16 million. For further details, please refer to the announcement regarding the discloseable transaction of the Company published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange, and the Company on 26 June 2013.

4.5 Interests and short positions of Directors, Supervisors and Chief Executives

As at 30 June 2013, the interests and short positions of the Directors, Supervisors, and chief executives of the Company in the shares, underlying shares, and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

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

4.6 Disciplinary actions imposed on the Company, Directors, Supervisors, Senior Management, and the Shareholders holding more than 5% of our Shares

Based on the currently available information and so far as the Company is aware, during the reporting period, none of the Company, its Directors, Supervisors or senior management or the shareholders holding more than 5% of our shares was subject to investigation by relevant authorities or subject to mandatory measures imposed by judicial organs or discipline inspection authorities. None of them was referred or handed over to judicial authorities or being prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor being prohibited from engagement in the securities markets, given notice of criticism, nor determined as unqualified, nor been publicly censured by any stock exchange. Neither the Company nor the shareholders holding more than 5% of the shares of the Company have been penalised by other regulatory bodies which have significant impact on the businesses of the Company.

4.7 Undertakings made by the Company and Shareholders holding more than 5% of our Shares

So far as the Company is aware, the Company and Shareholders holding more than 5% of our Shares have no undertakings to disclose during the reporting period.

4.8 Significant Connected Transactions

4.8.1 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 were those conducted between the Company and China Merchants Group Ltd. and its subsidiaries and associates, subject to the related requirements regarding continuing connected transactions set by the Hong Kong Stock Exchange.

4.8.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company were those conducted between the Company and CIGNA & CMC Life Insurance, CMFM and 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). Further details were disclosed in the Announcement on Continuing Connected Transactions issued by the Company on 28 December 2011.

CIGNA & CMC Life Insurance

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

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

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

On 28 December 2011, the Company entered into 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 principles:

(1) where the fees are prescribed by the State government, follow these fees; or

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

(3) where there are no prescribed fees or State guided fee rates, follow the market fee rates in ordinary business transactions agreed among the related parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CM Securities for 2013 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 the annual review requirements pursuant to Rules 14A.45 to 14A.47 and 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2013, the aggregate amount of connected transactions between the Company and CM Securities amounted to RMB118,220,000.

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. The Company and CMFM intended to collectively acquire the shares of CMFM held by ING Asset Management B.V. (for details, please refer to the section "Acquisition of CMFM" in this report). 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 calculated on an arm's length basis and on normal commercial terms. The service fees include 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 2013 was set at RMB500,000,000 which was less than the 5% requirement regarding 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 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2013, the aggregate value of connected transactions between the Company and CMFM amounted to RMB132,820,000.

CM Securities

The provision of third-party custodian services, distribution and agency services of wealth management products and collective investment products by the Company to 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 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 principles:

(1) where the fees are prescribed by the State government, follow these fees; or

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

(3) where there are no prescribed fees or State guided fee rates, follow the market fee rates in ordinary business transactions agreed among the related parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CM Securities for 2013 was set at RMB300,000,000 which was less than the 5% requirement regarding 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 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 30 June 2013, the aggregate value of connected transactions between the Company and CM Securities amounted to RMB18,890,000.

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 regular 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.

4.9 Material Litigation and Arbitration

So far as the Company is aware, as at 30 June 2013, the Company was involved in the following litigation cases in its regular course of business: the total number of pending litigation and arbitration cases that involved the Company was 2,968, with a total principal amount of RMB6,648,170,800 and total interests of RMB260,828,100, of which, 109 pending litigation and arbitration cases were against the Company as at 30 June 2013, with a total principal amount of RMB466,023,600 and total interests of RMB17,790,000. There were two pending cases with a principal amount exceeding RMB100,000,000, involving a total principal amount of RMB504,644,200 and total interests of RMB64,715,200. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

4.10 Material Contracts and their Performances

Significant events in respect of custody, contracting and leasing

During the reporting period, none of the material contracts entered into by the Company involved any custodian, contracting or leasing of any assets of other companies beyond our regular business scope and vice versa.

Significant guarantees

Guarantee business falls within the Company's regular course of business. During the reporting period, save for the financial guarantees entered into within our normal business scope approved by the PBOC and the CBRC, there was no other significant guarantee that needs to be disclosed.

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.

4.11 Asset Acquisition, Disposal and Reorganisation

4.11.1 Progress of the acquisition of CIGNA & CMC Life Insurance

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

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

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

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

4.11.2 Progress of the acquisition of CMFM

Pursuant to the "Resolution on Acquisition of Additional Equity Interest in CMFM" considered and passed at the 37th Meeting of the Eighth Session of the Board of Directors of the Company on 28 September 2012, the Company and ING Asset Management B.V. executed an Equity Transfer Agreement on 24 October 2012, pursuant to which the Company shall acquire a 21.6% equity interest in CMFM from ING Asset Management B.V. at a consideration of €63,567,567.57. After the acquisition, the Company's equity interest in CMFM will be increased from 33.4% to 55%. The acquisition has been approved by CBRC and is still pending for approval from CSRC, the Ministry of Commerce of the PRC and other governing authorities. Relevant details were set out in the Announcement in respect of the Resolutions passed at the 37th Meeting of the Eighth Session of the Board of Directors and the Announcement on Obtaining Approval from CBRC for the Acquisition of Additional Equity Interest in CMFM published on newspapers and websites designated for disclosure of the information on 8 October 2012 and 4 June 2013 respectively.

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

For details about the business of CMFM, please refer to section 3.11.10.

4.12 Implementation of the Appreciation Rights Incentive Scheme during the reporting period

For details about the implementation of the Company's Appreciation Rights Incentive Scheme, please refer to section 6.4.

4.13 Use of funds by related parties

During the reporting period, so far as the Company is aware, neither the major shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through any related party transactions on anything other than on arm's length basis.

4.14 Explanation of Changes in Accounting Policies

For details about the changes in accounting policies, please refer to Chapter II and note 3 to the financial report.

4.15 Review on Interim Results

KPMG Certified Public Accountants, being the external auditor of the Company, has reviewed the interim financial report of the Company 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 interim results and financial report of the Company for the period ended 30 June 2013.

4.16 Publication of Interim Report

The Company prepared the interim report in both English and Chinese 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 discrepancy in the 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. The report is available on the websites of both Shanghai Stock Exchange and the Company.

V Share Capital Structure and Shareholder Base

5.1 Changes in Shares of the Company during the reporting period

		31 December 2012		Changes in the reporting period	30 June 2013	
		Quantity (share)	Percentage (%)	Quantity (Share)	**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 512,984 shareholders, including 48,270 holders of H Shares and 464,714 holders of A Shares. No share is subject to trading moratorium. The Company did not issue any internal employee shares.

Based on the publicly available information and as far as the Company's directors were aware, as at 30 June 2013, the Company had met the public float requirement of the Hong Kong Listing Rules.

5.2 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)	/	3,857,879,349	17.88	H Shares	2,650,375	–	–
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	Sino Life Insurance Co., Ltd. – Universal Insurance H	Domestic non-state-owned legal persons	855,866,725	3.97	A Shares not subject to trading moratorium	523,867,250	–	–
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	636,788,489	2.95	A Shares not subject to trading moratorium	–	–	–
6	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	631,287,834	2.93	A Shares not subject to trading moratorium	–	–	–
7	An-Bang Insurance Group Co., Ltd – Conventional Insurance Products	Domestic non-state-owned legal persons	594,987,463	2.76	A Shares not subject to trading moratorium	-7,580,974	–	–
8	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	556,333,611	2.58	A Shares not subject to trading moratorium	–	–	–
9	China Communications Construction Company Ltd.	State-owned legal persons	383,445,439	1.78	A Shares not subject to trading moratorium	–	–	–
10	SAIC Motor Corporation Limited	State-owned legal persons	368,079,979	1.71	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 traded 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.

(3) None of the aforesaid shareholders holds any shares of the Company through securities accounts.

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

As at 30 June 2013, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (Chapter 571 of the Laws of Hong Kong):

Name of Substantial Shareholder	Class of shares	Long/ short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	3,886,912,452#	1	22.00	18.01*
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	2,675,612,600	1	15.15	12.40
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	18,177,752#	1		
		Long	Interest of controlled corporation	1,193,122,100	1		
				1,211,299,852#		6.86	5.61
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	636,788,489	1		
		Long	Interest of controlled corporation	556,333,611	1		
				1,193,122,100		6.75	5.53
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,284,140,156#		7.27	5.95
China Shipping (Group) Company	A	Long	Beneficial owner	258,470,781			
		Long	Interest of controlled corporation	695,697,834			
				954,168,615	2	5.40	4.42
Templeton Asset Management Ltd.	H	Long	Investment manager	429,972,565		11.00	1.99
JPMorgan Chase & Co.	H	Long	Beneficial owner	19,263,682			
		Long	Investment manager	153,801,927			
		Long	Custodian	139,159,033			
				312,224,642	3	7.98	1.45
		Short	Beneficial owner	6,986,833	3	0.18	0.03
BlackRock, Inc	H	Long	Interest of controlled corporation	284,065,786	4	7.26	1.32
		Short	Interest of controlled corporation	1,368,500	4	0.03	0.006

* As at 30 June 2013, 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 2013. During the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2013, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation in accordance with SFO.

Notes:

(1) China Merchants Group Ltd. 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 312,224,642 H shares (Long position) and 6,986,833 H shares (Short position) in the Company by virtue of its control over the following corporations:

(3.1) JPMorgan Chase Bank, N.A. held 158,483,587 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 12,165,798 H shares (Long position) and 6,066,722 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 45,073,123 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 86,354,733 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 2,394,282 H shares (Long position) in the Company. JPMorgan Asset Management (Taiwan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.6) JPMorgan Asset Management (Japan) Limited held 655,235 H shares (Long position) in the Company. JPMorgan Asset Management (Japan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.7) J.P. Morgan Clearing Corp held 398,992 H shares (Long position) in the Company. J.P. Morgan Clearing Corp was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.8) J.P. Morgan Securities plc held 6,698,892 H shares (Long position) and 198,500 H shares (Short position) in the Company. J.P. Morgan Securities plc was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

(3.9) J.P. Morgan Whitefriars (UK) held 721,611 H shares (Short position) in the Company. J.P. Morgan Whitefriars (UK) was owned as to 99.99% by J.P. Morgan Whitefriars Inc., referred to in (3.2) above.

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 139,159,033 H shares. Besides, 3,121,196 H shares (Long position) and 6,986,833 H shares (Short position) were held through derivatives as follows:

305,000 H shares (Long position) and 258,500 H shares (Short position)	–	through physically settled derivatives (on exchange)
215,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
721,611 H shares (Short position)	–	through physically settled derivatives (off exchange)
2,816,196 H shares (Long position) and 5,791,722 H shares (Short position)	–	through cash settled derivatives (off exchange)

(4) BlackRock, Inc. had a long position in 284,065,786 H shares (of which 481,000 H shares were held through cash settled derivatives (on exchange) and a short position in 1,368,500 H shares of the Company by virtue of its control over a number of wholly-owned subsidiaries.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2013 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

6.1 Directors, Supervisors and Senior Management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Fu Yuning	Male	1957.3	Chairman & Non-Executive Director	2013.5-2016.5	0	0
Wei Jiafu	Male	1950.1	Vice Chairman & Non-Executive Director	2013.5-2016.5	0	0
Zhang Guanghua [Note 1]	Male	1957.3	Vice Chairman &Executive Director	(Note 1)	0	0
Tian Huiyu [Note 2]	Male	1965.12	Executive Director & President	(Note 2)	0	0
Li Yinquan	Male	1955.4	Non-Executive Director	2013.5-2016.5	0	0
Fu Gangfeng	Male	1966.12	Non-Executive Director	2013.5-2016.5	0	0
Sun Yueying	Female	1958.6	Non-Executive Director	2013.5-2016.5	0	0
Wang Daxiong	Male	1960.12	Non-Executive Director	2013.5-2016.5	0	0
Fu Junyuan	Male	1961.5	Non-Executive Director	2013.5-2016.5	0	0
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2013.5-2016.5	0	0
Xiong Xianliang	Male	1967.10	Non-Executive Director	2013.5-2016.5	0	0
Li Hao	Male	1959.3	Executive Director,Senior Executive Vice President and Chief Financial Officer	2013.5-2016.5	0	0
Xu Shanda [Note 3]	Male	1947.9	Independent Non-Executive Director	(Note 3)	0	0
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2013.5-2016.5	0	0
Shan Weijian [Note 3]	Male	1953.10	Independent Non-Executive Director	(Note 3)	0	0
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2013.5-2016.5	0	0
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2013.5-2016.5	0	0
Guo Xuemeng	Female	1966.9	Independent Non-Executive Director	2013.5-2016.5	0	0
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	(Note 3)	0	0
Yan Lan	Female	1957.1	Independent Non-Executive Director	(Note 3)	0	0
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors	2013.5-2016.5	0	0
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2013.5-2016.5	0	0
An Luming	Male	1960.4	Shareholder Supervisor	2013.5-2016.5	0	0
Liu Zhengxi	Male	1963.7	Shareholder Supervisor	2013.5-2016.5	0	0
Peng Zhijian	Male	1948.11	External Supervisor	2013.5-2016.5	20,000	20,000
Pan Ji	Male	1949.4	External Supervisor	2013.5-2016.5	0	0
Shi Rongyao	Male	1950.10	External Supervisor	2013.5-2016.5	0	0
Yu Yong	Male	1962.7	Employee Supervisor	2013.5-2016.5	0	0
Guan Qizhi	Male	1965.1	Employee Supervisor	2013.5-2016.5	0	0
Tang Zhihong	Male	1960.3	Executive Vice President	2013.5-2016.5	0	0
Yin Fenglan	Female	1953.7	Executive Vice President	2013.5-2013.7	0	0
Ding Wei	Male	1957.5	Executive Vice President	2013.5-2016.5	0	0
Zhu Qi	Male	1960.7	Executive Vice President	2013.5-2016.5	0	0
Tang Xiaoqing	Male	1954.8	Executive Vice President	2013.5-2016.5	0	0
Wang Qingbin	Male	1956.12	Executive Vice President	2013.5-2016.5	0	0
Xu Shiqing [Note 4]	Male	1961.3	Secretary of Board of Directors	(Note 4)	0	0
Xu Lianfeng	Male	1953.7	Chief Technology Officer	2001.11-2013.7	0	0

Notes: 1. Mr. Zhang Guanghua was elected as Executive Director of the Company at the 2012 Annual General Meeting of the Company, for a term of office starting from May 2013 to the expiry of the Ninth Session of the Board of Directors. Mr. Zhang Guanghua was elected as the Vice Chairman of the Company at the 1st meeting of the Ninth Session of the Board of Directors of the Company (his qualification is subject to approval by the banking regulator(s) in the PRC).

