招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

Stock Code : 03968

2011 Annual Report

Contents

Important Notice

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

The 28th meeting of the Eighth Session of the Board of Directors of the Company was held at the CMB College, Shenzhen on 28 March 2012. The meeting was presided by Fu Yuning, Chairman of the Board. 17 out of 17 eligible Directors attended the meeting. 6 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants (both being auditors of the Company) have separately reviewed the 2011 financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.

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

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

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

Disclaimers

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

1 Company Information

1.1 Company Profile

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

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

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

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

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

1.1.6 Share Listing:

A Share: Shanghai Stock Exchange
Abbreviated Name of A Share: CMB;
Stock Code: 600036

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

1.1.7 Domestic Auditor: KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China

International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong

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

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

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

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

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

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

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

1.2 Company Information

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the market in China. As at 31 December 2011, the Company had 87 branches, 801 sub-branches, 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 2,031 self-service centers and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd. in more than 100 cities in Mainland China; a number of subsidiaries in Hong Kong including Wing Lung Bank Limited and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States; a representative office in London, United Kingdom and a representative office in Taipei. The Company has highly efficient branches primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium-sized cities in other regions. The Company has maintained business relationships with 1,713 overseas financial institutions in 106 countries and regions.

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

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

1.3 Development Strategy and Operation Highlights

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

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

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

– Focus on retail business, SME business and intermediate business. Within retail business, we will focus on wealth management, small and micro enterprises finance, private banking, credit card and electronic banking businesses; within wholesale business, we will continue to strengthen liability business, and actively develop investment banking, cash management, asset custody, offshore finance, international business and pension finance, etc., so as to continuously sharpen the market competitive edges of the Company

- Focus on exploring high-value customers while continuously expand ordinary customer base

- Expand and strengthen domestic market, intensify investment to developed regions, rationally expand network into high potential regions and steadily explore overseas markets with focus on Southeast Asia

Operation Features:

Unique competitive advantage
- Constantly growing brand value
- Market leading high value customer base in retail banking
- Fast and sound product and service innovation
- Continuous improvement in our business structure
- Leading and innovative e-banking service channel

Sound business growth
- Retail banking business with constant advantage and balanced development
- Sustainable credit card business that focuses on value and efficiency
- Professionally managed and soundly developed wholesale banking business
- Steadily implemented strategy of internationalization and comprehensive business operation

Excellent operating results
- Net profit attributable to the Bank's shareholders amounted to RMB36.129 billion, representing an increase of 40.20% over the same period of last year
- ROAA and ROAE attributable to the Bank's shareholders amounted to 1.39% and 24.17% respectively
- Core capital adequacy ratio and capital adequacy ratio were 8.22% and 11.53% respectively
- Improved asset quality with non-performing loan ratio of 0.56%

Advanced operation and management
- Sound corporate governance structure, scientific governance mechanisms, and efficient decision-making system, operating system and internal control system
- Steadily build up comprehensive risk management philosophy and system
- Scientific and comprehensive capital management system
- Continuously promote technological innovation, build an information system that is safe, reliable, efficient, green and sustainable

1 Company Information

1.4 Awards and honors received in 2011

In 2011, the Company won 169 honors out of 118 assessments organized by dozens of authoritative institutions at home and abroad, including:

- In the selection of TOP1000 BANKS organized by the United Kingdom's *The Banker* magazine, the Company ranked the 60th in the world on an overall basis, leaping from 81st in 2010.

- On the Best China Brands Chart 2011 released by *Interbrand*, the Company ranked the 9th among the top 50 best Chinese brands, with a brand value of RMB27.56 billion.

- On the Chart of the China Financial Enterprise Brand Competitiveness Index 2011 released by the Chinese Academy of Social Sciences, the Company ranked the 1st in terms of brand development potential and consumers' support, and ranked the 5th on an overall basis, only next to the Big Four state-owned banks.

- In the "Asian Bank Competitiveness Ranking Research Report 2011" released by the *21st Century Business Herald*, the Company won the "Top 10 Asian Commercial Banks – Best Brand Image Award".

- At the China Marketing Grand Ceremony 2011 sponsored by *Nanfang City News*, the Company was selected as the winner of the "Excellent Brand Award", the highest award in the ceremony for its marketing cases of the Universiade.

- At the awarding ceremony of the Excellence in Retail Financial Services Award 2011 organized by *The Asian Banker*, the Company was awarded "The Best Joint Stock Retail Bank in China" for seven consecutive years and became one of the most frequent winners in the Award's history.

- In the "Selection of Financial Institutions in Greater China 2011" organized by *Private Banker International* (a Singaporean magazine), the Company was awarded "Best Private Bank in China Domestic".

- In the "Result Release on the Survey of Preferred Brand Names of Chinese Multimillionaires" held by *Chinese Hurun Report*, the Company was recognized as "The Most Preferred Credit Card Issuer" and "The Most Preferred RMB Wealth Management Bank" for China's richest as well as "Gala Awards".

- At the awarding ceremony of The China Awards Programme organized by *The Asian Banker*, the Company was awarded the "Best Wealth Management Product in China" and the "Best Credit Card Product in China".

- At the "Annual Conference of ACCE Global Call Centre 2011" held in New Orleans in the United States, the Company was once again the winner of "the World's Best Call Centre" award.

- In the selection of the best cash management bank in the world in 2011 organized by *Asia Money*, the Company was awarded the "Best Cash Management Bank in China" for the sixth time.

- At the awarding ceremony of the selection of the best private bank in the world in 2011 organized by *The Asset*, the Company was honored the "Best Professional Custody Bank in China" for the third consecutive time.

- At the awarding ceremony of the "China Financial Marketing Awards" jointly organized by *The Banker* magazine and other sponsors, the Company won the "Best Corporate Image Award" and the "Best Corporate Social Responsibility Award" and was the only bank winning two awards.

- At the 5th China SME Festival, of which China Association of Small and Medium Enterprises was one of the organizers, the Company was awarded the "Excellent Service Product for SMEs in 2011".

- In the selection organized by IR Global Rankings, the Company was given the grand award "Best Investor Relations by an A-Share Listed Company in China".

II Financial Highlights

2.1 Key financial data

Operating Results

	2011	2010	Changes
	(in millions of RMB)		+/(-)%
Net operating income[1]	**96,666**	71,756	34.71
Profit before tax	**47,122**	33,343	41.33
Net profit attributable to the Bank's shareholders	**36,129**	25,769	40.20

Per Share

	2011	2010	Changes
	(RMB)		+/(-)%
Basic earnings attributable to the Bank's shareholders	**1.67**	1.23	35.77
Diluted earnings attributable to the Bank's shareholders	**1.67**	1.23	35.77
Year-end net assets attributable to the Bank's shareholders	**7.65**	6.21	23.19

Financial Indicators

	As at 31 December 2011	As at 31 December 2010	Changes
	(in millions of RMB)		+/(-)%
Total assets	**2,794,971**	2,402,507	16.34
of which: total loans and advances to customers	**1,641,075**	1,431,451	14.64
Total liabilities	**2,629,961**	2,268,501	15.93
of which: total deposits from customers	**2,220,060**	1,897,178	17.02
Total equity attributable to the Bank's shareholders	**164,997**	134,006	23.13

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

2.2 Financial Ratios

	2011 (%)	2010	Changes +/(-)
Profitability ratios			
Return on average assets (after tax) attributable to the Bank's shareholders	**1.39**	1.15	0.24
Return on average equity (after tax) attributable to the Bank's shareholders	**24.17**	22.73	1.44
Net interest spread	**2.94**	2.56	0.38
Net interest margin	**3.06**	2.65	0.41
As percentage of operating income			
– Net interest income	**78.94**	79.54	(0.60)
– Net non-interest income	**21.06**	20.46	0.60
Cost-to-income ratio (excluding business tax and surcharges)	**36.00**	39.69	(3.69)

	As at 31 December 2011 (%)	As at 31 December 2010	Changes +/(-)
Core adequacy ratios			
Core capital adequacy ratio	**8.22**	8.04	0.18
Capital adequacy ratio	**11.53**	11.47	0.06
Total equity to total assets	**5.90**	5.58	0.32
Asset quality ratios			
Non-performing loan ratio	**0.56**	0.68	(0.12)
Allowance coverage ratio of non-performing loans(1)	**400.13**	302.41	97.72
Allowance ratio of loans(2)	**2.24**	2.05	0.19