2. Mr. Tian Huiyu was elected as an Executive Director at the 2012 Annual General Meeting of the Company, for a term of office starting from August 8, 2013 (the date his qualification as a Director was approved by CBRC Shenzhen Office) to the expiry of the Ninth Session of the Board of Directors; and Mr. Tian Huiyu was appointed as the President of the Company at the 1st meeting of the Ninth Session of the Board of Directors of the Company (his qualification for serving as President is subject to approval by the banking regulator(s) in the PRC).

3. Mr. Xu Shanda and Mr. Shan Weijian were elected as Independent Non-Executive Directors at the 2012 Annual General Meeting of the Company (their qualifications are subject to approvals by the banking regulator(s) in the PRC). Pursuant to relevant regulatory requirements, before the approvals of the qualification of Mr. Xu Shanda and Mr. Shan Weijian are obtained, Mr. Yi Xiqun and Ms. Yan Lan, both being Independent Non-Executive Directors of the Eighth Session of the Board of Directors, will continue to perform the duties of Independent Non-Executive Directors in the Board and the specialised committees thereunder.

4. Mr. Xu Shiqing was appointed as the Secretary of the Board of Directors at the 1st meeting of the Ninth Session of the Board of Directors of the Company (his qualification for serving as Secretary of the Board of Directors is subject to approval by the banking regulator(s) in the PRC).

5. None of the persons set out in the table holds any share options of the Company or has been granted with restricted shares of the Company.

6.2 Appointment and Resignation of Directors, Supervisors and Senior Management

The Board of Directors and the Board of Supervisors of the Company completed their change of session in the first half of 2013.

According to the relevant resolutions passed at the 2012 Annual General Meeting of the Company held on 31 May 2013, Mr. Tian Huiyu was newly elected as Executive Director of the Ninth Session of the Board of Directors of the Company, Mr. Shan Weijian and Mr. Xu Shanda were newly elected as Independent Non-Executive Directors of the Ninth Session of the Board of Directors of the Company (their qualifications are subject to approvals by the regulator), Mr. Ma Weihua ceased to be an Executive Director of the Company, and Mr. Yi Xiqun and Ms. Yan Lan ceased to be Independent Non-executive Directors of the Company (they will continue to fulfill their duties as Independent Non-Executive Directors before the qualifications of Mr. Xu Shanda and Mr. Shan Weijian are approved). There were no changes to other members of the Board of Directors.

According to the relevant resolutions passed at the 2012 Annual General Meeting of the Company held on 31 May 2013 as well as the election results of the Employee Supervisors of the Ninth Session of the Board of Supervisors held by the Labor Union of the Company, Mr. Shi Rongyao, Mr. Yu Yong and Mr. Guan Qizhi were newly elected as Supervisors of the Ninth Session of the Board of Supervisors of the Company. Among them, Mr. Shi Rongyao was elected as External Supervisor, and Mr. Yu Yong and Mr. Guan Qizhi both were elected as Employee Supervisors. Mr. Wen Jianguo (former Shareholder Supervisor) and Mr. Yang Zongjian and Mr. Zhou Qizheng (former Employee Supervisors) ceased to be Supervisors of the Company. There were no changes to other members of the Board of Supervisors.

Mr. Tian Huiyu was appointed as President of China Merchants Bank at the 1st meeting of the Ninth Session of the Board of Directors of the Company. Before obtaining his qualification as President from the banking regulator(s) in the PRC, Mr. Tian will take complete charge and responsibility of the daily operation and management of China Merchants Bank as its principal as authorised by the Board of Directors. Mr. Xu Shiqing was appointed as Secretary of the Board of Directors of China Merchants Bank with a term of office the same as that of the Ninth Session of the Board of Directors (his qualification for serving as Secretary of the Board of Directors is subject to approval by the banking regulator(s) in the PRC). Mr. Lan Qi ceased to be Secretary of the Board of Directors of the Company due to expiry of his term of office.

For details, please refer to the relevant announcements dated 31 May 2013 published on China Securities Journal, Shanghai Securities News and Securities Times and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

According to a resolution passed at the 1st meeting of the Ninth Session of the Board of Directors of the Company, Ms. Yin Fenglan ceased to serve as the Executive Vice President of the Company in July 2013 as she reached the statutory retirement age. A formal announcement will be published when the approval from the banking regulator(s) in the PRC is obtained.

Mr. Xu Lianfeng reached the national statutory retirement age in July 2013. After consideration, the Company approved his retirement from the post as the Chief Technology Officer.

None of the directors, supervisors or senior management of the Company who retired during the reporting period holds any shares or share options of the Company or has been granted with restricted shares of the Company.

6.3 Changes of Occupations of Directors and Supervisors

1. Mr. Wei Jiafu, Vice Chairman and Non-Executive Director of the Company, ceased to be the chairman of China Ocean Shipping (Group) Company and the chairman and non-executive director of China COSCO Holdings Company Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange).

2. Mr. Zhang Guanghua, Executive Director of the Company, serves as the Vice Chairman of the Company (his qualification is subject to approval by the banking regulator(s) in the PRC) as well as the chairman of CIGNA & CMC Life Insurance, China Merchants Fund and CMBFL and ceased to be an Executive Vice President of the Company.

3. Mr. Li Yinquan, Non-Executive Director of the Company, serves as the vice chairman of China Merchants Capital Investment Co., Ltd.

4. Mr. Fu Junyuan, Non-Executive Director of the Company, serves as the chairman of CCCC Finance Company Limited.

5. Mr. Hong Xiaoyuan, Non-Executive Director of the Company, ceased to be a director of China Credit Trust Co., Ltd.

6. Mr. Li Hao, Executive Director of the Company, ceased to be an Executive Vice President of the Company, and now serves as the Senior Executive Vice President of the Company.

7. Mr. Wong Kwai Lam, Independent Non-Executive Director of the Company, serves as an independent non-executive director of Langham Hospitality Investments Limited (a company listed on the Hong Kong Stock Exchange), an independent non-executive director of LHIL Manager Limited and a member of the Hospital Governing Committee of Prince of Wales Hospital located in Shatin, Hong Kong.

8. Mr. Pan Chengwei, Independent Non-Executive Director of the Company, serves as an independent non-executive director of China International Marine Containers (Group) Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange).

9. Mr. An Luming, Shareholder Supervisor of the Company, ceased to be the deputy general manager of Financial Assets Department of the China National Offshore Oil Corporation.

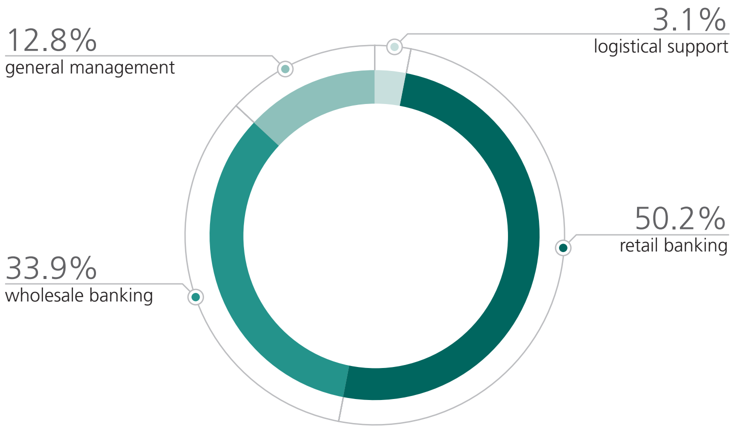
6.4 H Share Appreciation Rights Incentive Scheme

To further establish and enhance its incentive system for reconciling the interests of shareholders, the Company and the senior management members, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 2007 First Extraordinary General Meeting. On 30 October 2007, 7 November 2008, 16 November 2009, 18 February 2011, 4 May 2012 and 22 May 2013, the Board of Directors of the Company granted the H Share appreciation rights of Phases I, II, III, IV, V and VI under the Scheme respectively. Please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company for details.

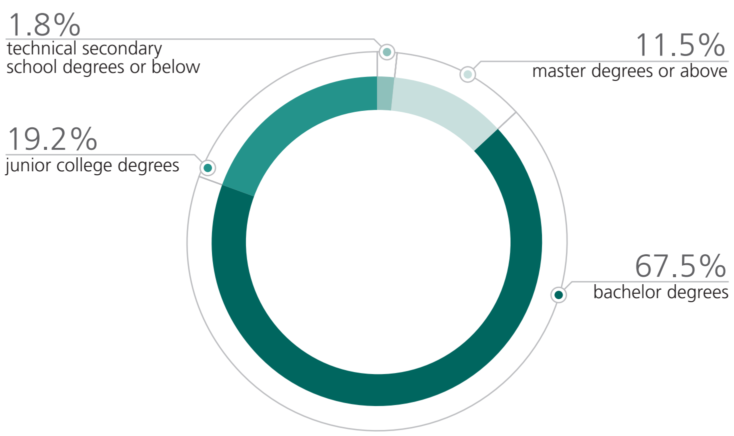
6.5 Information about employees

As at 30 June 2013, the Company had 61,327 employees (including 13,057 dispatched employees). In addition, the Company is responsible for payment of costs for 284 retired employees. The composition of the employees in service is set out as follows:

1. Professional Structure



2. Educational Structure



6.6 Branches and Representative Offices

The Company continued to expand its branch network in the first half of 2013. During the reporting period, 6 domestic branches, namely Fushun Branch, Daqing Branch, Qianhai Branch, Xuchang Branch, Lvliang Branch and Sanming Branch, were approved to commence business. Meanwhile, the Company received approval to set up another overseas Branch (Singapore Branch).

In 2013, the Company implemented its branch network development plan by adhering to the principles of "accelerating pace, highlighting priority, emphasising efficiency, ensuring quality", and proactively promoted the development of its second-tier branches and county-level sub-branches, and continuously expanded the coverage of intra-city sub-branches and self-service machines in urban area. In the second half of 2013, the Company will further pace up the development of its branch network, persistently penetrate the three major regional markets in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, consolidate the Company's advantages in these major regions, and enhance regional competitiveness.

The following table sets forth the branch network of the Company as at 30 June 2013:

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	4,631	1,344,277
	Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	7,894	125,766
	Credit Center for Small Enterprise	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	791	41,098
Yangtze River Delta	Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	62	3,200	143,542
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	54	2,517	106,283
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	54	2,287	112,314
	Ningbo Branch	342 Min'an Road East, Jiangdong District, Ningbo	315000	24	1,032	48,854
	Suzhou Branch	36 Wansheng Street, Suzhou Industrial Park, Suzhou	215000	22	1,204	75,654
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	7	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	62	3,308	163,375
	Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	32	1,850	59,294
	Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	31	1,386	63,966
	Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	35	1,584	64,314
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	3	185	8,856

VI Directors, Supervisors, Senior Management, Employees, and Organisational 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	45	2,186	82,289
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	75	4,111	187,804
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	29	1,236	50,095
	Xiamen Branch	862 Xiahe Road, Xiamen	361004	15	812	33,336
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	20	867	24,609
	Foshan Branch	Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	19	906	64,670
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	26	1,482	43,744
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	20	991	53,055
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	16	775	30,493
	Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	9	492	23,723
Central China	Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	42	1,924	83,601
	Nanchang Branch	162 Bayi Avenue, Nanchang	330003	24	1,320	45,745
	Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	28	1,203	42,906
	Hefei Branch	169 Funan Road, Hefei	230000	23	1,109	37,218
	Zhengzhou Branch	39 Huayuan Road, Zhengzhou	450000	21	906	35,677
	Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	13	704	24,929
	Haikou Branch	1-3/F Complex Building C, Hai'an yi hao, No.1 Shimao Road North, Haikou	570100	1	96	4,898
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	30	1,397	45,738
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	711	19,163
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	30	1,699	47,958
	Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	28	1,282	48,375
	Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	575	26,080
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	25	1,138	48,619
	Hohhot Branch	56 Xinhua Street, Hohhot	010010	9	454	25,406
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	8	348	14,412
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	3	215	16,407
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	5	232	10,103
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	1	85	4,332

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	122	57,176
	USA Representative Office	509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A	–	1	1	2
	New York Branch	535 Madison Avenue	–	1	43	11,540
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	2	2
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	1	1
Other assignments					26	–
Total		**–**	**–**	**981**	**61,327**	**3,601,700**

VII Corporate Governance

7.1 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, secured prudence and compliance in the Company's operation, and ensured sustainable and healthy growth of the Company. During the reporting period, the Company held a total of 29 meetings of all sorts. Among them, there was 1 shareholders' general meeting, 8 meetings of the Board of Directors, 13 meetings of the special committees under the Board of Directors, 5 meetings of the Board of Supervisors and 2 meetings of the special committees under the Board of Supervisors.

Having conducted a careful self-inspection, the Company detected no discrepancy between its corporate governance practices and the requirements set forth in the CSRC's documents regarding corporate governance of listed companies. There was no disclosure of undisclosed information to its major shareholders or the effective controllers, nor were there any irregularities in the Company's corporate governance.

7.2 Shareholders' General Meetings

During the reporting period, the Company convened 1 shareholders' general meeting. On 31 May 2013, the 2012 Annual General Meeting of the Company was held in Shenzhen. The notifying, convening, holding and voting procedures of the meeting complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. For details of the relevant proposals considered at the meeting, please refer to the announcements in respect of the resolutions passed at the 2012 Annual General Meeting dated 31 May 2013 published on China Securities Journal, Shanghai Securities News and Securities Times, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.3 Meetings of the Board of Directors and its Special Committees

During the reporting period, the Company convened 8 meetings of the Board of Directors (3 on-site meetings, 5 meetings voted by correspondence), considered and approved 44 proposals, heard 6 theme reports. The special committees under the Board of Directors convened 13 meetings (1 by the Strategy Committee, 2 by the Nomination Committee, 3 by the Remuneration and Appraisal Committee, 2 by the Risk and Capital Management Committee, 3 by the Audit Committee, and 2 by the Connected Transactions Control Committee), studied and reviewed 34 proposals and heard 16 theme reports.

7.4 Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors held 5 meetings (3 on-site meetings, 2 meetings voted by correspondence), considered 19 proposals, and heard 6 theme reports. Special Committees under the Board of Supervisors convened 2 meetings, both by the Nomination Committee, and considered 4 proposals.

The Board of Supervisors attended 3 on-site meetings of the Board of Directors and 1 general meeting. The chairman and members of the Supervision Committee under the Board of Supervisors attended 4 meetings of the special committees under the Board of Directors, including 1 meeting convened by each of the Strategy Committee and the Audit Committee respectively, and 2 meetings convened by the Risk and Capital Management Committee.

7.5 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 2013.

The Company has also established guidelines for the relevant employees' securities transactions, on terms no less exacting than those set out in the Model Code. The Company is not aware of any non-compliance with the above-mentioned guidelines by employees.

7.6 Internal Control

1. Internal Control System

Adhering to the guiding principles of law observance, rule compliance and operation prudence, and pursuant to the laws and regulations such as the "Basic Principles for Internal Control of Enterprises" and 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 featuring five elements, namely internal environment, risk assessment, control measures, information and communication and internal supervision. The system has controls over the whole procedures of management activities. It constantly improves the completeness, reasonableness and effectiveness of the internal control system in the course of business operation, so as to ensure prudent operation and long-term development of the Company.

2. The Internal Control Structure and its Responsibilities

Pursuant to the requirements of relevant laws and regulations, 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 and management structure with clear accountability, well defined responsibility, and well performed duties, which involves management staff and ordinary staff of various departments at all levels of the Company. The internal control committees of the Head Office and the branches are responsible for the researching and decision-making of material events and management measures regarding internal control. All departments are responsible for the establishment and execution of internal control under their respective business lines. The Audit Department is responsible for supervising and assessing internal control. All employees are responsible for feedback of significant information regarding internal control measures and their implementation.

3. The Internal Control System and its Operation

During the reporting period, the Company conducted special investigations into the violation of regulations and disciplines and non-compliance risks, implemented 69 regulations and measures including the "Regulations of China Merchants Bank on Internal Control", organised bank-wide campaign to identify and evaluate compliance risks, completely overhauled its anti-money laundering system, further improved the management system and performance evaluation mechanism for the management of operational risk, credit risk and market risk, and further promoted the implementation and application of new Capital Accord in the Group. The Company's internal control system runs effectively, which ensures that the relevant risks in operations associated with the attainment of internal control objectives were kept under the tolerance bar. During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2012 across all departments of the Head Office, its branches and sub-branches. As reviewed by the Board of Directors of the Company, no significant defects in terms of completeness, reasonableness and effectiveness were found in the Company's internal control system.

7.7 Statement of compliance with the Hong Kong Listing Rules

During the reporting period, the Company has applied to the principles of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, and has complied with all the code provisions and recommended practices (if applicable).

VIII Review Report to the Board of Directors and Interim Financial Report for 2013

Review Report to the Board of Directors

Review report to the Board of Directors of

China Merchants Bank Co., Ltd.

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

Introduction

We have reviewed the interim financial report set out on pages 95 to 170 which comprises the consolidated statement of financial position of China Merchants Bank Co., Ltd. as of 30 June 2013 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 2013 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

16 August 2013

Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2013	2012 (Restated)
Interest income	4	**80,383**	73,819
Interest expense	5	**(32,942)**	(30,178)
Net interest income		**47,441**	43,641
Fee and commission income	6	**15,083**	10,411
Fee and commission expense		**(919)**	(679)
Net fee and commission income		**14,164**	9,732
Other net income	7	**2,581**	3,861
Operating income		**64,186**	57,234
Operating expenses	8	**(24,238)**	(22,146)
Charge for insurance claims		**(167)**	(150)
Operating profit before impairment losses		**39,781**	34,938
Impairment losses	9	**(4,959)**	(4,144)
Share of profit of associates		**17**	18
Share of profit of jointly controlled entities		**9**	9
Profit before taxation		**34,848**	30,821
Income tax	10	**(8,582)**	(7,448)
Profit for the period		**26,266**	23,373

The notes on pages 103 to 170 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 six months ended 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2013**	2012 (Restated)
Attributable to:			
Equity shareholders of the Bank		**26,271**	23,374
Non-controlling interests		**(5)**	(1)
Earnings per share			
Basic and diluted (RMB)	12	**1.22**	1.08
Other comprehensive income for the period	11		
Exchange differences		**(262)**	161
Available for sale investments: net movement in fair value reserve		**(364)**	1,918
Cash flow hedge: net movement in hedging reserve		**(37)**	(47)
Remeasurement of defined benefit scheme recognised through reserve		**–**	15
Other comprehensive income for the period, net of tax		**(663)**	2,047
Total comprehensive income for the period		**25,603**	25,420
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**25,608**	25,421
Non-controlling interests		**(5)**	(1)

The notes on pages 103 to 170 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2013	31 December 2012 (Restated)
Assets			
Cash		**13,221**	12,719
Precious metals		**2,219**	23
Balances with central bank	13	**470,489**	458,673
Balances with banks and other financial institutions	14	**49,695**	280,870
Placements with banks and other financial institutions	15	**96,947**	103,420
Amounts held under resale agreements	16	**426,088**	106,965
Loans and advances to customers	17	**2,052,599**	1,863,325
Interest receivable		**16,686**	13,009
Financial assets at fair value through profit or loss	18(a)	**22,613**	25,489
Derivative financial assets	35(b)	**4,890**	1,975
Available-for-sale investments	18(b)	**304,958**	285,344
Held-to-maturity debt securities	18(c)	**196,841**	175,417
Receivables	18(d)	**88,502**	32,221
Interest in associates	19	**289**	290
Interest in jointly controlled entities	20	**167**	165
Fixed assets	21	**20,568**	20,392
Investment properties	22	**1,610**	1,638
Intangible assets	23	**2,897**	2,851
Goodwill	24	**9,598**	9,598
Deferred tax assets	25	**5,062**	4,993
Other assets		**24,690**	8,722
Total assets		**3,810,629**	3,408,099
Liabilities			
Deposits from banks and other financial institutions	26	**350,117**	258,692
Placements from banks and other financial institutions	27	**117,790**	109,815
Amounts sold under repurchase agreements	28	**132,570**	157,953
Deposits from customers	29	**2,797,578**	2,532,444
Interest payable		**27,051**	24,065
Financial liabilities at fair value through profit or loss	18(e), (f)	**28,807**	6,854
Derivative financial liabilities	35(b)	**12,322**	2,745
Debt issued	30	**88,784**	77,111
Salaries and welfare payable		**4,140**	4,056
Tax payable		**7,377**	6,679
Deferred tax liabilities	25	**787**	813
Other liabilities		**30,808**	26,471
Total liabilities		**3,598,131**	3,207,698

The notes on pages 103 to 170 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2013	31 December 2012 (Restated)
Equity			
Share capital	31	**21,577**	21,577
Capital reserve		**37,508**	37,508
Investment revaluation reserve		**(327)**	37
Hedging reserve		**(298)**	(261)
Surplus reserve		**18,618**	18,618
Regulatory general reserve		**39,361**	39,195
Retained earnings		**97,431**	71,326
Proposed profit appropriations	32(b)	**–**	13,593
Exchange reserve		**(1,527)**	(1,265)
Total equity attributable to shareholders of the Bank		**212,343**	200,328
Non-controlling interests	39	**155**	73
Total equity		**212,498**	200,401
Total liabilities and equity		**3,810,629**	3,408,099

Approved and authorised for issue by the board of directors on 16 August 2013.

Fu Yu Ning
Director

Tian Hui Yu
Director

Company Chop

The notes on pages 103 to 170 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the period ended 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 2013											
		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	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2013		21,577	37,508	37	(261)	18,618	39,195	71,432	13,593	(1,265)	200,434	73	200,507
Adoption of IAS 19 Amendment		–	–	–	–	–	–	(106)	–	–	(106)	–	(106)
Restated at 1 January 2013		21,577	37,508	37	(261)	18,618	39,195	71,326	13,593	(1,265)	200,328	73	200,401
Amounts increase/(decrease) for the period		–	–	(364)	(37)	–	166	26,105	(13,593)	(262)	12,015	82	12,097
(a) Profit for the period		–	–	–	–	–	–	26,271	–	–	26,271	(5)	26,266
(b) Other comprehensive income for the period	11	–	–	(364)	(37)	–	–	–	–	(262)	(663)	–	(663)
Total comprehensive income for the period		–	–	(364)	(37)	–	–	26,271	–	(262)	25,608	(5)	25,603
(c) Changes by the shareholder's equity													
(i) Establishment of non-wholly-owned subsidiaries		–	–	–	–	–	–	–	–	–	–	87	87
(d) Distribution of profits													
(i) Transfer of retained earnings to regulatory general reserve		–	–	–	–	–	166	(166)	–	–	–	–	–
(ii) Dividends paid for the year 2012	32(a)	–	–	–	–	–	–	–	(13,593)	–	(13,593)	–	(13,593)
At 30 June 2013		21,577	37,508	(327)	(298)	18,618	39,361	97,431	–	(1,527)	212,343	155	212,498

The notes on pages 103 to 170 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the period ended 30 June 2013

(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	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2012		21,577	37,508	157	278	14,325	18,794	64,446	9,062	(1,150)	164,997	13	165,010
Adoption of IAS 19 Amendment		–	–	–	–	–	–	(131)	–	3	(128)	–	(128)
Restated at 1 January 2012		21,577	37,508	157	278	14,325	18,794	64,315	9,062	(1,147)	164,869	13	164,882
Amounts increase/(decrease) for the period		–	–	1,918	(47)	–	38	23,351	(9,062)	161	16,359	2	16,361
(a) Profit for the period		–	–	–	–	–	–	23,374	–	–	23,374	(1)	23,373
(b) Other comprehensive income for the period	11	–	–	1,918	(47)	–	–	15	–	161	2,047	–	2,047
Total comprehensive income for the period		–	–	1,918	(47)	–	–	23,389	–	161	25,421	(1)	25,420
(c) Acquisition and disposal of minority interests		–	–	–	–	–	–	–	–	–	–	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)
Restated at 30 June 2012		21,577	37,508	2,075	231	14,325	18,832	87,666	–	(986)	181,228	15	181,243

The notes on pages 103 to 170 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

For the period ended 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2013	2012 (Restated)
Cash flows from operating activities			
Profit before tax		**34,848**	30,821
Adjustments for:			
– Impairment losses on loans and advances		**4,975**	4,087
– Impairment losses on investments and other assets		**(16)**	57
– Unwind of discount income on impaired loans		**(167)**	(91)
– Fixed assets and investment properties depreciation		**1,608**	1,356
– Operating lease of fixed assets depreciation		**18**	27
– Amortisation of other assets		**169**	149
– Amortisation of discount and premium of debt investments		**86**	(13)
– Amortisation of discount and premium of issued debts		**27**	59
– Gains on debt investments		**(1,131)**	(1,843)
– Interest income on debt investments		**(8,730)**	(7,656)
– Interest expense on issued debts		**1,726**	1,230
– Share of profit of associates		**(17)**	(18)
– Share of profit of jointly controlled entities		**(9)**	(9)
Changes in:			
Balances with central bank		**3,568**	(31,288)
Balances and placements with banks and other financial institutions with original maturity over 3 months		**(236,300)**	(63,716)
Loans and advances to customers		**(194,033)**	(143,562)
Other assets		**(20,372)**	(12,161)
Deposits from customers		**264,940**	236,376
Deposits and placements from banks and other financial institutions		**74,213**	232,525
Other liabilities		**32,633**	19,976
Cash (outflow)/inflow from operating activities		**(41,964)**	266,306
Income tax paid		**(7,673)**	(7,876)

The notes on pages 103 to 170 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

For the period ended 30 June 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2013	Six months ended 30 June 2012 (Restated)
Cash flows from investing activities			
Payment for investments purchased		**(452,880)**	(497,161)
Proceeds from investments disposed		**372,657**	442,555
Interest received from investments		**7,630**	7,375
Payment for purchase of fixed assets and other assets		**(2,174)**	(1,519)
Proceeds from sale of fixed assets and other assets		**20**	6
Repayment of loan to jointly controlled entities		**–**	2
Net cash outflow from investing activities		**(74,747)**	(48,742)
Cash flows from financing activities			
Proceeds from issuance of long-term debt securities		**2,000**	20,000
Proceeds from issuance of certificates of deposit		**19,520**	12,230
Repayment of issuance of certificates of deposit		**(6,619)**	(12,382)
Interest paid on issued debts		**(1,013)**	(92)
Dividends paid		**(11,396)**	(7,575)
Cash received from minority shareholders		**87**	3
Cost of issuance of long-term debt securities		**–**	(31)
Net cash inflow from financing activities		**2,579**	12,153
Net (decrease)/increase in cash and cash equivalents		**(121,805)**	221,841
Cash and cash equivalents at 1 January		**452,855**	219,151
Effect of exchange rate changes		**(886)**	382
Cash and cash equivalents at 30 June	33(a)	**330,164**	441,374
Cash flows from operating activities include:			
Interest received		**71,983**	64,952
Interest paid		**20,412**	25,302

The notes on pages 103 to 170 form part of this interim financial report.

Notes to the Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

1 Reporting entity

China Merchants Bank Co., Ltd. ("the Bank") is a bank domiciled in the People's Republic of China (the "PRC"). The unaudited interim financial statements of the Bank as at and for the six months ended 30 June 2013 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 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 2013 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 2012 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.

2 Basis of preparation *(continued)*

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 2012 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 2012.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2013.

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.

3 Changes in accounting policies

IFRS 10 Consolidated Financial Statements

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether is has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidated investees that it controls on the basis of de facto circumstances.

The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 January 2013.

IAS 19 Employee Benefits

Revised IAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised IAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised IAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount.

(Expressed in millions of Renminbi unless otherwise stated)

3 Changes in accounting policies *(continued)*

IAS 19 Employee Benefits *(continued)*

As a result of the adoption of revised IAS 19, the group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 31 December 2012, and the result for the six months ended 30 June 2012 as follows:

	As previously report	Effect of adoption of amendment to IAS19	As restated
Consolidated statement of comprehensive income for the six months ended 30 June 2012			
Operating expenses	22,142	4	22,146
Income tax expense	7,449	(1)	7,448
Profit for the period	23,376	(3)	23,373
Remeasurement of defined benefit scheme recognised through reserve	–	15	15
Foreign currency translation difference	164	(3)	161
Total comprehensive income for the period	25,411	9	25,420
Consolidated statement of financial position at 1 January 2012			
Other assets	5,888	(153)	5,735
Deferred tax assets	4,337	5	4,342
Deferred tax liabilities	864	(20)	844
Retained earnings	64,446	(131)	64,315
Foreign currency translation difference	(1,150)	3	(1,147)
Consolidated statement of financial position at 31 December 2012			
Other assets	8,848	(126)	8,722
Deferred tax assets	4,987	6	4,993
Deferred tax liabilities	827	(14)	813
Retained earnings	71,432	(106)	71,326

This change in accounting policy does not have any material impact on current or deferred taxation and earnings per share.

Notes to the Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

3 Changes in accounting policies *(continued)*

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS, including IFRS 7 Financial instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard (see Note 18). The change had no significant impact on the measurements of the Group's assets and liabilities.