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

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

2.3 Five-year Financial Summary

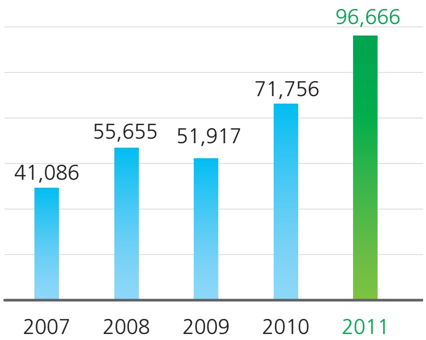
	2011	2010	2009	2008	2007
Results for the year			(in millions of RMB)		
Net operating income	**96,666**	71,756	51,917	55,655	41,086
Operating expenses	**40,889**	32,634	26,207	23,636	16,738
Impairment losses on assets	**8,350**	5,501	2,971	5,154	3,305
Profit before tax	**47,122**	33,343	22,384	26,759	21,043
Net profit attributable to the Bank's shareholders	**36,129**	25,769	18,235	21,077	15,243
Per share			(RMB)		
Dividend	**0.42**	0.29	0.21	0.40	0.28
Basic earnings(1)	**1.67**	1.23	0.95	1.10	0.80
Diluted earnings(1)	**1.67**	1.23	0.95	1.10	0.80
Year-end net assets attributable to the Bank's shareholders	**7.65**	6.21	4.85	5.41	4.62
Year end			(in millions of RMB)		
Share capital	**21,577**	21,577	19,119	14,707	14,705
Total shareholders' equity	**165,010**	134,006	92,783	79,781	67,984
Total liabilities	**2,629,961**	2,268,501	1,975,158	1,492,016	1,242,568
Deposits from customers	**2,220,060**	1,897,178	1,608,146	1,250,648	943,534
Total assets	**2,794,971**	2,402,507	2,067,941	1,571,797	1,310,964
Net loans and advances to customers(2)	**1,604,371**	1,402,160	1,161,817	852,754	654,417
Key financial ratios			(%)		
Return on average assets (after tax) attributable to the Bank's shareholders	**1.39**	1.15	1.00	1.46	1.36
Return on average equity (after tax) attributable to the Bank's shareholders	**24.17**	22.73	21.17	28.58	24.76
Cost-to-income ratio	**36.00**	39.69	44.45	36.55	34.94
Non-performing loan ratio	**0.56**	0.68	0.82	1.11	1.54
Core capital adequacy ratio(3)	**8.22**	8.04	6. 63	6.56	8.78
Capital adequacy ratio(3)	**11.53**	11.47	10.45	11.34	10.40

Notes: (1) The calculation of the earnings per share for each reporting period is based on the number of shares in issue after the implementation of the 2008 Profit Appropriations Scheme.

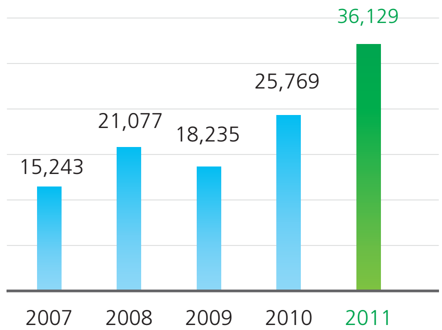
(2) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

(3) The core capital adequacy ratio and capital adequacy ratio as at 31 December 2007 were restated according to the Yinjianfu Document [2008] No.123 issued by China Banking Regulatory Commission (hereinafter referred to as CBRC).

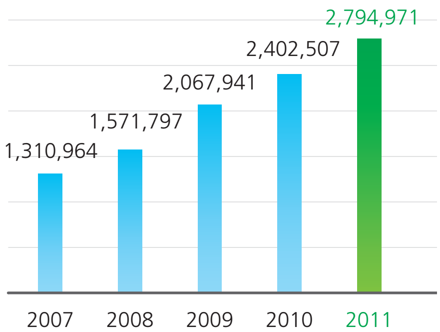
Net operating income
in millions of RMB



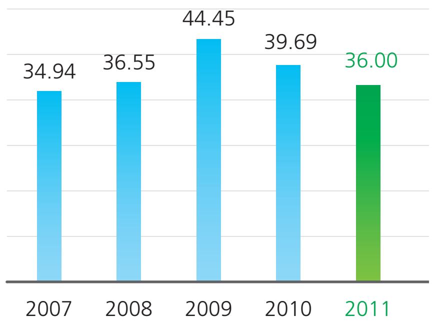
Net profit attributable to the Bank's shareholders
in millions of RMB



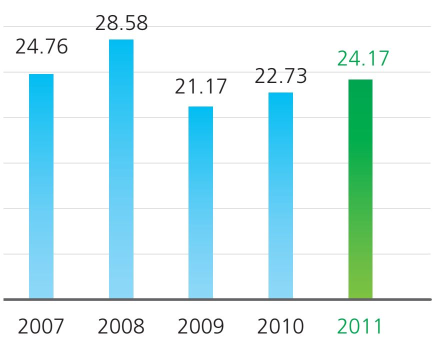
Total assets
in millions of RMB



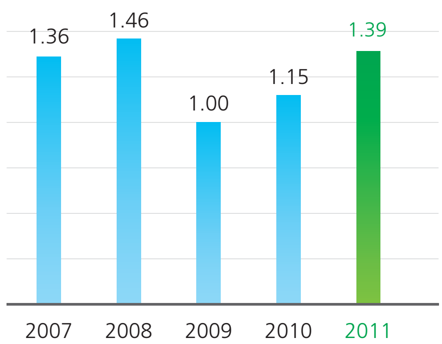
Cost-to-income ratio
percentage



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



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



Chairman's Statement

2011 marked the debut of the "Twelfth Five-Year Plan" Period. During 2011, domestic and international economic and financial situations became increasingly complicated; unstable and uncertain factors were on the rise. However, we are delighted to witness that, despite higher inflation, tighter monetary policy, liquidity squeeze and tougher regulatory requirements, CMB adhered firmly to its guiding concept of "achieving balanced development with efficiency, quality and size", reacted rapidly to grasp opportunities and overcome various unfavourable factors, thereby steadily promoting the "Second Transformation" strategies. Thanks to all these efforts, we achieved admirable operating results for the year, and took our first firm step forward for further development in the new decade.

Fu Yuning
Chairman

III Chairman's Statement

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With regard to operating results, as at the end of 2011, the total assets of the Group amounted to RMB2.79 trillion, up by 16.34% from the beginning of the year; the total deposits amounted to RMB2.22 trillion, increasing by 17.02% from the beginning of the year; and the total loans and advances to customers amounted to RMB1.64 trillion, increasing by 14.64% from the beginning of the year. The Group recorded a net operating income of RMB96.666 billion in 2011, an increase of 34.71% compared with the previous year; net profit attributable to the Bank's shareholders was RMB36.129 billion, an increase of 40.20% compared with the previous year; ROAA attributable to the shareholders of the Bank was 1.39%, an increase of 0.24 percentage point compared with the previous year; ROAE attributable to the shareholders of the Bank was 24.17%, an increase of 1.44 percentage points compared with the previous year; our ROAA and ROAE were both on top of listed banks.

With regard to the business transformation, our retail loans reached 34.81% of total loans, and customers' total assets under management increased by 19%. Profit from our retail business accounted for 29.90% of the total, a year-on-year increase of 10.71 percentage points. Retail banking business maintained a good momentum of growth. We put great effort in promoting "Qian Ying Zhan Yi (千鷹展翼)" Program, a comprehensive financial service program targeting at innovative and high-growth enterprises, and marketing standardized products developed by the "Small Enterprise Credit Center", thereby making preliminary achievements in promoting the specialized management of small-and-medium-sized enterprise business. The percentage of our domestic SME Loans to domestic corporate loans increased from 39.36% in 2006 to 53.22% in 2011. Net fee and commission income increased by 37.93% as compared with the previous year. The percentage of total net non-interest income in net operating income increased by 0.60 percentage point as compared with the previous year. We maintained our competitiveness in fund agency services, insurance agency services and credit cards, proactively expanded businesses in financial market, cash management, assets custody, investment banking and pension finance.

With regard to risk pricing capability, domestic banks competed narrowly in securing deposits due to the slowdown in growth of deposits, therefore cost of funding saw a rising trend. We firmly grasped the opportunities brought by interest hikes and improved our risk pricing capability through strengthening our treasury management and the performance-oriented assessment. Growth in our Net Interest Margin (NIM) for the first half of 2011 ranked first among the listed domestic banks that disclosed this indicator.

With regard to comprehensive risk management, our non-performing loan ratio as of the end of 2011 was 0.56%, a decrease of 0.12 percentage point compared with the beginning of the year; the balance of our non-performing loans was RMB9,173 million, a decrease of RMB513 million compared with the beginning of the year; our allowance coverage ratio of non-performing loans was 400.13%, an increase of 97.72 percentage points compared with the beginning of the year. CMB imposed strict restrictions on granting loans to risky industries including local government financing platforms, real estate and "high polluting, high energy consuming and overcapacity" sectors, resulting in a strong overall credit risk-resistance capability. We optimized our liquidity quota system and stress test scenarios, and strengthened our risk monitoring and financial control to protect the liquidity security. We also enhanced proactive management on interest rate risk. The Bank was the first among its peers to adopt hedge accounting to manage the interest rate risk of its banking account. It improved and promoted its operational risk management system which basically covered all major institutions, business lines and procedures of the Bank and placed more efforts in monitoring key indicators and the collection and analysis of loss information. The Company built up a group-level structure for reputation risk management, improved rules, tools and processes, and closely monitored and effectively tackled reputation risk events.

Apart from the above-mentioned achievements, CMB significantly improved its capital efficiency, operating efficiency and management efficiency. **With regard to capital efficiency**, return on weighted risk assets and return on net assets of the parent company both improved. In 2011, our capital adequacy ratio reached 11.28%, an increase of 0.07 percentage point compared with the previous year. **With regard to operating efficiency**, process transformation and operation efficiency is raised. **With regard to management efficiency**, thanks to our efforts in regulating expense control and improving refined management, our cost-to-income ratio in 2011 decreased by nearly 4 percentage points compared with the previous year.

On December 6th 2011, Standard & Poor's raised CMB's LT rating from "BBB" to "BBB+". Against the background that international rating agencies substantially downgraded sovereign rating of foreign countries and credit rating of overseas banks, CMB was given a higher rating, which was attributable to China's economic growth as well as wide recognition of CMB future growth potential and managerial capability.

In the past year, the Board of Directors adequately carried out its functions in accordance with the relevant laws and regulations and the Articles of Association, earnestly performed its duties, fully implemented resolutions approved by shareholders at general meetings, fulfilled strategic decision-making functions and effectively improved corporate governance, thus ensuring the Bank's compliant operation and steady development. The Board of Directors continued to enhance the Bank's capital management. For this purpose, CMB followed the latest capital regulatory policy and smoothly proceeded with its capital replenishment through rights issue of A Shares and H Shares, while studied and revised its Mid-term Capital Management Plan in order to implement its capital efficiency concept. In addition, the Board of Directors continuously strengthened the overall risk management and supported implementation of the New Capital Accord by arranging special reports on Basel Capital Accord and organizing relevant trainings. Meanwhile, the Board of Directors attached great importance to the implementation of the rules for internal control, reviewed and passed an implementation plan for these rules, and provided guidance to promote internal control and self-assessment. Furthermore, the Board of Directors perfected the corporate governance system as well as adopted and revised a series of measures, including "Regulations on the Work of Secretary to the Board of Directors", "Standards for Quantitative Authorization by the Board of Directors to Senior Management", "Regulations on Connected Party Transactions", and "Regulations on Senior Management's Remuneration". Furthermore, the Board of Directors strictly followed domestic and international laws and regulations, disclosed all significant information in a prompt, accurate, truthful and complete manner and further optimized the disclosure of periodic reports. Moreover, the Board of Directors received visits from investors in an active, friendly and open manner, carefully maintained all communication channels with investors, and strived for innovation to improve investors' experience. In 2011, the Board of Directors smoothly completed the change of two independent directors and made adjustments to members of some special committees, thereby maintained an optimized member structure and stable functioning of the Board of Directors. Due to reasonable corporate governance structure and effective operation, the Board of Directors won the "Excellent Board of Directors Award" in the selection of "Seventh Session of Gold Round Table Award" among the boards of directors of listed companies, the "Best Board of Directors of Chinese Main Board Listed Company" organized by *Moneyweek*, the "Outstanding Performance On Investor Relations" organized by *Investor Relations*, the "Best Company In Investor Relations" organized by *IR Global Rankings* and a gold prize of the International Annual Reports Competition (ARC) Awards organized by the U.S. communication institute, Mercomm.

Looking forward to 2012, the Bank will still confront a very severe and complicated external environment. Residual effects of global financial tsunami persist and recovery of major economies such as Europe, the United States and Japan is less optimistic. Downward pressure on China's economic growth will linger on in the near term. Risks and opportunities are embedded in increasingly frequent fluctuations. On one hand, tougher regulatory requirements, clearer trend towards financial disintermediation and expectation for interest rate liberalization collectively present great challenges to bank's operation; on the other hand, the industrial upgrading, transformation and innovation, changing financial demands of different kinds of customers, rapid accumulation of social wealth, emerging consumption trend of well-to-do residents and fast popularization of mobile internet also jointly provide development and transformation opportunities for the banking industry. In the future, the Bank will pay more attention to the study and judgment of external environment and operating situation than it did in the past decade, and will endeavor to improve its ability of forward estimation, so as to maintain balanced and steady operation amidst this fluctuant and uncertain environment. I firmly believe that the Bank, under the leadership of the Board of Directors, will deepen the Second Transformation through management reform, carry out process reengineering which will be customer-centric, guaranteed by sufficient human resources, anchored by IT development and embedded by thorough compliance and risk management, further improve such indicators as capital efficiency, loan risk pricing, cost and expense, high-net-worth customers and risk level, and realize continuous increase in customer satisfaction and "three types of efficiencies", thereby improving business results and return on equity.

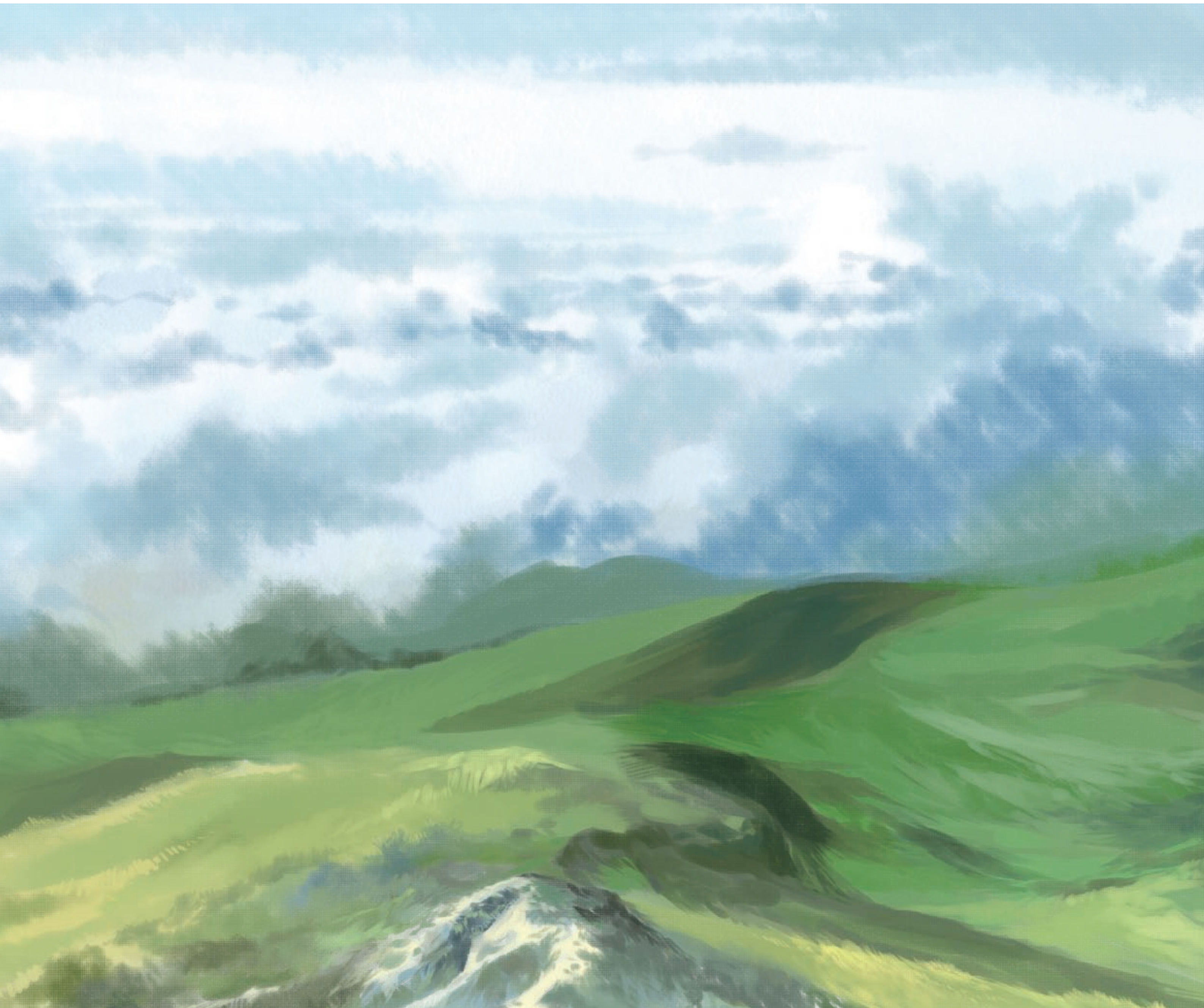
The upcoming April 8th will mark the 25th anniversary of CMB's inauguration. I would like to take this opportunity to express our sincere thanks to the shareholders, customers and friends from every walk of life for their support over the past 25 years. I also want to show my great respect to our employees for their diligent dedication to achieving the Bank's vision over the past years. Standing at the turning point of history, we will continue to adhere to our core values of "Service, Innovation and Prudence" to maximize return for shareholders, meet customer demands, care for our employees, proactively fulfill social responsibilities and endeavor to achieve outstanding performance again in 2012.