4 Interest income

	Six months ended 30 June	
	2013	2012
Loans and advances (note)		
– corporate loans	**34,972**	33,963
– retail loans	**23,412**	19,472
– discounted bills	**2,323**	3,396
Balances with central bank	**3,519**	3,108
Balances and placements with		
– banks	**2,041**	3,811
– other financial institutions	**962**	801
Amounts held under resale agreements	**4,510**	1,599
Debt securities investments	**8,644**	7,669
Interest income on financial assets that are not at fair value through profit or loss	**80,383**	73,819

Note: Included in the above is interest income of RMB167 million accrued on impaired loans (for the six months ended 30 June 2012: RMB91 million) and none accrued on impaired debt securities investments (for the six months ended 30 June 2012: Nil).

5 Interest expense

	Six months ended 30 June	
	2013	2012
Deposits from customers	**23,031**	20,316
Deposits and placements from		
– banks	**4,296**	3,486
– other financial institutions	**2,710**	4,179
Amounts sold under repurchase agreements	**1,152**	908
Issued debts	**1,753**	1,289
Interest expense on financial liabilities that are not at fair value through profit or loss	**32,942**	30,178

(Expressed in millions of Renminbi unless otherwise stated)

6 Fee and commission income

	Six months ended 30 June	
	2013	2012
Bank cards fees	**3,730**	2,621
Remittance and settlement fees	**1,250**	1,088
Agency services fees	**2,640**	1,975
Commissions from credit commitment and loan business	**1,436**	1,186
Commissions on trust and fiduciary activities	**3,456**	2,333
Others	**2,571**	1,208
	15,083	10,411

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 RMB4,274 million (for the six months ended 30 June 2012: RMB3,213 million).

7 Other net income

	Six months ended 30 June	
	2013	2012
Trading profits arising from		
– foreign exchange	**714**	836
– bonds, derivatives and other trading activities	**395**	338
Net (losses)/gains on financial instruments designated at fair value through profit or loss	**(472)**	165
Net gains on disposal of available-for-sale financial assets	**114**	112
Distributions from investment in funds	**12**	16
Rental income on operating leases assets	**190**	53
Net gains on disposal of bills	**1,252**	1,997
Insurance operating income	**220**	197
Others	**156**	147
	2,581	3,861

Notes to the Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

8 Operating expenses

	Six months ended 30 June	
	2013	2012
Staff costs		
– Salaries and bonuses	**9,229**	8,530
– Social insurance and enterprise supplemental insurance	**1,984**	1,758
– Others	**1,501**	1,390
	12,714	11,678
Business tax and surcharges	**4,116**	3,749
Depreciation		
– Fixed assets and investment properties depreciation	**1,608**	1,356
– Operating leases of fixed assets depreciation	**18**	27
Rental expenses	**1,344**	1,184
Other general and administrative expenses	**4,438**	4,152
	24,238	22,146

9 Impairment losses

	Six months ended 30 June	
	2013	2012
Loans and advances (Note 17(c))	**4,975**	4,087
Others	**(16)**	57
	4,959	4,144

10 Income tax

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2013	2012
Current tax		
– Mainland China	**8,324**	7,678
– Hong Kong	**196**	231
– Overseas	**20**	32
Subtotal	**8,540**	7,941
Deferred tax	**42**	(493)
Total	**8,582**	7,448

Notes to the Interim Financial Report

(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					
	2013			2012		
	Before-tax amount	**Tax benefit**	**Net-of-tax amount**	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences	**(262)**	**–**	**(262)**	161	–	161
Available-for-sale financial assets						
– net movement in fair value reserve	**(476)**	**112**	**(364)**	2,559	(641)	1,918
Cash flow hedging:						
– net movement in hedging reserve	**(50)**	**13**	**(37)**	(63)	16	(47)
Remeasurement of defined benefit scheme redesigned through reserve	**–**	**–**	**–**	18	(3)	15
Other comprehensive income	**(788)**	**125**	**(663)**	2,675	(628)	2,047

(b) Movement in the fair value reserve relating to components of other comprehensive income

	Six months ended 30 June	
	2013	2012
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	**(139)**	(47)
Reclassification adjustments for amounts transferred to profit or loss:		
– Realised losses	**102**	–
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(37)**	(47)
Available-for-sale financial assets		
Changes in fair value recognised during the period	**(379)**	2,007
Reclassification adjustments for amounts transferred to profit or loss:		
– losses/(gains) on disposal	**15**	(89)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(364)**	1,918

Notes to the Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

12 Earnings per share

Movements of the share capital are included in note 31.

The calculation of basic earnings per share for the six months ended 30 June 2013 and 2012 is based on the net profit attributable to equity holders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted EPS as there are no potentially dilutive shares outstanding during the six months ended 30 June 2013 and 2012.

	Six months ended 30 June	
	2013	2012
Net profit attributable to equity shareholders of the Bank	**26,271**	23,374
Weighted average number of shares in issue (in million)	**21,577**	21,577
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**1.22**	1.08

13 Balances with central bank

	30 June 2013	31 December 2012
Statutory deposit reserve funds (note (i))	**404,608**	407,897
Surplus deposit reserve funds (note (ii))	**63,470**	48,086
Fiscal deposits	**2,411**	2,690
	470,489	458,673

Notes:

(i) Statutory deposit reserve funds are deposited with the People's Bank of China as required and are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 18% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 30 June 2013 (31 December 2012: 18% and 5% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

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

(Expressed in millions of Renminbi unless otherwise stated)

14 Balances with banks and other financial institutions

	30 June 2013	31 December 2012
Balances with banks	**49,588**	280,753
Balances with other financial institutions	**161**	183
	49,749	280,936
Less: Impairment allowances		
– banks	**(50)**	(62)
– other financial institutions	**(4)**	(4)
	(54)	(66)
	49,695	280,870

15 Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	30 June 2013	31 December 2012
Money market placements		
– banks	**62,569**	63,935
– other financial institutions	**34,392**	39,514
	96,961	103,449
Less: Impairment allowance		
– banks	**(14)**	(29)
	96,947	103,420

(b) Analysed by remaining maturity

	30 June 2013	31 December 2012
Maturing		
– within one month	**27,769**	31,400
– between one month and one year	**57,616**	61,998
– after one year	**11,562**	10,022
	96,947	103,420

Notes to the Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

16 Amounts held under resale agreements

(a) Analysed by assets types

	30 June 2013	31 December 2012
Securities	**177,902**	91,898
Loans	**429**	532
Bills	**135,705**	935
Trust beneficiary rights	**103,811**	13,600
Asset management plans	**8,241**	–
	426,088	106,965

(b) Analysed by nature of counterparties

	30 June 2013	31 December 2012
Amounts held under resale agreements		
– banks	**415,333**	93,482
– other financial institutions	**10,755**	13,483
	426,088	106,965

(c) Analysed by remaining maturity

	30 June 2013	31 December 2012
Maturing		
– within one month	**166,442**	79,433
– between one month and one year	**210,695**	25,926
– after one year	**48,951**	1,606
	426,088	106,965

(Expressed in millions of Renminbi unless otherwise stated)

17 Loans and advances to customers

(a) Loans and advances to customers

	30 June 2013	31 December 2012
Corporate loans and advances	**1,278,770**	1,152,837
Discounted bills	**66,680**	64,842
Retail loans and advances	**752,628**	686,784
Gross loans and advances to customers	**2,098,078**	1,904,463
Less: Impairment allowances		
– individually-assessed	**(5,743)**	(4,995)
– collectively-assessed	**(39,736)**	(36,143)
	(45,479)	(41,138)
Net loans and advances to customers	**2,052,599**	1,863,325

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	30 June 2013	31 December 2012
Domestic enterprises:		
State-owned enterprises	**132,769**	134,108
Joint-stock enterprises	**141,618**	123,101
Other limited liability enterprises	**477,271**	427,601
Others	**266,442**	213,423
	1,018,100	898,233
Foreign-invested enterprises:	**135,959**	141,214
Enterprises operating in the Mainland	**1,154,059**	1,039,447
Enterprises operating outside the Mainland	**124,711**	113,390
Corporate loans	**1,278,770**	1,152,837
Discounted bills	**66,680**	64,842
Retail loans and advances	**752,628**	686,784
Gross loans and advances to customers	**2,098,078**	1,904,463

Notes to the Interim Financial Report

(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 2013		31 December 2012	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**387,495**	**37**	354,863	33
Wholesale and retail	**239,053**	**49**	195,608	48
Transportation, storage and postal services	**135,343**	**33**	135,985	30
Production and supply of electric power, heating power gas and water	**79,187**	**34**	79,081	28
Property development	**73,782**	**81**	73,998	80
Construction	**65,090**	**38**	59,393	34
Mining	**59,721**	**42**	54,507	38
Leasing and commercial services	**33,504**	**38**	31,949	31
Water, environment and public utilities management	**28,087**	**36**	29,208	33
Telecommunications, software and computer services	**13,739**	**26**	11,721	25
Others	**39,188**	**31**	31,509	28
Corporate loans and advances	**1,154,189**	**41**	1,057,822	38
Discounted bills	**66,680**	**100**	64,842	100
Credit cards	**123,272**	**–**	106,189	–
Residential mortgages	**306,888**	**99**	328,199	100
Personal operating loans	**258,634**	**87**	180,706	86
Others	**52,565**	**94**	60,574	95
Retail loans	**741,359**	**78**	675,668	80
Gross loans and advances to customers	**1,962,228**	**57**	1,798,332	56

(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 2013		31 December 2012	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Property development	**31,790**	**54**	34,455	55
Wholesale and retail	**51,772**	**92**	28,064	89
Manufacturing	**13,711**	**59**	10,041	67
Transportation and transportation equipment	**6,697**	**47**	7,066	55
Financial concerns	**9,162**	**37**	6,554	23
Information technology	**151**	**62**	200	45
Recreational activities	**37**	**50**	26	24
Others	**11,261**	**39**	8,609	40
Corporate loans and advances	**124,581**	**68**	95,015	63
Credit cards	**241**	**–**	330	–
Residential mortgages	**7,380**	**100**	7,547	100
Personal operating loans	**1,454**	**99**	1,306	100
Others	**2,194**	**93**	1,933	97
Retail loans	**11,269**	**96**	11,116	96
Gross loans and advances to customers	**135,850**	**70**	106,131	66

Note: The Company has implemented China's new Industrial Classification for National Economic Activities (GT/T4754-2011) since January 2013, and made retrospective adjustments to the data as at 31 December 2012 according to the new above standard.

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(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 2013			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing	**6,073**	**4,787**	**2,477**	**8,301**
Wholesale and retail	**4,545**	**3,556**	**1,737**	**5,541**
Residential mortgages	**4,384**	**930**	**–**	**2,892**
Personal operating loans	**5,310**	**1,533**	**–**	**5,714**

	31 December 2012			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing	3,876	3,622	2,016	7,469
Wholesale and retail	2,655	2,355	1,316	4,190
Retail housing mortgage loans	3,939	728	–	3,018

(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 2013, 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 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 2013			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	**34,202**	**1,941**	**4,995**	**41,138**
Charge for the period (note 9)	**3,145**	**644**	**1,552**	**5,341**
Releases for the period (note 9)	**(7)**	**–**	**(359)**	**(366)**
Unwinding of discount	**–**	**(1)**	**(166)**	**(167)**
Recoveries of loans and advances previously written off	**–**	**10**	**22**	**32**
Write-offs	**–**	**(161)**	**(287)**	**(448)**
Exchange difference	**(37)**	**–**	**(14)**	**(51)**
At 30 June	**37,303**	**2,433**	**5,743**	**45,479**

	For the year ended 31 December 2012			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	30,190	1,389	5,125	36,704
Charge for the year	4,046	707	1,523	6,276
Releases for the year	(17)	(1)	(767)	(785)
Unwinding of discount	–	(1)	(214)	(215)
Recoveries of loans and advances previously written off	–	15	50	65
Write-offs	–	(168)	(723)	(891)
Transfers	–	–	13	13
Exchange difference	(17)	–	(12)	(29)
At 31 December	34,202	1,941	4,995	41,138

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(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 2013					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	45,103	–	1	45,104	0.00	–
– non-financial institution customers	2,038,080	4,356	10,538	2,052,974	0.73	2,613
	2,083,183	4,356	10,539	2,098,078	0.71	2,613
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(55)	–	(1)	(56)		
– non-financial institution customers	(37,248)	(2,433)	(5,742)	(45,423)		
	(37,303)	(2,433)	(5,743)	(45,479)		
Net loans and advances to						
– financial institutions	45,048	–	–	45,048		
– non-financial institution customers	2,000,832	1,923	4,796	2,007,551		
	2,045,880	1,923	4,796	2,052,599		

(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 2012					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	20,859	–	1	20,860	0.00	–
– non-financial institution customers	1,872,070	3,215	8,318	1,883,603	0.61	1,870
	1,892,929	3,215	8,319	1,904,463	0.61	1,870
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(25)	–	(1)	(26)		
– non-financial institution customers	(34,177)	(1,941)	(4,994)	(41,112)		
	(34,202)	(1,941)	(4,995)	(41,138)		
Net loans and advances to						
– financial institutions	20,834	–	–	20,834		
– non-financial institution customers	1,837,893	1,274	3,324	1,842,491		
	1,858,727	1,274	3,324	1,863,325		

Notes:

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

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

- collectively: that is portfolios of homogeneous loans 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.