President's Statement

Despite severe and complex external situation in 2011, China Merchants Bank stayed devoted to and determined in fulfilling the requirements of both the regulatory authorities and the Board of Directors, managed to overcome various unfavourable factors and made a solid progress in the Second Transformation, achieving a relatively substantial increase in earnings and continuous improvement in operating efficiency under circumstances where the growth in risk assets was kept under effective control.

Ma Weihua

President



IV President's Statement

Despite severe and complex external situation in 2011, China Merchants Bank was committed to and determined in fulfilling the requirements of both the regulatory authorities and the Board of Directors, managed to overcome various unfavourable factors and made a solid progress in the Second Transformation, achieving a relatively substantial increase in earnings and the continuous improvement in operating efficiency under circumstances where the growth in risk assets was kept under effective control.

As at the end of 2011, the total assets of the Group amounted to RMB2.79 trillion, up by 16.34% from the beginning of the year; the total deposits from customers amounted to RMB2.22 trillion, increasing by 17.02% from the beginning of the year; and the total loans and advances to customers amounted to RMB1.64 trillion, increasing by 14.64% from the beginning of the year. The return on average net assets (after tax) attributable to shareholders of the Bank was 24.17%, up by 1.44 percentage points year-on-year. The cost-to-income ratio was 36.00%, down by 3.69 percentage points from the the previous year. The capital adequacy ratio was 11.53%, increasing by 0.06 percentage point from the beginning of the year. The balance of non-performing loans and the non-performing loan ratio both dropped; and the non-performing allowance coverage ratio increased significantly from the beginning of the year. The net profit attributable to shareholders of the Bank amounted to RMB36.129 billion, increasing by 40.20% year-on-year.

In 2011, the Bank proactively exploited the market, and ambitiously promoted deposits marketing, achieving a relatively fast growth in both corporate and retail deposits against the negative environment. We pushed forward specialised services for small enterprises, developed a variety of mass served products and vigorously launched the "Qian Ying Zhan Yi" program, as a result of which optimal growth momentum of our small enterprise businesses was maintained. Moreover, we steadily advanced the diversification in personal loans and the development of credit card businesses, which deepened our business with high-value customers and further increased the profit contribution of retail banking. We also accelerated the development of emerging wholesale businesses such as financial market, assets custody, investment banking, cash management and corporate pension annuity, and wealth management business such as funds, insurance, financial products and gold, and actively developed electronic banking channels, showcasing the highlights of the intermediary business.

In 2011, the Bank dedicated great efforts in risk prevention and internal control compliance, with focus on strengthening the review of accessing threshold and the management of quota for loans extended to local government financing platforms and the real estate enterprises, which resulted in the decrease in the balance of both the above two loan categories and their proportions in the total balance of loans as at the end of the year when compared with the beginning of the year. We continued to implement the credit risk management infrastructure enhancement plan, conscientiously put new loan regulations into practice, started the portfolio management project and reinforced the categorized provision management, and the measures for risk pre-warning and the clearance and recovery of non-performing loans. We also optimized the liquidity quota system and stress test scenarios so as to improve our management of market risk, operational risk and reputation risk. Moreover, we intensified our efforts in audit checks, strengthened the internal control evaluation and compliance management and prevented the risks from international money laundering. At the same time, we kept a tight control and prevention of faults and organized investigations aiming at key positions and areas, hence no serious incidence of misconducts and liabilities happened during the year.

In 2011, the Bank strengthened its internal management, further improved the branch performance assessment system at the branch level and reinforced budget management, asset and liability management, capital management and financial management. We launched comprehensive resource integration and workflow optimization on a full scale and formulated a 3-year implementation plan for 21 projects under four major lines which was organized and implemented in the manner according to project management. Moreover, we improved the human resources budget and allocation mechanism to enhance personnel performance, imposed stricter control over total staff headcounts, optimized and promoted the dual-dimensional assessment of performance and ability, and broadened the career development paths of our staff. Furthermore, we devoted more resources to managing the demand for IT services and continued to deepen IT development, accelerating the planning of the third-generation information system and the construction of the second-generation payment system of the People's Bank of China.

In 2011, the Bank further promoted its internationalized and integrated operations, achieving new progress in international and offshore businesses, in particular cross-border Renminbi business. We made further progress in integrating Wing Lung Bank, reinforced mainland and overseas business coordination, thereby continuously improving Wing Lung Bank's key competencies and achieving a relatively rapid growth in net earnings. Our New York Branch obtained the qualification to manage custody accounts under the U.S. Immigrant Investor Program and recorded profit after provisions for the year. The HK Branch seized the promising opportunities of cross-border Renminbi business and constantly improved its operations and product innovation. The U.S. and London Representative Offices conscientiously performed their duties of market research and liaison work. The grand opening of our Taipei Office also took place during the year. In addition, CMB Financial Leasing, CMB International Capital and CMB Fund developed steadily and, at the same time, the acquisition of equity interests in CIGNA & CMC Life Insurance and Tibet Trust and the preparation for the launch of futures settlement business were also in good progress.

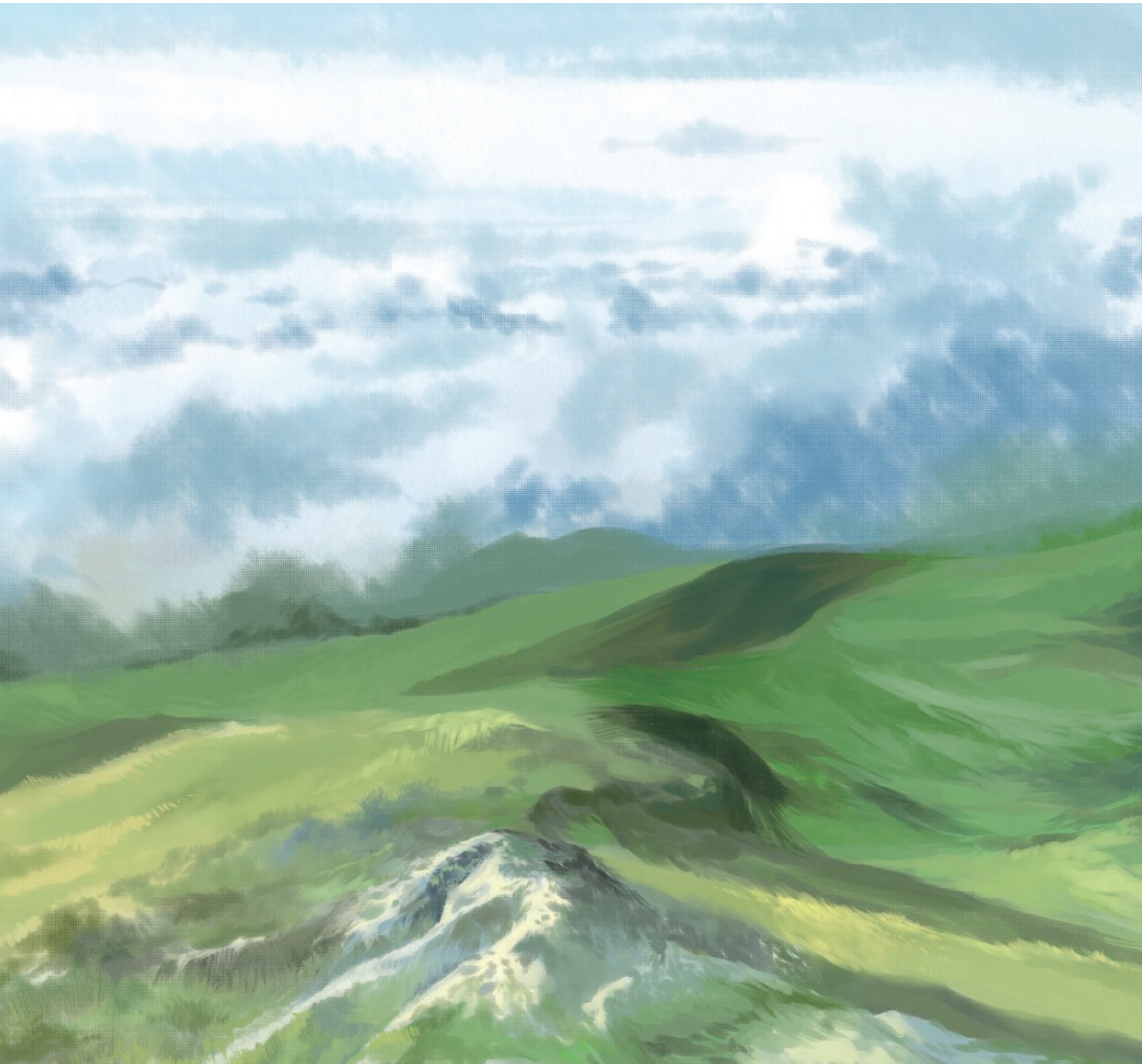
In 2011, the Bank provided comprehensive financial services for the Universiade 2011 Shenzhen as a way to fulfill its corporate social responsibilities. Our overall brand image continued to be widely recognized by the public, which was proved by over 100 prizes received at home and abroad.