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(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 2013		31 December 2012	
	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	**25,067**	**28,712**	20,773	23,602
After 1 year but within 5 years	**40,103**	**44,564**	31,486	34,791
After 5 years	**4,142**	**4,643**	2,397	2,677
	69,312	**77,919**	54,656	61,070
Impairment allowances:				
– individually-assessed	**(15)**	**(15)**	(20)	(20)
– collectively-assessed	**(992)**	**(992)**	(781)	(781)
Unearned future income on finance lease	**–**	**(8,607)**	–	(6,414)
Net investment in finance leases and hire purchase contracts	**68,305**	**68,305**	53,855	53,855

18 Investments

	Note	30 June 2013	31 December 2012
Financial assets at fair value through profit or loss	18(a)	**22,613**	25,489
Derivative financial assets	35(b)	**4,890**	1,975
Available-for-sale investments	18(b)	**304,958**	285,344
Held-to-maturity debt securities	18(c)	**196,841**	175,417
Receivables	18(d)	**88,502**	32,221
		617,804	520,446

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

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

	Note	30 June 2013	31 December 2012
Trading financial assets	(i)	**15,428**	19,139
Financial assets designated at fair value through profit or loss	(iii)	**7,185**	6,350
		22,613	25,489

	30 June 2013	31 December 2012
(i) Trading assets		
Listed		
In the Mainland		
– PRC government bonds	**2,902**	1,221
– bonds issued by PBOC	**79**	23
– bonds issued by policy banks	**79**	2,931
– bonds issued by commercial banks and other financial institutions	**1,326**	11,012
– other debt securities	**4,076**	276
– investments in funds	**3**	3
– paper precious metals	**3,865**	–
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**759**	428
– other debt securities	**695**	596
– equity investments	**245**	157
– investments in funds	**4**	10
	14,033	16,657
Unlisted		
In the Mainland		
– bonds issued by commercial banks and other financial institutions	**16**	16
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**–**	62
– other debt securities	**1,365**	2,390
– investment in funds	**14**	14
	15,428	19,139

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(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

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

	30 June 2013	31 December 2012
(ii) Financial assets designated at fair value through profit or loss		
Listed		
In the Mainland		
– PRC government bonds	**297**	298
– bonds issued by policy banks	**950**	949
– bonds issued by commercial banks and other financial institutions	**3,697**	3,639
– other debt securities	**–**	284
Outside the Mainland		
– bonds issued by policy banks	**64**	66
– bonds issued by commercial banks and other financial institutions	**554**	332
– other debt securities	**737**	466
Unlisted		
In the Mainland		
– bonds issued by commercial banks and other financial institutions	**27**	–
Outside the Mainland		
– other debt securities	**859**	316
	7,185	6,350
Financial assets designated at fair value through profit or loss (excluding derivative financial instruments)		
Issued by:		
Sovereigns	**4,650**	3,893
Banks and other financial institutions	**11,890**	19,537
Public sector entities	**–**	4
Corporates	**6,073**	2,055
	22,613	25,489

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(b) Available-for-sale investments

	30 June 2013	31 December 2012
Listed		
In the Mainland		
– PRC government bonds	**31,444**	29,829
– bonds issued by PBOC	**1,682**	5,928
– bonds issued by policy banks	**39,294**	39,270
– bonds issued by commercial banks and other financial institutions	**106,636**	98,525
– other debt securities	**99,172**	85,815
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**2,860**	3,188
– other debt securities	**4,966**	3,718
– equity investments	**681**	612
– investments in funds	**21**	18
	286,756	266,903
Unlisted		
In the Mainland		
– bonds issued by commercial banks and other financial institutions	**701**	701
– equity investments	**644**	643
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**7,600**	6,298
– other debt securities	**9,151**	10,721
– equity investments	**106**	78
	18,202	18,441
	304,958	285,344
Issued by:		
Sovereigns	**42,204**	46,909
Banks and other financial institutions	**160,857**	149,255
Corporates	**101,897**	89,180
	304,958	285,344

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(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(c) Held-to-maturity debt securities

	30 June 2013	31 December 2012
Listed		
In the Mainland		
– PRC government bonds	**77,257**	74,780
– bonds issued by PBOC	**6,450**	15,373
– bonds issued by policy banks	**17,634**	10,503
– bonds issued by commercial banks and other financial institutions	**89,504**	68,479
– other debt securities	**1,626**	2,869
Outside the Mainland		
– PRC government bonds	**100**	–
– bonds issued by commercial banks and other financial institutions	**522**	610
– other debt securities	**1,232**	1,317
	194,325	173,931
Less: Impairment allowances	**(80)**	(81)
	194,245	173,850
Unlisted		
In the Mainland		
– other debt securities	**–**	120
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**296**	1,355
– other debt securities	**2,392**	185
	2,688	1,660
Less: Impairment allowances	**(92)**	(93)
	2,596	1,567
	196,841	175,417

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

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

	30 June 2013	31 December 2012
Issued by:		
Sovereigns	**85,949**	90,444
Banks and other financial institutions	**107,800**	80,789
Public sector entities	**–**	10
Corporates	**3,092**	4,174
	196,841	175,417
Fair value of listed debt securities	**195,252**	173,941
Movements of allowances for impairment losses		
At 1 January	**174**	174
Charge for the year	**–**	7
Releases for the year	**–**	(5)
Exchange difference	**(2)**	(2)
At 30 June/31 December	**172**	174

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(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(d) Receivables

	30 June 2013	31 December 2012
Unlisted		
In the Mainland		
– PRC government bonds	**1,187**	1,769
– bonds issued by commercial banks and other financial institutions	**9,911**	11,360
– Other debt securities	**19,429**	19,093
– Insurance asset management plan	**12,080**	–
– Trust beneficiary rights and others	**45,898**	–
	88,505	32,222
Outside the Mainland		
– bonds issued by commercial banks and other financial institutions	**61**	62
	88,566	32,284
Less: Impairment allowances	**(64)**	(63)
	88,502	32,221
Issued by:		
Sovereigns	**1,187**	1,769
Banks and other financial institutions	**67,887**	11,359
Corporates	**19,428**	19,093
	88,502	32,221

All of the above receivables are unlisted.

Movements of allowances for impairment losses		
At 1 January	**63**	63
Charge for the year	**1**	1
Releases for the year	**–**	–
Exchange difference	**–**	(1)
At 30 June/31 December	**64**	63

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(e) Trading liabilities

	30 June 2013	31 December 2012
Short positions in exchange fund bills and notes at fair value		
– listed	**142**	–
Short positions in equity securities at fair value		
– listed	**–**	25
Short positions in funds at fair value		
– listed	**–**	16
Short positions in paper precious metals at fair value	**–**	243
	142	284

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

	30 June 2013	31 December 2012
Unlisted		
In the Mainland		
– paper precious metals from other banks	**23,249**	3,056
Outside the Mainland		
– certificates of deposit issued	**5,416**	3,514
Total	**28,665**	6,570

As at the end of reporting period, the difference between the fair value of the Group's and the Bank's financial liabilities designated at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the period/year presented and cumulatively as at 30 June 2013 and 31 December 2012.

18 Investments *(continued)*

(g) Fair values of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2 – Valuation techniques based on observable inputs, either directly (i. e., quoted prices) or indirectly (i. e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	30 June 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Debt securities	2,808	12,354	–	15,162
– Derivative financial assets	–	4,857	33	4,890
– Equity investments	245	–	–	245
– Investment in funds	3	18	–	21
	3,056	17,229	33	20,318
Financial assets designated at fair value through profit or loss				
– Debt securities	619	6,437	129	7,185
Available-for-sale financial assets				
– Debt securities	16,549	286,320	–	302,869
– Equity investments	720	31	31	782
– Investments in funds	21	–	–	21
	17,290	286,351	31	303,672
	20,965	310,017	193	331,175
Liabilities				
Trading liabilities				
– Short position in paper precious metals at fair value	–	–	–	–
– Short positions in exchange fund bill and notes at fair value	142	–	–	142
– Short position in equity securities at fair value	–	–	–	–
– Short position in funds at fair value	–	–	–	–
– Derivative financial liabilities	–	12,322	–	12,322
	142	12,322	–	12,464
Financial liabilities designated at fair value through profit or loss				
– Paper precious metals from other financial institutions	–	23,249	–	23,249
– Certificates of deposit issued	–	444	4,972	5,416
	–	23,693	4,972	28,665
	142	36,015	4,972	41,129

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(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

	31 December 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Debt securities	3,078	15,877	–	18,955
– Derivative financial assets	–	1,975	–	1,975
– Equity investments	157	–	–	157
– Investment in funds	10	17	–	27
	3,245	17,869	–	21,114
Financial assets designated at fair value through profit or loss				
– Debt securities	493	5,661	196	6,350
Available-for-sale financial assets				
– Debt securities	10,369	273,624	–	283,993
– Equity investments	645	40	–	685
– Investments in funds	18	–	–	18
	11,032	273,664	–	284,696
	14,770	297,194	196	312,160
Liabilities				
Trading liabilities				
– Short position in paper precious metals at fair value	–	243	–	243
– Short positions in exchange fund bill and notes at fair value	–	–	–	–
– Short position in equity securities at fair value	16	9	–	25
– Short position in funds at fair value	16	–	–	16
– Derivative financial liabilities	–	2,745	–	2,745
	32	2,997	–	3,029
Financial liabilities designated at fair value through profit or loss				
– Paper precious metals from other financial institutions	–	3,056	–	3,056
– Certificates of deposit issued	–	458	3,056	3,514
	–	3,514	3,056	6,570
	32	6,511	3,056	9,599

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

During the period there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Trading assets-derivative financial assets	Financial assets designated at fair value through profit or loss-debt securities	Available-for sale financial asset-equity investments	Total
Assets				
At 1 January 2013	–	196	–	196
Purchases	37	–	34	71
Payment on maturity	(4)	(63)	–	(67)
Changes in fair value recognised in the consolidated statement of comprehensive income:				
– Net income from financial instruments designated at fair value through profit and loss	–	(3)	–	(3)
– Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets	–	–	(3)	(3)
– Exchange difference	–	(1)	–	(1)
30 June 2013	33	129	31	193
Total gains or losses for the year included in the consolidated statement of comprehensive income for assets held at the end of the reporting period recorded in:				
– Net income from financial instruments designated at fair value through profit and loss	–	1	–	1
– Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets	–	–	(3)	(3)

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(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy: *(continued)*

	Trading liabilities- derivative financial liabilities	Financial liabilities designated at fair value through profit or loss– certificates of deposit issued	Total
Liabilities			
At 1 January 2013	–	**3,056**	**3,056**
Issues	–	**2,414**	**2,414**
Payment on maturity	–	**(421)**	**(421)**
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	–	**(20)**	**(20)**
– Exchange difference	–	**(57)**	**(57)**
At 30 June 2013	–	**4,972**	**4,972**
Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	–	**(26)**	**(26)**

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy: *(continued)*

	Trading assets-derivative financial assets	Financial assets designated at fair value through profit or loss-debt securities	Total
Assets			
At 1 January 2012	–	325	325
Payment on maturity	–	(129)	(129)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net income from financial instruments designated at fair value through profit and loss	–	2	2
– Exchange difference	–	(2)	(2)
At 31 December 2012	–	196	196
Total gains or losses for the year included in the consolidated statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net income from financial instruments designated at fair value through profit and loss	–	17	17

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(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy: *(continued)*

	Trading liabilities-derivative financial liabilities	Financial liabilities designated at fair value through profit or loss– certificates of deposit issued	Total
Liabilities			
At 1 January 2012	10	3,558	3,568
Issues	–	852	852
Payment on maturity	–	(1,381)	(1,381)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	(10)	47	37
– Exchange difference	–	(20)	(20)
At 31 December 2012	–	3,056	3,056
Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	–	(140)	(140)

(Expressed in millions of Renminbi unless otherwise stated)

18 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

	30 June 2013		31 December 2012	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Trading assets				
– Derivative financial assets	3	(3)	–	–
Financial assets designated at fair value through profit or loss				
– Debt securities	13	(13)	20	(20)
Available-for-sale financial assets				
– Equity investments	3	(3)	–	–
Financial liabilities designated at fair value through profit or loss				
– Certificates of deposit issued	497	(497)	306	(306)

(h) (i) CIGNA & CMC Life Insurance Company Limited

On 5 May 2008, the Bank entered into an equity transfer agreement with Shenzhen Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity 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. Upon the maturity of the equity transfer agreement on 4 May 2010, the Bank renewed the equity transfer agreement with identical terms with Dingzun. On 28 March 2013, the acquisition got the approval from the China Banking Regulatory Commission ("CBRC") and the China Insurance Regulatory Commission ("CIRC"). As at 30 June 2013, the application of equity transaction was still awaiting approval from the regulatory authorities. CIGNA & CMC Life Insurance Company Limited was granted approval by the CIRC, on 4 July 2013, to a request for shareholders' equity transfer under the Bank's acquisition of 50% interest in the Company.

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(Expressed in millions of Renminbi unless otherwise stated)

19 Interest in associates

	30 June 2013	31 December 2012
Share of net assets	**175**	177
Goodwill	**114**	114
	289	291
Less: Impairment allowance	**–**	(1)
	289	290

The following list contains only the particulars of associates as of 30 June 2013, which are unlisted corporate entities and principally affected the results or assets of the Group:

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

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20 Interest in jointly controlled entities

	30 June 2013	31 December 2012
Share of net assets	**156**	153
Loan to jointly controlled entities	**11**	12
	167	165

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

Name of jointly controlled entities	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest: Group's effective interest	Held by the bank	Held by the subsidiary	Principal activity
Bank Consortium Holding Limited (Note (i))	Incorporated	Hong Kong	HK$150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (Note (ii))	Incorporated	Hong Kong	HK$10,024	2.88%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited	Incorporated	Hong Kong	HK$420,000	16.67%	–	16.67%	Life insurance business
BC Reinsurance Limited	Incorporated	Hong Kong	HK$200,000	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.

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(Expressed in millions of Renminbi unless otherwise stated)

21 Fixed assets

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2013	13,705	3,476	5,148	5,103	1,389	5,081	33,902
Additions	63	1,384	160	135	–	144	1,886
Reclassification and transfers	(54)	(4)	1	3	–	1	(53)
Disposals/write-offs	(40)	–	(37)	(2)	–	(195)	(274)
Exchange difference	(65)	–	(3)	(10)	(33)	–	(111)
At 30 June 2013	13,609	4,856	5,269	5,229	1,356	5,031	35,350
Accumulated depreciation:							
At 1 January 2013	3,387	–	3,643	2,866	114	3,500	13,510
Depreciation	358	–	422	413	35	345	1,573
Reclassification and transfers	(1)	–	–	–	–	–	(1)
Disposals/write-offs	(33)	–	(35)	–	–	(186)	(254)
Exchange difference	(28)	–	1	(9)	(3)	(7)	(46)
At 30 June 2013	3,683	–	4,031	3,270	146	3,652	14,782
Net book value:							
At 30 June 2013	9,926	4,856	1,238	1,959	1,210	1,379	20,568
At 1 January 2013	10,318	3,476	1,505	2,237	1,275	1,581	20,392

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(Expressed in millions of Renminbi unless otherwise stated)

21 Fixed assets *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2012	10,704	4,023	4,388	4,081	1,001	4,629	28,826
Additions	501	2,654	986	858	156	783	5,938
Reclassification and transfers	2,642	(3,201)	6	253	231	24	(45)
Disposals/write-offs	(116)	–	(231)	(88)	–	(345)	(780)
Exchange difference	(26)	–	(1)	(1)	1	(10)	(37)
At 31 December 2012	13,705	3,476	5,148	5,103	1,389	5,081	33,902
Accumulated depreciation:							
At 1 January 2012	2,808	–	3,191	2,047	54	3,226	11,326
Depreciation	608	–	681	846	60	621	2,816
Reclassification and transfers	1	–	(1)	–	–	1	1
Disposals/write-offs	(26)	–	(227)	(25)	–	(336)	(614)
Exchange difference	(4)	–	(1)	(2)	–	(12)	(19)
At 31 December 2012	3,387	–	3,643	2,866	114	3,500	13,510
Net book value:							
At 31 December 2012	10,318	3,476	1,505	2,237	1,275	1,581	20,392
At 1 January 2012	7,896	4,023	1,197	2,034	947	1,403	17,500

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(Expressed in millions of Renminbi unless otherwise stated)

22 Investment properties

	30 June 2013	31 December 2012
Cost:		
At 1 January	**2,207**	2,175
Transfers	**53**	45
Exchange difference	**(36)**	(13)
At 30 June/31 December	**2,224**	2,207
Accumulated depreciation:		
At 1 January	**569**	465
Depreciation	**53**	108
Transfers	**1**	(1)
Exchange difference	**(9)**	(3)
At 30 June/31 December	**614**	569
Net book value:		
At 30 June/31 December	**1,610**	1,638
At 1 January	**1,638**	1,710

(Expressed in millions of Renminbi unless otherwise stated)

23 Intangible assets

	Land use right	Software	Core deposit	Total
Cost/valuation:				
At 1 January 2013	**1,138**	**1,656**	**1,056**	**3,850**
Additions	**172**	**116**	**–**	**288**
Disposal	**–**	**(59)**	**–**	**(59)**
Exchange difference	**(4)**	**(1)**	**(16)**	**(21)**
At 30 June 2013	**1,306**	**1,712**	**1,040**	**4,058**
Amortisation:				
At 1 January 2013	**145**	**695**	**159**	**999**
Additions	**13**	**134**	**18**	**165**
Exchange difference	**(1)**	**–**	**(2)**	**(3)**
At 30 June 2013	**157**	**829**	**175**	**1,161**
Net book value:				
At 30 June 2013	**1,149**	**883**	**865**	**2,897**
At 1 January 2013	993	961	897	2,851

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(Expressed in millions of Renminbi unless otherwise stated)

23 Intangible assets *(continued)*

	Land use right	Software	Core deposit	Total
Cost/valuation:				
At 1 January 2012	1,009	1,230	1,064	3,303
Additions	130	426	–	556
Exchange difference	(1)	–	(8)	(9)
At 31 December 2012	1,138	1,656	1,056	3,850
Amortisation:				
At 1 January 2012	121	455	122	698
Additions	24	240	38	302
Exchange difference	–	–	(1)	(1)
At 31 December 2012	145	695	159	999
Net book value:				
At 31 December 2012	993	961	897	2,851
At 1 January 2012	888	775	942	2,605

24 Goodwill

	30 June 2013	31 December 2012
Cost	**10,177**	10,177
Less: Impairment loss	**(579)**	(579)
At 30 June/31 December	**9,598**	9,598

On 30 September 2008, the Bank acquired a 53.12% equity interest in Wing Lung Bank. On the acquisition date, the fair value of Wing Lung Bank's identifiable net assets was RMB12.898 billion, of which the Bank accounted for RMB6.851 billion. A sum of RMB10.177 billion being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Wing Lung Bank is a licensed bank incorporated in Hong Kong which provides various personal and commercial banking products and services.

(Expressed in millions of Renminbi unless otherwise stated)

25 Deferred tax assets/liabilities

	30 June 2013	31 December 2012
Deferred tax assets	**5,062**	4,993
Deferred tax liabilities	**(787)**	(813)
Total	**4,275**	4,180

(a) Nature of deferred tax assets and liabilities

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

	30 June 2013		31 December 2012	
	Deductible/ (taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Impairment losses on loans and advance to customers and other assets	**14,406**	**3,596**	14,167	3,549
Investment revaluation reserve	**538**	**131**	56	15
Salary payable	**3,751**	**937**	4,401	1,100
Others	**1,630**	**398**	1,405	329
Total	**20,325**	**5,062**	20,029	4,993
Deferred tax liabilities				
Impairment losses on loans and advance to customers and other assets	**–**	**–**	114	19
Investment revaluation reserve	**(4)**	**(1)**	19	3
Others	**(4,766)**	**(786)**	(5,057)	(835)
Total	**(4,770)**	**(787)**	(4,924)	(813)

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(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 2013	**3,568**	**18**	**1,100**	**(506)**	**4,180**
Recognised in the consolidated statement of comprehensive income	**29**	**–**	**(163)**	**92**	**(42)**
Recognised in reserves	**–**	**112**	**–**	**13**	**125**
Due to exchange difference	**(1)**	**–**	**–**	**13**	**12**
At 30 June 2013	**3,596**	**130**	**937**	**(388)**	**4,275**

	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	(416)	–	541	330	455
Recognised in reserves	–	44	–	201	245
Due to exchange difference	–	–	–	7	7
At 31 December 2012	3,568	18	1,100	(506)	4,180

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. As a result of New Tax Law, the income tax rate applicable to the Bank's business is 25%.

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(Expressed in millions of Renminbi unless otherwise stated)

26 Deposits from banks and other financial institutions

	30 June 2013	31 December 2012
Deposits from banks		
– In the Mainland	**162,021**	106,635
– Outside Mainland	**17,614**	6,400
Deposits from other financial institutions		
– In the Mainland	**170,482**	145,657
	350,117	258,692

27 Placements from banks and other financial institutions

	30 June 2013	31 December 2012
Banks in the Mainland	**99,461**	99,079
Banks outside the Mainland	**18,329**	10,736
	117,790	109,815

28 Amounts sold under repurchase agreements

(a) Analysed by geographical location

	30 June 2013	31 December 2012
Balances under repurchase		
– banks in the Mainland	**125,193**	157,753
– other financial institutions in the Mainland	**6,695**	200
– banks outside the Mainland	**682**	–
	132,570	157,953

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(Expressed in millions of Renminbi unless otherwise stated)

28 Amounts sold under repurchase agreements *(continued)*

(b) Analysed by assets type

	30 June 2013	31 December 2012
Securities	**117,076**	148,791
Discounted bills	**15,494**	8,962
Loans	**–**	200
	132,570	157,953

29 Deposits from customers

	30 June 2013	31 December 2012
Corporate customers		
– demand deposits	**853,097**	797,577
– time deposits	**922,580**	809,364
	1,775,677	1,606,941
Retail customers		
– demand deposits	**591,103**	524,970
– time deposits	**430,798**	400,533
	1,021,901	925,503
	2,797,578	2,532,444

30 Debt issued

	Note	**30 June 2013**	31 December 2012
Certificates of deposit issued		**22,730**	13,013
Subordinated notes issued	30(a)	**44,077**	44,124
Long-term debt securities issued	30(b)	**21,977**	19,974
		88,784	77,111

(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	Annual interest rate	Nominal value	Carrying amount 30 June 2013	Carrying amount 31 December 2012
			(%)	(in RMB million)		
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	**18,998**	18,994
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	**6,991**	6,990
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	**4,000**	3,999
Fixed rate notes (note (ii))	180 months	28 December 2012	5.20 (for the first 10 years) 5.20 (from 11 years onwards, if the notes are not called by the Bank)	11,700	**11,685**	11,700
					41,674	41,683

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(Expressed in millions of Renminbi unless otherwise stated)

30 Debt issued *(continued)*

(a) Subordinated notes issued *(continued)*

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

Particulars	Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount 30 June 2013	Carrying amount 31 December 2012
			(%)	(in million)		
Fixed rate notes	144 months	28 December 2009	5.70	HK$1,500	**1,187**	1,206
Fixed to floating rate notes	120 months	6 November 2012	3.5 (for the first 5 years); T*+2.8% (from 6 years onwards, if the notes are not called by the Bank)	US$200	**1,216**	1,235
					2,403	2,441
					44,077	44,124

* R represents the 1-year fixed deposit rate ("Rate") promulgated by PBOC. The Rate on 4 September 2008, 2009, 2010, 2011 and 2012 was 4.14%, 2.25%, 2.25%, 3.50% and 3.00% respectively. T represents the 5 years US Treasury rate.

Notes:

(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 subordinated notes and RMB4 billion floating rate subordinated notes on 4 September 2008 to institutional investors on the China Interbank Bond Market.

(ii) The CBRC and PBOC approved the Bank's issuance of RMB11.7 billion subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No.703 entitled "The Approval of the issuance subordinated bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.91 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11.7 billion fixed rate subordinated notes on 28 December 2012 to institutional investors on the China Interbank Bond Market.

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30 Debt issued *(continued)*

(b) Long-term debt securities issued

As at the end of the reporting period, long-term debt securities issued by the Bank were as follows:

Particulars	Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount 30 June 2013
			(%)	(in RMB million)	
12 CMB 01 (Note (i))	60 months	14 March 2012	4.15	6,500	**6,493**
12 CMB 02 (Note (i))	60 months	14 March 2012	R*+0.95	13,500	**13,484**
					19,977

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

Note:

(i) The CBRC and PBOC approved the Bank's issuance of RMB20 billion long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No.557 entitled "The Approval of the issuance of long-term debt securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6.5 billion fixed rate debt and RMB13.5 billion floating rate debt on 14 March 2012 on the China Interbank Bond Market.

As at the end of the reporting period, long-term debt securities issued by CMB leasing were as follows:

Particulars	Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount 30 June 2013
			(%)	(in RMB million)	
Fixed rate notes (Note (ii))	36 months	26 June 2013	4.99	1,000	**1,000**
Fixed rate notes (Note (ii))	60 months	26 June 2013	5.08	1,000	**1,000**
					2,000

Note:

(ii) As approved by CBRC under its Official Reply on the Issue of Financial Bonds by CMB Financial Leasing Company Limited under ref. Yin Jian Fu [2012] No.758 and the People's Bank of China under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No.33, CMB Financial Leasing Company Limited issued the first tranche of RMB2 billion in financial bonds of CMB Financial Leasing Company Limited for 2013 on 26 June 2013.

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31 Share capital

By type of share:

	Registered capital	
	30 June 2013	31 December 2012
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 2013 and at 30 June 2013	**21,577**	**21,577**
At 1 January 2012 and at 31 December 2012	21,577	21,577

32 Profit appropriations

(a) Dividends declared and paid

	Six months ended 30 June 2013	Year ended 31 December 2012
Dividends in respect of the previous year, approved, declared and paid during the period:		
Dividends in 2012, approved and declared RMB6.30 per every 10 shares	**13,593**	–
Dividends in 2011, approved and declared RMB4.20 per every 10 shares	**–**	9,062

(Expressed in millions of Renminbi unless otherwise stated)

32 Profit appropriations *(continued)*

(b) Proposed profit appropriations

	Six months ended 30 June 2013	Year ended 31 December 2012
Statutory surplus reserve	–	4,293
Dividends		
– cash dividends: Nil (2012: RMB6.30 per every 10 shares)	–	13,593

2012 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 28 March 2013 and was approved in the 2012 annual general meeting of shareholders held on 31 May 2013.

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 2013	30 June 2012
Cash and balances with central bank	**76,691**	24,376
Balance with banks and other financial institutions	**25,086**	222,456
Placements with banks and other financial institutions	**21,421**	49,311
Amounts held under resale agreements	**178,620**	139,748
Debt security investments	**28,346**	5,483
	330,164	441,374

(b) Significant non-cash transactions

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

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 both business lines and geography.

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

– Wholesale banking

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

– Other Business

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.

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34 Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale banking		Retail banking		Treasury business		Others		Total	
	Six months ended 30 June 2013	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012
External net interest income	**22,597**	23,187	**16,028**	12,669	**8,498**	7,538	**318**	247	**47,441**	43,641
Internal net interest income/(expense)	**7,242**	4,923	**3,245**	4,310	**(9,952)**	(8,759)	**(535)**	(474)	**–**	–
Net interest income	**29,839**	28,110	**19,273**	16,979	**(1,454)**	(1,221)	**(217)**	(227)	**47,441**	43,641
Net fee and commission income	**6,009**	4,110	**7,613**	5,398	**409**	120	**133**	104	**14,164**	9,732
Other net income/(expense)	**1,682**	3,023	**396**	91	**186**	615	**97**	(65)	**2,361**	3,664
Insurance operating income	**–**	–	**14**	5	**–**	–	**206**	192	**220**	197
Operating income/(expense)	**37,530**	35,243	**27,296**	22,473	**(859)**	(486)	**219**	4	**64,186**	57,234
Operating expenses										
– depreciation and amortisation	**(634)**	(525)	**(871)**	(729)	**(4)**	(12)	**(80)**	(63)	**(1,589)**	(1,329)
– others	**(10,170)**	(9,153)	**(12,036)**	(11,248)	**(259)**	(210)	**(184)**	(206)	**(22,649)**	(20,817)
Charge for insurance claims	**–**	–	**–**	–	**–**	–	**(167)**	(150)	**(167)**	(150)
	(10,804)	(9,678)	**(12,907)**	(11,977)	**(263)**	(222)	**(431)**	(419)	**(24,405)**	(22,296)

	Wholesale banking		Retail banking		Treasury business		Others		Total	
	Six months ended 30 June 2013	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012
Reportable segment profit before impairment losses	**26,726**	25,565	**14,389**	10,496	**(1,122)**	(708)	**(212)**	(415)	**39,781**	34,938
Impairment losses	**(2,728)**	(3,114)	**(2,286)**	(996)	**35**	(22)	**20**	(12)	**(4,959)**	(4,144)
Share of profit of associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**26**	27	**26**	27
Reportable segment profit/(loss) before tax	**23,998**	22,451	**12,103**	9,500	**(1,087)**	(730)	**(166)**	(400)	**34,848**	30,821
Capital expenditure (Note)	**847**	754	**1,081**	896	**3**	12	**5**	11	**1,936**	1,673

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(Expressed in millions of Renminbi unless otherwise stated)

34 Operating segments *(continued)*

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

	Wholesale banking		Retail banking		Treasury business		Others		Total	
	30 June 2013	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012
Reportable segment assets	**1,688,297**	1,717,302	**910,612**	908,877	**1,135,451**	726,161	**41,221**	34,246	**3,775,581**	3,386,586
Reportable segment liabilities	**2,197,837**	1,891,311	**1,060,834**	976,572	**300,136**	299,671	**22,963**	20,888	**3,581,770**	3,188,442
Interest in associates and jointly controlled entities	**-**	–	**-**	–	**-**	–	**456**	455	**456**	455

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

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

	Six months ended 30 June	
	2013	2012
Revenues		
Total revenues for reportable segments	**64,186**	57,234
Consolidated revenue	**64,186**	57,234
Profit		
Total profit or loss for reportable segments	**34,848**	30,821
Consolidated profit before income tax	**34,848**	30,821

(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 *(continued)*

	30 June 2013	31 December 2012
Assets		
Total assets for reportable segments	**3,775,581**	3,386,586
Goodwill	**9,598**	9,598
Intangible assets	**865**	897
Deferred tax assets	**5,062**	4,993
Other unallocated assets	**19,523**	6,025
Consolidated total assets	**3,810,629**	3,408,099
Liabilities		
Total liabilities for reportable segments	**3,581,770**	3,188,442
Current taxation	**7,377**	3,912
Deferred tax liabilities	**787**	813
Other unallocated liabilities	**8,197**	14,531
Consolidated total liabilities	**3,598,131**	3,207,698

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 capital expenditure are allocated based on the geographical location of the underlying assets.