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

Looking forward into 2012, we will follow the guiding principle of "capturing historical opportunities and deepening the Second Transformation" and make concerted efforts to combat difficulties ahead. With our highly motivated morale, innovation and diligence, we will usher in a new era of sustainable growth for China Merchants Bank.

Han Mingzhi

Chairman of the Board of Supervisors



V Management's Analysis and Discussion

5.1 Analysis of general operating status

In 2011 when the global economy was highly uncertain and complicated while China's economy grew steadily at a slower pace, the Group overcame various difficulties to carry forward the Second Transformation, and achieved steady growth in profit and continued improvement in operating efficiency, which are reflected in the following aspects:

Profitability was steadily improved. In 2011, the Group accomplished a net profit attributable to shareholders of the Bank of RMB36.129 billion, a net interest income of RMB76.307 billion and a net non-interest income of RMB20.359 billion, representing an increase of RMB10.360 billion or 40.20%, an increase of RMB19.231 billion or 33.69% and an increase of RMB5.679 billion or 38.69% respectively as compared with the previous year. ROAA and ROAE attributable to the shareholders of the Bank were 1.39% and 24.17% respectively, representing an increase of 0.24 percentage point and 1.44 percentage points respectively from 1.15% and 22.73% for 2010. Our operating efficiency was also steadily improved, which was driven by (i) increase in net interest income brought about by better risk pricing and positive re-pricing of assets as a result of rising interest rates; (ii) lower cost-to-income ratio achieved by better operating efficiency, tightened budget control, and more standardized and refined financial management; and (iii) a rapid growth in net fee and commission income due to efforts in intermediary business in view of the market trend.

The scale of assets and liabilities expanded steadily. As at the end of 2011, the Group's total assets amounted to RMB2,794.971 billion, an increase of RMB392.464 billion, or 16.34%, as compared with the beginning of the year. Loans and advances amounted to RMB1,641.075 billion, an increase of RMB209.624 billion, or 14.64%, as compared with the beginning of the year. Deposits from customers amounted to RMB2,220.060 billion, an increase of RMB322.882 billion, or 17.02%, as compared with the beginning of the year.

The asset quality remained sound. As at the end of 2011, the Group's non-performing loans balance was RMB9.173 billion, representing a decrease of RMB513 million as compared with the beginning of the year. The non-performing loan ratio was 0.56%, a decrease of 0.12 percentage point as compared with the beginning of the year. The non-performing loan coverage ratio was 400.13%, an increase of 97.72 percentage points as compared with the beginning of the year.

5.2 Analysis of Income Statement

5.2.1 Financial highlights

	2011	2010
	(in millions of RMB)	
Net interest income	**76,307**	57,076
Net fee and commission income	**15,628**	11,330
Other net income	**4,294**	2,933
Insurance operating income	**374**	353
Operating expenses	**(40,889)**	(32,634)
Provision for insurance claims	**(305)**	(278)
Gains on investment in associates	**49**	48
Gains on investment in joint ventures	**14**	16
Impairment losses on assets	**(8,350)**	(5,501)
Profit before tax	**47,122**	33,343
Income tax	**(10,995)**	(7,574)
Net profit	**36,127**	25,769
Net profit attributable to the Bank's shareholders	**36,129**	25,769

In 2011, the Group accomplished a profit before tax of RMB47.122 billion and the effective income tax rate was 23.33%, representing an increase of 41.33% and 0.61 percentage point respectively as compared with 2010.

The following table sets forth the impact on the profit before tax of the Group for 2011 arising from major changes in income/loss items.

Changes in profit before tax

	(in millions of RMB)
Profit before tax for 2010	**33,343**
Changes in 2011	
Net interest income	19,231
Net fee and commission income	4,298
Other net income	1,361
Insurance operating income	21
Operating expenses	(8,255)
Provision for insurance claims	(27)
Impairment losses on assets	(2,849)
Gains on investment in associates and joint ventures	(1)
Profit before tax for 2011	**47,122**

5.2.2 Net operating income

In 2011, the net operating income of the Group was RMB96.666 billion, representing an increase of 34.71% as compared with 2010. Specifically, net interest income accounted for 78.94%, representing a decrease of 0.60 percentage point from the previous year; net non-interest income accounted for 21.06%, representing an increase of 0.60 percentage point from the previous year.

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

	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)
Net interest income	**78.94**	79.54	77.75	84.24	82.51
Net fee and commission income	**16.17**	15.79	15.40	13.91	15.67
Other net income	**4.44**	4.09	6.03	1.65	1.72
Insurance operating income	**0.39**	0.49	0.69	0.18	–
Gains on investment in associates and joint ventures	**0.06**	0.09	0.13	0.02	0.10
Total	**100.00**	100.00	100.00	100.00	100.00

5.2.3 Net interest income

In 2011, the Group's net interest income amounted to RMB76.307 billion, representing an increase of 33.69% as compared with that in 2010, mainly due to (i) significantly improved yield of interest-earning assets brought about by better risk pricing and positive re-pricing of assets as a result of rising interest rates; and (ii) a steady expansion of the volume of interest-earning assets.

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

	2011			2010		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(in millions of RMB, excluding percentages)					
Interest-earning assets						
Loans and advances	**1,544,580**	**93,837**	**6.08**	1,371,641	66,842	4.87
Bond investments	**359,388**	**12,568**	**3.50**	318,471	9,178	2.88
Balances with central bank	**350,505**	**5,312**	**1.52**	246,000	3,546	1.44
Placements with banks and other financial institutions	**235,241**	**9,528**	**4.05**	214,503	4,947	2.31
Total interest-earning assets and interest income	**2,489,714**	**121,245**	**4.87**	2,150,615	84,513	3.93

	2011			2010		
	Average balance	**Interest expenses**	**Average cost (%)**	Average balance	Interest expenses	Average cost (%)
	(in millions of RMB, excluding percentages)					
Interest-bearing liabilities						
Deposits from customers	**1,961,112**	**32,111**	**1.64**	1,672,500	20,724	1.24
Placements from banks and other financial institutions	**329,108**	**10,958**	**3.33**	295,820	4,842	1.64
Issued debts	**38,495**	**1,869**	**4.86**	40,082	1,871	4.67
Total interest-bearing liabilities and interest expense	**2,328,715**	**44,938**	**1.93**	2,008,402	27,437	1.37
Net interest income	**/**	**76,307**	**/**	/	57,076	/
Net interest spread	**/**	**/**	**2.94**	/	/	2.56
Net interest margin	**/**	**/**	**3.06**	/	/	2.65

In 2011, net interest spread of the Group was 2.94%, up by 38 basis points as compared with 2010. Average yield of interest-earning assets was 4.87%, up by 94 basis points as compared with the previous year while the average cost of interest-bearing liabilities was 1.93%, up by 56 basis points as compared with the previous year.

Driven by the significant increase in average yield of interest-earning assets, net interest margin of the Group in 2011 was 3.06%, up by 41 basis points as compared with 2010.

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

	2011 compared with 2010		
	Increase/(decrease) due to		Net increase/
	Volume	Interest rate	(decrease)
	(In millions of RMB)		
Assets			
Loans and advances	8,422	18,573	26,995
Bond investments	1,178	2,212	3,390
Balances with central bank	1,505	261	1,766
Placements with banks and other financial institutions	479	4,102	4,581
Changes in interest income	11,584	25,148	36,732
Liabilities			
Deposits from customers	3,579	7,808	11,387
Placements from banks and other financial institutions	546	5,570	6,116
Issued debts	(74)	72	(2)
Changes in interest expense	4,051	13,450	17,501
Changes in net interest income	7,533	11,698	19,231

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

	July to September 2011			October to December 2011		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Annualized average yield (%)
	(in millions of RMB, excluding percentages)					
Interest-earning assets						
Loans and advances	1,569,625	24,797	6.27	1,617,082	26,585	6.52
Bond investments	363,394	3,319	3.62	381,952	3,584	3.72
Balances with central bank	358,295	1,382	1.53	387,900	1,484	1.52
Placements with banks and other financial institutions	240,420	2,626	4.33	218,226	2,386	4.34
Total interest-earning assets and interest income	2,531,734	32,124	5.03	2,605,160	34,039	5.18

	July to September 2011			October to December 2011		
	Average balance	Interest expense	Annualized Average cost (%)	Average balance	Interest expense	Annualized average cost (%)
	(in millions of RMB, excluding percentages)					
Interest-bearing liabilities						
Deposits from customers	1,987,367	8,532	1.70	2,015,427	9,519	1.87
Placements from banks and other financial institutions	278,094	3,204	4.57	417,738	3,340	3.17
Issued debts	34,305	480	5.55	49,130	497	4.01
Total interest-bearing liabilities and interest expense	2,299,766	12,216	2.11	2,482,295	13,356	2.13
Net interest income	/	19,908	/	/	20,683	/
Net interest spread	/	/	2.92	/	/	3.05
Net interest margin	/	/	3.12	/	/	3.15

In the fourth quarter of 2011, the annualized net interest spread of the Group was 3.05%, up by 13 basis points as compared to the third quarter of 2011. The annualized average yield of the interest-earning assets was 5.18%, up by 15 basis points as compared to the third quarter of 2011 while the annualized average cost of interest-bearing liabilities was 2.13%, up by 2 basis points as compared to the third quarter of 2011.