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

– "Headquarter" refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarter, credit card centre and small enterprise finance centre, etc;

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

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

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

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

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

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

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

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

(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 2013	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012
Headquarter	**1,480,271**	1,275,164	**1,313,685**	1,138,797	**17,442**	16,864
Yangtze River Delta region	**486,648**	447,120	**481,273**	436,498	**2,233**	2,377
Bohai Rim region	**359,806**	310,429	**354,987**	301,591	**2,102**	2,184
Pearl River Delta and West Coast region	**442,802**	460,229	**437,572**	450,917	**1,836**	1,719
Northeast region	**151,015**	119,457	**149,579**	117,013	**997**	1,072
Central region	**274,973**	242,866	**271,970**	237,551	**2,072**	1,795
Western region	**306,593**	273,931	**303,088**	267,868	**2,311**	2,187
Overseas	**68,716**	76,043	**68,585**	75,700	**64**	57
Subsidiaries	**239,805**	202,860	**217,392**	181,763	**6,072**	6,384
Total	**3,810,629**	3,408,099	**3,598,131**	3,207,698	**35,129**	34,639

Geographical information	Net income		Revenues	
	Six months ended 30 June 2013	Six months ended 30 June 2012	**Six months ended 30 June 2013**	Six months ended 30 June 2012
Headquarter	**1,480**	(2,693)	**9,619**	6,070
Yangtze River Delta region	**7,175**	8,066	**12,005**	12,090
Bohai Rim region	**6,436**	6,736	**9,778**	9,642
Pearl River Delta and West Coast region	**6,962**	6,928	**11,070**	10,419
Northeast region	**1,908**	1,887	**3,278**	2,952
Central region	**3,981**	3,802	**6,725**	6,094
Western region	**4,661**	4,312	**7,751**	6,830
Overseas	**258**	342	**659**	521
Subsidiaries	**1,987**	1,441	**3,301**	2,616
Total	**34,848**	30,821	**64,186**	57,234

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(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 2013	31 December 2012
Contractual amount		
Irrevocable guarantees	**129,656**	118,288
Irrevocable letters of credit	**128,579**	104,420
Bills of acceptances	**328,434**	301,399
Irrevocable loan commitments		
– with an original maturity of under one year	**5,909**	2,949
– with an original maturity of one year or over	**35,940**	30,872
Credit card commitments	**199,214**	160,995
Shipping guarantees	**21**	2
Others	**11,389**	6,392
	839,142	725,317

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,139,214 million at 30 June 2013 (2012: RMB1,080,611 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.

(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 2013
Credit risk weighted amounts of contingent liabilities and commitments	
Contingent liabilities and commitments	**284,407**

(1) Credit risk weighted amounts of contingent liabilities and commitments are determined based on counterparties' credit and maturity profiles in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial). Risk weights for contingent liabilities and commitments range from 0% to 150%.

(2) The Group's credit risk weighted amounts of contingent liabilities and commitments as at 31 December 2012 stood at RMB300.99 billion, calculated in accordance with the CBRC's Administrative Measures on Capital Adequacy Ratios of Commercial Banks and other relevant regulations. The Measures were abrogated on 1 January 2013.

(ii) Capital commitments

Authorised capital commitments were as follows:

	30 June 2013	31 December 2012
For purchase of fixed assets:		
– Contracted for	**1,010**	657
– Authorised but not contracted for	**127**	121
	1,137	778

(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 2013	31 December 2012
Within 1 year	**1,791**	1,597
After 1 year but within 5 years	**7,418**	7,120
After 5 years	**2,636**	2,907
	11,845	11,624

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 2013, the Group was a defendant in certain pending litigations with gross claims of RMB568 million (2012: RMB665 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.

35 Off-balance sheet exposures *(continued)*

(a) Credit commitments *(continued)*

(v) ***Redemption obligations*** *(continued)*

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 2013	31 December 2012
Redemption obligations	**15,277**	11,430

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

(b) Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the Group's derivative financial instruments are traded over the counter.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. Derivative financial instruments include but are not limited to foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, credit default swaps, bond options, equity swaps, interest rates and credit derivatives. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge 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.

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(Expressed in millions of Renminbi unless otherwise stated)

35 Off-balance sheet exposures *(continued)*

(b) Use of derivatives *(continued)*

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.

	30 June 2013						
	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	4,116	17,610	20,689	123	42,538	218	(136)
Currency derivatives							
Spot	23,034	–	–	–	23,034	16	(16)
Forwards	20,736	42,759	3,660	–	67,155	1,042	(766)
Foreign exchange swaps	136,481	110,499	8,330	–	255,310	2,980	(10,345)
Options purchased	12,406	123	18	–	12,547	306	(5)
Options written	13,895	132	19	–	14,046	–	(386)
	206,552	153,513	12,027	–	372,092	4,344	(11,518)
Other derivatives							
Credit default swaps	61	791	614	–	1,466	3	–
Equity options purchased	51	2	–	–	53	2	–
Equity options written	51	2	–	–	53	–	(2)
	163	795	614	–	1,572	5	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	5,541	15,041	50,300	–	70,882	242	(639)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	1,712	2,792	3,447	31	7,982	40	(26)
Current derivatives							
Foreign exchanges swaps	–	62	1,168	–	1,230	8	(1)
Other derivatives							
Equity options purchased	77	–	32	–	109	33	–
Equity options written	73	–	–	–	73	–	–
	1,862	2,854	4,647	31	9,394	81	(27)
Total						4,890	(12,322)
						(Note 18)	

(Expressed in millions of Renminbi unless otherwise stated)

35 Off-balance sheet exposures *(continued)*

(b) Use of derivatives *(continued)*

	31 December 2012						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	8,867	12,551	13,391	62	34,871	152	(229)
Currency derivatives							
Spot	6,093	–	–	–	6,093	2	(1)
Forwards	30,173	35,731	2,442	–	68,346	673	(743)
Foreign exchange swaps	86,292	2,347	4,325	–	92,964	710	(991)
Options purchased	1,976	363	–	–	2,339	29	(3)
Options written	3,573	2	–	–	3,575	2	(60)
	128,107	38,443	6,767	–	173,317	1,416	(1,798)
Other derivatives							
Credit default swaps	1,558	414	–	–	1,972	4	–
Forward rate agreement	116	–	–	944	1,060	1	(1)
	1,674	414	–	944	3,032	5	(1)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,246	10,207	56,900	–	68,353	322	(670)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	748	259	3,326	–	4,333	35	(35)
Currency derivatives							
Foreign exchanges swaps	245	–	–	–	245	14	(11)
Other derivatives							
Equity options written	153	9	40	–	202	31	(1)
	1,146	268	3,366	–	4,780	80	(47)
Total						1,975	(2,745)
						(Note 18)	

(Expressed in millions of Renminbi unless otherwise stated)

35 Off-balance sheet exposures *(continued)*

(b) Use of derivatives *(continued)*

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

Credit risk weighted amounts

	30 June 2013
Default risk weighted assets of counterparties	
Monetary derivatives	**4,275**
Interest rate derivatives	**205**
Commodity derivatives and others	**1**
Credit valuation adjustment risk weighted assets	**4,885**
Total	**9,366**

(i) Credit risk weighted amounts are determined in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial), covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets.

(ii) Below is an analysis of the Group's credit risk weighted amounts of financial derivatives as at 31 December 2012, calculated in accordance with the CBRC's Administrative Measures on Capital Adequacy Ratios of Commercial Banks and other relevant regulations. The Measures were abrogated on 1 January 2013.

	31 December 2012
Monetary derivatives	2,724
Interest rate derivatives	3,766
Commodity derivatives and others	283
Total	6,773

36 Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances by the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

(Expressed in millions of Renminbi unless otherwise stated)

36 Transactions on behalf of customers *(continued)*

(a) Entrusted lending business *(continued)*

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 and commission income.

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

	30 June 2013	31 December 2012
Entrusted loans	**97,330**	89,104
Entrusted funds	**97,330**	89,104

(b) Wealth management services

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

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

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

	30 June 2013	31 December 2012
Funds received from customers under wealth management services	**472,930**	369,903

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37 Maturity profile

Analysis of the Group's assets and liabilities by remaining maturity is as follows:

	30 June 2013							
	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))	78,910	–	–	–	–	–	407,019	485,929
Amounts due from banks and other financial institutions	20,681	213,634	120,892	165,690	51,833	–	–	572,730
Loans and advances to customers (note (ii))	10,845	102,130	302,593	844,624	390,517	389,683	12,207	2,052,599
Investments (note (iii))	3,913	46,657	44,096	98,688	253,620	164,309	6,521	617,804
– at fair value through profit or loss	3,906	1,170	2,325	3,150	11,194	680	5,078	27,503
– available-for-sale	7	17,785	31,130	55,884	166,635	32,074	1,443	304,958
– held-to-maturity	–	2,854	8,235	7,971	57,404	120,377	–	196,841
– receivables	–	24,848	2,406	31,683	18,387	11,178	–	88,502
Other assets	23,595	4,266	4,611	5,465	364	969	42,297	81,567
Total assets	137,944	366,687	472,192	1,114,467	696,334	554,961	468,044	3,810,629
Amounts due to banks and other financial institutions	84,830	323,878	67,706	122,623	870	567	3	600,477
Deposits from customers (note (iv))	1,452,327	294,725	287,663	526,184	235,890	789	–	2,797,578
Financial liabilities at fair value through profit or loss	13	–	23,249	2,106	3,310	–	12,451	41,129
Debt issued	–	3,601	1,682	15,898	23,526	44,077	–	88,784
Other liabilities	27,989	13,256	5,003	7,313	7,085	1,791	7,726	70,163
Total liabilities	1,565,159	635,460	385,303	674,124	270,681	47,224	20,180	3,598,131
(Short)/long position	(1,427,215)	(268,773)	86,889	440,343	425,653	507,737	447,864	212,498

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37 Maturity profile *(continued)*

	31 December 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))	101,128	–	–	–	–	–	370,287	471,415
Amounts due from banks and other financial institutions	27,343	348,499	35,800	66,885	12,728	–	–	491,255
Loans and advances to customers (note (ii))	3,109	77,923	257,336	740,064	357,239	415,233	12,421	1,863,325
Investments (note (iii))	54	14,171	20,351	111,529	229,693	141,190	3,458	520,446
– at fair value through profit or loss	54	1,100	1,078	1,908	17,826	3,391	2,107	27,464
– available-for-sale	–	12,858	15,490	79,046	141,860	34,739	1,351	285,344
– held-to-maturity	–	210	3,195	28,945	51,223	91,844	–	175,417
– receivables	–	3	588	1,630	18,784	11,216	–	32,221
Other assets	8,486	1,945	2,026	3,223	4,805	879	40,294	61,658
Total assets	140,120	442,538	315,513	921,701	604,465	557,302	426,460	3,408,099
Amounts due to banks and other financial institutions	79,386	283,116	83,320	79,129	933	576	–	526,460
Deposits from customers (note (iv))	1,333,585	266,441	272,415	458,809	200,447	747	–	2,532,444
Financial liabilities at fair value through profit or loss	253	245	3,238	173	2,913	–	2,777	9,599
Debt issued	–	3,035	1,151	5,344	23,457	44,124	–	77,111
Other liabilities	26,920	12,272	4,730	7,407	7,560	1,838	1,357	62,084
Total liabilities	1,440,144	565,109	364,854	550,862	235,310	47,285	4,134	3,207,698
(Short)/long position	(1,300,024)	(122,571)	(49,341)	370,839	369,155	510,017	422,326	200,401

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.

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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:

	2013	2012
Short-term loans	**5.60% to 6.00%**	5.60% to 6.56%
Medium to long-term loans	**6.15% to 6.55%**	6.15% to 7.05%
Saving deposits	**0.35%**	0.35% to 0.50%
Time deposits	**2.60% to 4.75%**	2.60% to 5.50%

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% (2012: 18.63%) shares of the Bank as at 30 June 2013 (among them 12.40% shares are held by China Merchants Steam Navigation Company Limited ("CMSNCL") (2012: 12.40%). The Group's transactions and balances with CMG and its related companies are disclosed as follows:

	Group	
	30 June 2013	31 December 2012
On-balance sheet:		
Loans and advances	**4,819**	4,549
Investments	**2,681**	2,163
Deposits from customers	**26,164**	28,009
Off-balance sheet:		
Irrevocable guarantees	**781**	390
Irrevocable letters of credit	**315**	157
Bills of acceptances	**156**	197

	Six months ended 30 June	
	2013	2012
Interest income	**273**	211
Interest expense	**173**	197
Net fees and commission income	**153**	127
Net trading gain or loss	**9**	90

(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

	Group	
	30 June 2013	31 December 2012
On-balance sheet:		
Loans and advances	**2,552**	2,676
Investments	**4,483**	3,990
Deposits from customers	**17,418**	14,467
Off-balance sheet:		
Irrevocable guarantee	**460**	502
Irrevocable letters of credit	**1**	3
Bill of acceptances	**700**	490

	Six months ended 30 June	
	2013	2012
Interest income	**151**	190
Interest expense	**95**	56
Net fees and commission income	**95**	67
Net trading gain or loss	**8**	11

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

	Group	
	30 June 2013	31 December 2012
On-balance sheet:		
Loans and advances	**11**	12
Deposits from customers	**10,041**	465

	Six months ended 30 June	
	2013	2012
Interest expense	**3**	2
Net fees and commission income	**136**	99

Notes to the Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

38 Material related-party transactions *(continued)*

(e) Subsidiaries

	30 June 2013	31 December 2012
On-balance sheet:		
Investments	**1,187**	1,206
Deposits from customers	**408**	434
Deposits with other banks	**500**	1,116
Placement with other banks	**4,302**	3,623
Deposits from other banks	**1**	3
Placement from other banks	**–**	11
Off-balance sheet:		
Irrevocable guarantee	**117**	117

	Six months ended 30 June	
	2013	2012
Interest income	**62**	105
Interest expense	**2**	6
Net fees and commission income	**(1)**	(4)
Net trading gain or loss	**(19)**	18

39 Non-controlling interests

Non-controlling interests was due to a non-wholly-owned subsidiary set up by CMB's subsidiary, named WLB and CMBICCL.

40 Post-statement of financial position events

As at the date of approval of these financial statements, the Bank's application for A-share placement was approved by the CSRC under the approval document referred as Zheng Jian Xu Ke [2013] No. 950, pursuant to which the Bank was permitted to place 3,073,906,773 new A-shares to its existing shareholders. The Bank's application for H-share placement was approved by the CSRC under the approval document referred as Zheng Jian Xu Ke [2013] No. 1072, pursuant to which the Bank was permitted to place 680,423,172 new H-shares to its existing shareholders.