In the fourth quarter of 2011, driven by an increase in average yield of interest-earning assets, annualized net interest margin of the Group was 3.15%, up by 3 basis points as compared to the third quarter of 2011.

5.2.4 Interest income

In 2011, the Group recorded an interest income of RMB121.245 billion, an increase of 43.46% as compared with 2010, mainly due to the rise in yields and the stable 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

In 2011, the interest income from loans and advances of the Group was RMB93.837 billion, representing an increase of RMB26.995 billion or 40.39% as compared with the previous year. In 2011, benefiting from the constant improvement of our loan risk pricing capability and the re-pricing of loans against a background of rising interest rates, the average yield of loans and advances of the Group increased by 1.21 percentage points to 6.08% as compared with the previous year.

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

	2011			2010		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, excluding percentages)					
Corporate loans	**942,607**	**56,020**	**5.94**	800,990	39,723	4.96
Retail loans	**530,985**	**32,142**	**6.05**	444,447	22,426	5.05
Discounted bills	**70,988**	**5,675**	**7.99**	126,204	4,693	3.72
Loans and advances	**1,544,580**	**93,837**	**6.08**	1,371,641	66,842	4.87

In 2011, from the perspective of maturity profiles of loans and advances, the average balance of short-term loans was RMB656.821 billion, interest income amounted to RMB44.226 billion, and the average yield reached 6.73%; the average balance of medium to long-term loans was RMB786.651 billion, interest income amounted to RMB45.777 billion, and the average yield reached 5.82%.

Interest income from bond investments

In 2011, the interest income from bond investments of the Group increased by RMB3,390 million or 36.94% as compared to the previous year, and the average yield of bond investments was 3.50%, up by 0.62 percentage point as compared to the previous year.

Interest income from placements with banks and other financial institutions

In 2011, the interest income from placements with banks and other financial institutions of the Group increased by RMB4.581 billion or 92.60% as compared to the previous year, and the average yield for placements with banks and other financial institutions was 4.05%, up by 1.74 percentage points as compared to the previous year, which was primarily attributable to the significant rise in the interest rate of inter-bank funding, in an environment of increasingly tightened liquidity.

5.2.5 Interest expense

In 2011, the interest expense of the Group was RMB44.938 billion, an increase of RMB17.501 billion or 63.79% as compared with the previous year, which was primarily attributable to the significant increase in the average cost of deposits from customers and placements from banks and other financial institutions.

Interest expense on deposits from customers

In 2011, the Group's interest expense on deposits from customers increased by RMB11.387 billion or 54.95% as compared with the previous year. It was because (i) average balance of deposits from customers increased by 17.26%, and (ii) average cost increased by 0.40 percentage point as compared to the previous year due to the increased interest rates.

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

	2011			2010		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(In millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**652,815**	**4,789**	**0.73**	560,923	3,516	0.63
Time	**602,728**	**16,654**	**2.76**	476,989	9,392	1.97
Subtotal	**1,255,543**	**21,443**	**1.71**	1,037,912	12,908	1.24
Deposits from retail customers						
Demand	**409,431**	**2,478**	**0.61**	357,082	1,842	0.52
Time	**296,138**	**8,190**	**2.77**	277,506	5,974	2.15
Subtotal	**705,569**	**10,668**	**1.51**	634,588	7,816	1.23
Total deposits from customers	**1,961,112**	**32,111**	**1.64**	1,672,500	20,724	1.24

Interest expense on placements from banks and other financial institutions

In 2011, the interest expense on placements from banks and other financial institutions of the Group increased by 126.31% as compared to the previous year, which was primarily attributable to an increase in the volume as a result of the tightened external liquidity as well as the average cost increase of 1.69 percentage points for placements from banks and other financial institutions as compared to the previous year.

Interest expense on issued debts

In 2011, there is relatively smaller change in the volume and average cost of issued debts as compared with the previous year.

5.2.6 Net non-interest income

In 2011, the Group recorded a net non-interest income of RMB20.359 billion, representing an increase of RMB5.679 billion or 38.69% as compared to the previous year. Specifically, non-interest income from retail banking business amounted to RMB9.536 billion, an increase of 31.06% over the previous year, accounting for 46.84% of the Group's net non-interest income; non-interest income from wholesale banking business amounted to RMB10.766 billion, an increase of 58.00% over the previous year, accounting for 52.88% 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.

	2011	2010
	(In millions of RMB)	
Fee and commission income	**16,924**	12,409
Less: Fee and commission expense	**(1,296)**	(1,079)
Net fee and commission income	**15,628**	11,330
Other net non-interest income	**4,731**	3,350
Total net non-interest income	**20,359**	14,680

5.2.7 Net fee and commission income

In 2011, net fee and commission income of the Group increased by RMB4.298 billion or 37.93% as compared with 2010, which was primarily attributable to the increase in commissions from custody and other trustee businesses, bank card commission, settlement and clearing fees and financial consultancy fees. The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

	2011	2010
	(In millions of RMB)	
Fee and commission income	**16,924**	12,409
Bank card fees	**4,359**	3,710
Settlement and clearing fees	**2,042**	1,386
Agency service fees	**3,400**	3,062
Commissions from credit commitment and loan business	**1,563**	1,114
Commissions from custody and other trustee businesses	**3,032**	1,793
Others	**2,528**	1,344
Fee and commission expense	**(1,296)**	(1,079)
Net fee and commission income	**15,628**	11,330

Bank card commission increased by RMB649 million or 17.49% as compared to the previous year, benefiting from the steady increase in POS service charge of credit card.

Settlement and clearing fees increased by RMB656 million or 47.33% as compared to the previous year, benefiting from the increase in remittance and settlement volume as a result of fast movement of funds driven by strong customer demand for investment and consumption.

Agency service fees increased by RMB338 million or 11.04% as compared to the previous year, benefiting from the rapid growth of bond issue agency services by actively increasing the underwriting of bonds in line with the rising demand for corporate bond issue.

Commissions from credit commitment and loan business increased by RMB449 million or 40.31% as compared to the previous year, benefiting from the increase in commission from retail loans and other commitment businesses.

Commissions from custody and other trustee businesses increased by RMB1.239 billion or 69.10% as compared to the previous year, benefiting from the rapid growth of income from wealth management business such as Entrusted Wealth Management by increasing product offerings of wealth management and the efforts in product issue to seize market opportunities brought about by high inflation and negative interest rates of deposits. Income from entrusted wealth management was RMB1.421 billion, an increase of RMB542 million as compared with the previous year and income from trustee agency services amounted to RMB846 million, an increase of RMB651 million as compared with the previous year.

Other fee and commission income increased by RMB1.184 billion or 88.10% as compared to the previous year, which was mainly attributable to financial consultancy fee income of RMB1.368 billion, an increase of RMB732 million as compared to the previous year.

5.2.8 Other net income

In 2011, other net income of the Group increased by RMB1.361 billion or 46.40% as compared to 2010, which was mainly due to the incomparable factor of bills spread income being incorporated into other net income.

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

	2011	2010
	(In millions of RMB)	
Net trading profit/(loss)		
– Foreign exchange	**1,516**	1,356
– Bonds, derivatives and other trading activities	**656**	591
Net gains or losses on financial instruments designated at fair value through profit or loss	**27**	(172)
Net gains/(losses) on disposal of available-for-sale financial assets	**(250)**	151
Gains on investment in funds	**22**	15
Rental income	**281**	217
Bills spread income (Note)	**1,791**	593
Others	**251**	182
Total other net income	**4,294**	2,933

Note: The bank revised the accounting treatment of price spread of sellout bills in the bills system in June 2010. After the revision, when a buyout discounted bill is transferred out, the difference between the unamortized discounted interest income and the re-discounting cost shall be treated as spread income, which was previously treated as interest income before the revision. The revised accounting treatment reflects the nature of business more accurately.

5.2.9 Operating expenses

In 2011, operating and management expenses of the Group were RMB40.889 billion, representing an increase of 25.30% as compared to 2010. The cost-to-income ratio was 36.00%, representing a decrease of 3.69 percentage points as compared with the previous year. The significant decrease of cost-to-income ratio was primarily due to the improving standardization and sophistication in expense management, a steady rise in expenses, but such a rise is less than that of the operating income. Depreciation of fixed assets and investment properties and rental expenses had a relatively smaller change as compared to the previous year. Staff costs and other general and administrative expenses increased by 26.96% and 20.27% respectively as compared to 2010 due to increased headcounts along with business expansion. Business tax and other surcharges increased by 46.67% as compared to 2010.

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

	2011	2010
	(In millions of RMB)	
Staff costs	**20,316**	16,002
Business tax and surcharges	**6,091**	4,153
Depreciation of fixed assets and investment properties	**2,612**	2,497
Rental expenses	**2,193**	1,936
Other general and administrative expenses	**9,677**	8,046
Total operating and management expenses	**40,889**	32,634

5.2.10 Impairment losses on assets

In 2011, impairment losses on assets of the Group was RMB8.350 billion, an increase of 51.79% as compared to the corresponding period of 2010.The following table sets forth, for the periods indicated, the principal components of impairment losses on assets of the Group.

	2011	2010
	(In millions of RMB)	
Assets impairment charged/(released) on		
– Loans and advances	**8,199**	5,570
– Investments	**78**	(13)
– Placements with banks and other financial institutions	**77**	–
– Other assets(Note)	**(4)**	(56)
Total impairment losses on assets	**8,350**	5,501

Note: Other assets consisted primarily of impairment losses on repossessed assets.

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In 2011, impairment losses on loans was RMB8.199 billion, representing an increase of 47.20% as compared to 2010. This is mainly because the Group increased the collective provision for impairment losses on loans to local government financing platforms and domestic real estate sector for the purpose of further enhancing the Group's asset risk resistance capability in 2011. Furthermore, in compliance with the requirements of CBRC, the Group has made provision for impairment losses on assets exposing to country risks and provision for impairment losses on the assets of bank-trust cooperative wealth management business. For details of the provision for impairment losses on loans, please refer to the section headed "Loan quality analysis" in this chapter.

5.3 Analysis of balance sheet

5.3.1 Assets

As at 31 December 2011, the total assets of the Group amounted to RMB2,794.971 billion, representing an increase of 16.34% as compared to the end of 2010. The increase in total assets was primarily due to the increase in loans and advances to customers, investment, and balances with the central bank.

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

	31 December 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Total loans and advances to customers	**1,641,075**	**58.71**	1,431,451	59.58
Provision for impairment losses on loans	**(36,704)**	**(1.31)**	(29,291)	(1.22)
Net loans and advances to customers	**1,604,371**	**57.40**	1,402,160	58.36
Investments	**460,948**	**16.49**	394,176	16.41
Cash	**10,725**	**0.38**	9,250	0.39
Balances with the central bank	**397,579**	**14.22**	285,705	11.89
Balances with banks and other financial institutions	**63,046**	**2.26**	28,961	1.21
Capital lent and financial assets purchased under resale agreement	**205,356**	**7.35**	235,464	9.80
Interest receivable	**10,852**	**0.39**	7,588	0.32
Investment in associates and joint ventures	**456**	**0.02**	443	0.02
Fixed assets	**17,500**	**0.63**	16,451	0.68
Investment properties	**1,710**	**0.06**	1,946	0.08
Intangible assets	**2,605**	**0.09**	2,620	0.11
Deferred tax assets	**4,337**	**0.16**	3,706	0.15
Goodwill	**9,598**	**0.34**	9,598	0.40
Other assets	**5,888**	**0.21**	4,439	0.18
Total assets	**2,794,971**	**100.00**	2,402,507	100.00

5.3.1.1 Loans and advances

As at 31 December 2011, total loans and advances of the Group amounted to RMB1,641.075 billion, representing an increase of 14.64% as compared to the end of the previous year; total loans and advances accounted for 58.71% of total assets, representing a decrease of 0.87 percentage point as compared to the end of the previous year.

Distribution of loans by product type

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

	31 December 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Corporate loans	**994,041**	**60.57**	870,515	60.81
Discounted bills	**75,826**	**4.62**	64,948	4.54
Retail loans	**571,208**	**34.81**	495,988	34.65
Total loans and advances to customers	**1,641,075**	**100.00**	1,431,451	100.00

Corporate loans

As at 31 December 2011, the Group's total corporate loans amounted to RMB994.041 billion, representing an increase of 14.19% as compared to the end of the previous year. Total corporate loans accounted for 60.57% of total loans and advances to customers, a decrease of 0.24 percentage point as compared to the end of the previous year. In 2011, taking into account the regulatory requirements and limitations on internal capital, the Group granted loans in a steady manner and accelerated the granting of loans to SMEs, thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 31 December 2011, discounted bills amounted to RMB75.826 billion, representing an increase of 16.75% as compared to the end of the previous year. The Group has been expanding its discounted bills business, as the loss rate of this business was relatively low and capital consumption was relatively small. According to the progress and plan of granting loans, the Group flexibly adjusted the scale of its bill business and adopted a series of measures, including optimised structure, centralised operation, accelerated circulation and expanded business volume to increase the overall return of bill assets.

Retail loans

As at 31 December 2011, retail loans amounted to RMB571.208 billion, representing an increase of 15.17% as compared to the end of the previous year. As at 31 December 2011, retail loans accounted for 34.81% of total loans and advances, up by 0.16 percentage point as compared to the end of the previous year. With the launch of the Second Transformation strategy, the Company stepped up the diversified development of retail loans, and placed great emphasis on the development of the low capital-consuming home mortgage loan business and the high-yielding personal operating loan business in 2011.

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

	31 December 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Home mortgage loans	**323,640**	**56.66**	298,997	60.28
Personal operating loans	**90,429**	**15.83**	64,609	13.03
Credit card receivables	**73,305**	**12.83**	54,916	11.07
Others (Note)	**83,834**	**14.68**	77,466	15.62
Total retail loans	**571,208**	**100.00**	495,988	100.00

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

5.3.1.2 Investments

Investments

Investments of the Group are comprised of listed and non-listed securities denominated in Renminbi and in foreign currencies, including financial assets at fair value through profit or loss, derivative financial assets, available-for-sale 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:

	31 December 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Financial assets at fair value through profit or loss	**15,530**	**3.37**	15,229	3.87
Derivative financial assets	**1,887**	**0.41**	1,738	0.44
Available-for-sale financial assets	**275,860**	**59.85**	272,370	69.10
Held-to-maturity investments	**145,586**	**31.58**	97,614	24.76
Investment receivables	**22,085**	**4.79**	7,225	1.83
Total investments	**460,948**	**100.00**	394,176	100.00

Financial assets at fair value through profit or loss

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

	As at 31 December 2011	As at 31 December 2010
	(In millions of RMB)	
Bonds issued by PRC government	**1,113**	1,467
Bonds issued by the People's Bank of China (PBOC)	**33**	54
Bonds issued by policy banks	**1,139**	357
Bonds issued by commercial banks and other financial institutions	**3,374**	2,685
Others[1]	**9,871**	10,666
Total financial assets at fair value through profit or loss	**15,530**	15,229

Note: (1) Consists of other bonds, equity investments, investments in funds, etc.

Available-for-sale financial assets

As at 31 December 2011, available-for-sale financial assets of the Group increased by RMB3.490 billion or 1.28% as compared to the end of 2010.The investment in this category was made mainly due to the need to allocate assets and liabilities and improve operating efficiency and performance, which was the largest investment category of the Group.

In 2011, interest rate of the RMB bond market gradually moved downward after an upward move as a result of the quarterly slowdown in the macro economy, topping out of inflation in July and slight relaxation of the stringent monetary policy in the fourth quarter, and dropped to a level below that of the end of 2010 in general. Since large volume of assets in this category had matured during the year and risks associated with bond investment increased in the first three quarters, the Group reduced the investment volume in this category, which resulted in a reduction in the balance of bonds issued by both PRC government and PBOC. From the end of the third quarter to the year end, the Group moderately increased the investment in other high-yield bonds, mainly quality short-term financing bonds, medium-term bills and other credit products by proactively seizing market opportunities.

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

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

	31 December 2011	31 December 2010
	(In millions of RMB)	
Bonds issued by PRC government	**24,434**	27,533
Bonds issued by the PBOC	**15,245**	18,970
Bonds issued by policy banks	**46,149**	43,493
Bonds issued by commercial banks and other financial institutions	**106,379**	105,388
Other bonds	**82,371**	75,727
Equity investments	**1,267**	1,235
Fund investments	**15**	24
Total available-for-sale financial assets	**275,860**	272,370

Held-to-maturity investments

As at 31 December 2011, the net amount of held-to-maturity investments of the Group increased by RMB47.972 billion or 49.14% as compared to the end of the previous year. Held-to-maturity investments are held for the Group strategic purpose on a long-term basis. Given the low base of our held-to-maturity securities investment and in order to increase the long maturity products in our portfolio moderately to meet the requirement of interest rate risk management for bank accounts, the Group began to purchase more middle to long term bonds bearing fixed interest rates in the second and third quarters when the yields of bond market were at a high level. The purchase focused on bonds issued by PRC government and policy banks which led to a significant growth of such category of investments.

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

	31 December 2011	31 December 2010
	(In millions of RMB)	
Bonds issued by PRC government	**67,998**	45,069
Bonds issued by the PBOC	**15,359**	12,945
Bonds issued by policy banks	**10,345**	4,172
Bonds issued by commercial banks and other financial institutions	**49,874**	32,988
Other bonds	**2,184**	2,620
Total amount of held-to-maturity investments	**145,760**	97,794
Less: provision for impairment losses	**(174)**	(180)
Net amount of held-to-maturity investments	**145,586**	97,614

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 31 December 2011, the Group's net investment receivables amounted to RMB22.085 billion, representing an increase of RMB14.860 billion as compared to the end of 2010.