CIGNA & CMC Life Insurance Company Limited was granted approval by the CIRC, on 4 July 2013, to a request for shareholders' equity transfer under the Bank's acquisition of 50% interest in the Company.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(a) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

The Group's capital adequacy ratio and relevant components as at 30 June 2013 were as follows:

	30 June 2013
Core tier-1 capital adequacy ratio	**8.00%**
Tie-1 capital adequacy ratio	**8.00%**
Capital adequacy ratio	**10.72%**
Components of capital base	
Core tier-1 capital:	
Portion of paid-in capital that may be included	**21,577**
Portion of capital surplus that may be included	**36,893**
Surplus reserves	**18,618**
General risk provision	**39,361**
Undistributed profit	**97,401**
Others (Note (i))	**(1,527)**
Total core tier-1 capital	**212,323**
Regulatory deductions from core tier-1 capital:	**11,245**
Net core tier-1 capital	**201,078**
Other tier-1 capital	**–**
Net other tier-1 capital	**–**

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(a) Capital adequacy ratio *(continued)*

	30 June 2013
Tier-2 capital:	
Portion of tier-2 capital instruments and their premium that may be included	**37,530**
Provision for excess loan loss	**28,670**
Portion of minority shareholders' capital that may be included	**2,215**
Total tier-2 capital	**68,415**
Regulatory deductions from core tier-2 capital:	**–**
Net tier-2 capital	**68,415**
Net capital	**269,493**
Total risk-weighted assets	**2,514,757**

Note:

(i) Others' represent translation differences of foreign currency financial statements under the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial).

Below are the Group's core capital adequacy ratio and capital adequacy ratio as at 31 December 2012 computed in accordance with the CBRC's Administrative Measures on the Capital Adequacy Ratio of Commercial Banks and other relevant regulations:

	31 December 2012
Core capital adequacy ratio	8.49%
Capital adequacy ratio	12.14%

(b) Liquidity ratios

	30 June 2013	31 December 2012
Liquidity ratios		
RMB current assets to RMB current liabilities	**42.5%**	47.5%
Foreign currency current assets to foreign currency current liabilities	**44.7%**	60.4%

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

(Expressed in millions of Renminbi unless otherwise stated)

(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 investments security.

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 2013			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**30,909**	**15,083**	**117,729**	**163,721**
– of which attributed to Hong Kong	**18,309**	**14,333**	**107,791**	**140,433**
Europe	**3,923**	**42**	**1,929**	**5,894**
North and South America	**8,467**	**781**	**7,905**	**17,153**
	43,299	**15,906**	**127,563**	**186,768**

	31 December 2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	40,807	17,062	101,967	159,836
– of which attributed to Hong Kong	26,895	16,265	93,404	136,564
Europe	9,810	24	1,526	11,360
North and South America	8,823	755	6,138	15,716
	59,440	17,841	109,631	186,912

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(d) Overdue loans and advances to customers

(i) By geographical segments

	30 June 2013	31 December 2012
Headquarters	**2,879**	2,359
Yangtze River Delta region	**5,166**	3,776
Bohai Rim region	**1,028**	917
Pearl River Delta and West Coast region	**1,817**	1,464
Northeast region	**407**	373
Central region	**1,379**	882
Western region	**800**	550
Subsidiaries	**248**	92
Total	**13,724**	10,413

(ii) By overdue period

	30 June 2013	31 December 2012
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	**3,012**	1,865
– between 6 and 12 months	**3,532**	2,685
– over 12 months	**7,180**	5,863
Total	**13,724**	10,413
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.14%**	0.10%
– between 6 and 12 months	**0.17%**	0.14%
– over 12 months	**0.34%**	0.31%
Total	**0.65%**	0.55%

(Expressed in millions of Renminbi unless otherwise stated)

(d) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	30 June 2013	31 December 2012
Secured portion of overdue loans and advances	**4,212**	2,816
Unsecured portion of overdue loans and advances	**9,512**	7,597
Value of collaterals held against overdue loans and advances	**4,258**	2,883
Provision of overdue loans and advances for which impairment losses are individually assessed	**5,195**	4,473

(e) Overdue loans and advances to financial institutions

(i) By geographical segments

	30 June 2013	31 December 2012
Yangtze River Delta region	**1**	1

(ii) By overdue period

	30 June 2013	31 December 2012
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**	1
Total	**1**	1
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**–**	–
Total	**–**	–

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(e) Overdue loans and advances to financial institutions *(continued)*

(iii) Collateral information

	30 June 2013	31 December 2012
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**1**	1
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**1**	1

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

(Expressed in millions of Renminbi unless otherwise stated)

(f) Rescheduled loans and advances to customers

	30 June 2013		31 December 2012	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**700**	**0.03%**	1,060	0.06%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**422**	**0.02%**	553	0.03%
Rescheduled loans and advances overdue less than 90 days	**278**	**0.01%**	507	0.03%

There were no rescheduled loans and advance to financial institutions as at 30 June 2013 (31 December 2012: Nil).

(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 2013 and 31 December 2012, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the notes to the interim financial report.

(h) Currency concentrations other than RMB

	30 June 2013			
	US Dollars	HK Dollars (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	**290,404**	**142,125**	**28,516**	**461,045**
Spot liabilities	**(270,769)**	**(104,335)**	**(31,541)**	**(406,645)**
Forward purchases	**210,885**	**30,287**	**25,211**	**266,383**
Forward sales	**(201,696)**	**(13,527)**	**(16,126)**	**(231,349)**
Net option position	**241**	**35**	**(203)**	**73**
Net long position	**29,065**	**54,585**	**5,857**	**89,507**
Net structural position	**27**	**20,736**	**–**	**20,763**

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(h) Currency concentrations other than RMB *(continued)*

	31 December 2012			
	US Dollars	HK Dollars (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	225,493	113,174	35,288	373,955
Spot liabilities	(190,310)	(94,816)	(40,586)	(325,712)
Forward purchases	118,443	8,573	25,550	152,566
Forward sales	(100,370)	(3,461)	(15,667)	(119,498)
Net option position	(89)	68	65	44
Net long position	53,167	23,538	4,650	81,355
Net structural position	1,295	23,882	5	25,182

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.

(i) Risk management *(continued)*

(i) Credit risk *(continued)*

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 ten-grade loan classification basis (normal (grades 1-5), special mention (grades 1-2), 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.

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.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(i) Risk management *(continued)*

(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.

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

In the first half of 2013, the Group continued to improve market risk management polices and processes in line with internal management practices and external regulatory requirement changes. The Group looked into market risk management skills, continued to upgrade risk measurement tools for financial products, strengthened existing regimes for regulating financial market activities and market risk specific to its domestic and overseas entities on an ongoing basis, and reinforced supervisory guidance for market risk management of its subsidiaries and overseas branches.

(i) Risk management *(continued)*

(ii) Market risk *(continued)*

In the first half of 2013, the global financial markets became more volatile, while economic growth momentum at home and abroad eased. The Group closely studied and timely monitored the macro economy, monetary policies, market liquidity, and CPI trends in China and other parts of the world. As a result, the Group set out respective investment strategies. At present, the Group's investment portfolios mainly comprise bonds issued by the Chinese government, the PBOC, Chinese policy banks, as well as leading Chinese enterprises and commercial banks with high credit ratings. Their various market risk indicators have been positive.

(iii) Currency risk

Currency risk arises from the loss on overall bank income caused by foreign exchange and foreign exchange derivative positions in light of unfavourable exchange rate changes. The Group has adopted RMB as its functional currency. The Group's assets and liabilities are mainly denominated in RMB, with the remainder being denominated largely in USD and HKD.

The Group is exposed to currency risk mainly because of mismatches in its non-RMB assets and liabilities. The Group has largely adopted foreign exchange exposure analyses, scenario simulation analyses, stress tests and VaR for measuring and studying currency risk. While regularly measuring and analysing foreign exchange exposure changes, the Group monitors and reports currency risk on a monthly basis under the limit framework. The Group also adjusts foreign exchange exposures in line with rate movement trends to avoid the risk. Being prudent in managing the currency risk, the Group will, in principle, not take the risk on its own initiative. This approach better suits the Group's current stage of growth. Basically, the Group's existing currency risk management polices and systems meet regulatory requirements and the Bank's own management needs.

In the first half of 2013, the Group continued to enhance exchange risk assessment systems, which have provided reference standards for accurately evaluating exchange risk and setting out precise management strategies.

(iv) Interest rate risk

Interest rate risk arises from the loss on overall bank account income and economic value as a result of unfavourable changes in interest rates and maturity structures. The Group is exposed to interest rate risk including basis risk, repricing risk, yield curve risk and option risk, while mainly the basis risk and repricing risk affect the Group.

The Group has primarily adopted scenario simulation analyses, repricing gap analyses, duration analyses and stress tests for measuring and studying interest rate risk. The Group's financial assets and liabilities are largely RMB-denominated. As the benchmark interest rates for RMB deposits and loans are set by the PBOC, the Group conducts lending and deposit-taking activities largely in accordance with the PBOC's interest rate policies.

In the first half of 2013, the Group continued to adopt a proactive and forward-looking approach to interest rate risk management. The Group went on enhancing various measures to manage on-balance and off-balance sheet items, thus mitigating the risk. For on-balance sheet items, major measures included ongoing duration extension for loans and bond investments and proactive arrangement for floating rate-based liabilities. For off-balance sheet items, the Group stepped up operations to hedge interest rate risk and continued to implement hedge accounting.

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(Expressed in millions of Renminbi unless otherwise stated)

(i) Risk management *(continued)*

(iv) Interest rate risk *(continued)*

The PBOC has announced full relaxation of lending rate controls over financial institutions from July 20, which will have limited implications for the Group in the near term. As part of its far-sighted approach, the Group will further strengthen interest rate risk management with a view to achieving steady growth of net interest income and economic value.

(v) Liquidity risk

Liquidity risk arises when the Group fails to satisfy customer demand for draw down on maturing liabilities, new loans and reasonable finances, or when it fails to meet their needs at a normal cost.

In line with its liquidity risk management policies, the Group sets out and implements the principle of supervisory duty segregation. The Group also puts in place a governing framework under which the roles, responsibilities and reporting lines of the directors, supervisors, senior management, special-purpose committees and relevant departments in this area are specified for better liquidity risk management. The Group is prudent in managing the risk, which better suits its current stage of growth. Basically, the Group's existing liquidity risk management polices and systems meet regulatory requirements and its own management needs.

The Group manages liquidity risk under a model where the Head Office coordinates activities with the support of branches. As the Bank's treasury, the Planning and Finance Department at the Head Office is responsible for routine and specific liquidity risk management. The treasury manages liquidity under regulatory requirements and the prudent principle, and implements centralised management through limit management, planning controls and internal liquidity transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term provisions as well as structures and contingencies. The Group closely monitors various limit indicators at regular intervals, performs regular stress tests to judge whether it can address liquidity needs under extreme circumstances. In addition, the Group draws up liquidity contingency plans and conducts liquidity contingency drills to prepare for liquidity crises.

In the first half of 2013, the market liquidity initially eased and subsequently became tight. In June, the monetary market once saw a liquidity crunch with substantial hikes in market interest rates. Against such backdrop, the Group was also pressurised in terms of liquidity. This was mainly attributable to a larger drop in proprietary deposits; more maturing liabilities of banks and withdrawals for the current month; reserve deposits; and A-share dividend distribution. The Group adopted the following three measures to address such market liquidity crisis, thus securing steady operations of liquidity across the Bank. First of all, the Group improved FTP management and adjustment mechanisms to increase its management flexibility under extreme circumstances. Second, the Group stepped up full controls over funds to better manage liquidity and balances of investment and financing activities. Stringent controls were also imposed on growth of financing assets, while access to financing was widened along with increased attention. In particular, the Group expanded banks' liabilities, with increased financing sizes at the time of completing maturity transformation of stock financing. Finally, the Group promoted mechanisms for occasional discussions between the treasury and business reporting lines about strategies for banks' liquidity activities. These aimed to facilitate communications about, and implementation of, the strategies; increase banks' liabilities; maintain coordinated growth of banks' assets and liabilities; and allow positive interactions among liquidity management, banks activities, wealth management, and bill operations.

(i) Risk management *(continued)*

(v) Liquidity risk *(continued)*

In 2013, the PBOC did not revise the statutory RMB deposit reserve requirements ratios. As at the end of June 2013, the Group had to place 18% (2012: 18%) of its gross RMB deposits and 5% (2011: 5%) of its gross foreign currency deposits with the PBOC.

(vi) Operational risk

Operational risk arises from the loss due to defective or troubled internal processes; staff and IT systems; as well as external events.

During the reporting period, the Group continued to enhance its operational risk management capabilities and effectiveness by further improving operational risk management frameworks and methodologies; strengthening operational risk appraisal and assessment mechanisms; stepping up the identification, evaluation and monitoring of operational risk in key areas; and subjecting operational risk to its economic capital management. Various key risk indicators were compliant with the Group's risk preference requirements.

In face of challenges from internal and external operations and management, the Group will, based on its risk preference, continue to upgrade its risk management skills, step up operational risk monitoring and controls, as well as endeavour to prevent and reduce operational risk losses.

(j) Capital management

The objectives of the Group's capital management are to:

- keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive, coordinated and sustainable growth;

- comply with capital-specific regulatory provisions, gradually adopt advanced capital measurement approaches, improve internal capital adequacy assessment procedures, publicly disclose capital management information, fully address various risks, and ensure safe operations;

- put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate product pricing and decision-making, and increase capital deployment efficiency; and

- reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

The Group manages its capital structure and adjust the same based on economic settings and risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy; issue or repurchase shares, other tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio levels under an approach as required by the CBRC. The Group and the Bank file required information with the CBRC in a half-yearly and quarterly manner.

(j) Capital management *(continued)*

The Group's capital adequacy ratio calculation covers China Merchants Bank Co., Ltd. and its subsidiaries. The Company's capital adequacy ratio calculation covers China Merchants Bank Co., Ltd.'s all branch entities at home and abroad. As at 30 June 2013, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: Wing Lung Bank, CMB International Capital and CMB International Leasing Management.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. Under the new Measures, the Group has adopted the weighted method, the standard method, and the basic indicator approach to measure credit risk weighted assets, market risk weighted assets and operational risk weighted assets, respectively. During the reporting period, the Group complied with the regulatory capital charge.

Capital adequacy ratio management is the focus of the Group's capital management. The capital adequacy ratio reflects the Group's capability of sound operations and risk combat. The Group's capital adequacy ratio management objectives are to carefully determine capital adequacy ratio goals, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plan and manage its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

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