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

	31 December 2011	31 December 2010
	(In millions of RMB)	
Bonds issued by PRC government	**3,714**	5,291
Bonds issued by commercial banks and other financial institutions	**7,282**	1,994
Other bonds	**11,152**	–
Total investment receivables	**22,148**	7,285
Less: provision for impairment losses	**(63)**	(60)
Net investment receivables	**22,085**	7,225

Analysis on investments in foreign currency bonds

As at 31 December 2011, the Group had a balance of investments in foreign currency bonds of US$5.076 billion, among which US$2.724 billion was held by the Company and US$2.352 billion was held by WLB and its subsidiaries (hereinafter referred to as "WL Group").

As at 31 December 2011, the investments in foreign currency bonds held by the Company are categorized as follows: 29.6% issued by the PRC government and Chinese companies; 39.2% by overseas governments and institutions; 25.2% by overseas banks and 6.0% by overseas companies. The Company has made a provision for impairment losses of US$95 million for its investments in foreign currency bonds, with an evaluated unrealized floating profit of US$26 million.

As at 31 December 2011, the Company had no holding of sovereign bonds or bonds issued by institutions or corporations in the PIIGS countries. All bonds issued by financial institutions in the five European countries previously held by WLB had matured, and all principals and interests have been recovered with no default. Subsequently, WLB had no further investment in any sovereign bonds or bonds issued by institutions or corporations in PIIGS countries.

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

Carrying value and market value

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

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

	31 December 2011		31 December 2010	
	Carrying Value	**Market/ Fair Value**	Carrying Value	Market/ Fair Value
	(In millions of RMB)			
Held-to-maturity listed investments	**144,754**	**146,739**	94,513	93,429

5.3.1.3 Goodwill

In compliance with the PRC accounting principles, the Group took an impairment test at the end of 2011 for the goodwill arised from the acquisition of WLB and decided that provision for impairment was not necessary. As at 31 December 2011, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.598 billion.

5.3.2 Liabilities

As at 31 December 2011, the total liabilities of the Group amounted to RMB2,629.961 billion, representing an increase of 15.93% as compared to the end of 2010, which was primarily due to a steady growth in deposits from customers.

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

	31 December 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Deposits from customers	**2,220,060**	**84.41**	1,897,178	83.63
Deposits from banks and other financial institutions	**205,699**	**7.82**	203,011	8.95
Placements from banks and other financial institutions	**67,484**	**2.57**	45,573	2.01
Financial liability at fair value through profit or loss	**4,724**	**0.18**	1,353	0.06
Derivative financial liabilities	**1,469**	**0.06**	1,821	0.08
Proceeds from disposal of financial assets repurchased	**42,064**	**1.60**	33,439	1.47
Accrued payroll	**3,320**	**0.13**	3,220	0.14
Taxes payable	**7,112**	**0.27**	4,972	0.22
Interest payable	**16,080**	**0.61**	10,369	0.46
Bonds payable	**46,167**	**1.76**	36,285	1.60
Deferred income tax liabilities	**864**	**0.03**	924	0.04
Other liabilities	**14,918**	**0.56**	30,356	1.34
Total liabilities	**2,629,961**	**100.00**	2,268,501	100.00

Deposits from customers

In 2011, despite the increasingly stringent regulation and intense competition from peers, the Group managed to maintain a steady growth in its deposits from customers through various effective measures. As at 31 December 2011, deposits from customers of the Group amounted to RMB2,220.060 billion, representing an increase of 17.02% as compared to the end of 2010. Deposits from customers accounted for 84.41% 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.

	31 December 2011		31 December 2010	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**754,904**	**34.01**	664,947	35.05
Time	**661,866**	**29.81**	528,632	27.86
Subtotal	**1,416,770**	**63.82**	1,193,579	62.91
Deposits from retail customers				
Demand	**456,688**	**20.57**	413,888	21.82
Time	**346,602**	**15.61**	289,711	15.27
Subtotal	**803,290**	**36.18**	703,599	37.09
Total deposits from customers	**2,220,060**	**100.00**	1,897,178	100.00

In 2011, the domestic inflation and high-yield wealth management products boosted customer's willingness for asset allocation which channeled retail deposits to various investments. As at 31 December 2011, the percentage of retail deposits to total deposits from customers of the Group was 36.18%, representing a decrease of 0.91 percentage point as compared to the end of 2010.

In 2011, as the increase of interest rate of demand deposits was lower than that of time deposits, the percentage of demand deposit to total deposits from customers declined. As at 31 December 2011, the percentage of demand deposits to total deposits from customers of the Group was 54.58%, representing a decrease of 2.29 percentage points as compared to the end of 2010. Among the figures, the proportion of corporate demand deposits accounted for 53.28% of the corporate deposits, representing a decrease of 2.43 percentage points as compared to the end of 2010, and the proportion of retail demand deposits accounted for 56.85% of the retail deposits, representing a decrease of 1.97 percentage points as compared to the end of 2010.

5.3.3 Shareholders' equity

	31 December 2011	31 December 2010
	(In millions of RMB)	
Paid-up share capital	**21,577**	21,577
Capital reserve	**37,508**	37,508
Investment revaluation reserve	**157**	(1,311)
Hedge reserve	**278**	3
Surplus reserve	**14,325**	8,418
Regulatory general reserve	**18,794**	16,812
Retained profits	**64,446**	42,806
Proposed profit appropriations	**9,062**	8,719
Difference arising from converting financial statements nominated in foreign currency	**(1,150)**	(526)
Non-controlling shareholder's equity	**13**	–
Total shareholders' equity	**165,010**	134,006

5.3.4 Market share of major products or services

According to the Statements of Incomes and Expenditures of Financial Institutions Credit published by the PBOC in December 2011, the market share and ranking of the Bank among the 32 national small-and-medium-sized banks in terms of loans and deposits as at the end of the reporting period are as follows:

Items expressed in RMB	**Market share (%)**	**Ranking**
Total deposits	11.34	1
Total savings deposits	19.57	1
Total loans	9.91	2
Total personal consumption loans	22.59	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, small-and medium-sized national banks and small-and-medium-sized local banks, etc. The small and- medium-sized national banks are China Merchants Bank, Agricultural Development Bank, Export-Import Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, Evergrowing Bank, China Zheshang Bank, Bohai Bank, Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank, Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank and Bank of Chongqing.

5.4 Loan quality analysis

In 2011, in response to unprecedented complex external macroeconomic situation, the Group deepened credit risks management. Adhering to the principles of "Setting targets, Optimizing process, Comprehensive management, Continuous improvement and Upgrade of credit risk management," the Group strived to build a risk management system centring on value creation, by ways of further optimizing the overall whole process of risk management, strengthening the "Two Overalls" efforts (namely, overall risk management procedure and overall credit risk management fundamentals) in risk management to achieve a refined, standardized and streamlined risk management. During the reporting period, the credit assets of the Group have seen "steady growth in scale, optimization of customer mix, stability in asset quality and enhancement in allowance coverage".

As at 31 December 2011, total loans and advances of the Group was RMB1,641.075 billion, representing an increase of 209.624 billion or 14.64%, as compared to that at the end of the previous year; the non-performing loan ratio was 0.56%, down by 0.12 percentage point as compared to that at the end of the previous year; whereas the non-performing loan allowance coverage ratio was 400.13%, representing an increase of 97.72 percentage points as compared to that at the end of the previous year.

In 2011, the Group adopted a credit strategy of "controlling old types while promoting new types, controlling price downflow while adopting fixed pricing, controlling large loans while promoting small loans, controlling loans to "two-highs" industries while promoting loans to green industries, controlling long-term loans while promoting trade loans", which is in line with the industry policy of the government which emphasizes the efficient and reasonable allocation of credit resources while adhering to the principle of maintaining a balance between risk, capital and return so as to achieve continuous optimization of our asset structure.

5.4.1 Distribution of loans by 5-tier loan classification

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

	31 December 2011		31 December 2010	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Normal	**1,614,941**	**98.41**	1,407,546	98.33
Special Mention	**16,961**	**1.03**	14,219	0.99
Substandard	**3,186**	**0.20**	2,730	0.19
Doubtful	**2,146**	**0.13**	2,659	0.19
Loss	**3,841**	**0.23**	4,297	0.30
Total loans and advances to customers	**1,641,075**	**100.00**	1,431,451	100.00
Total non-performing loans	**9,173**	**0.56**	9,686	0.68

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. During the reporting period, asset quality of the Group remained stable as the balance and ratio of non-performing loans both dropped. As at 31 December 2011, balance of our non-performing loans was RMB9.173 billion, decreasing by RMB513 million from the end of the previous year, and the non-performing loan ratio was 0.56%, down by 0.12 percentage point as compared with the end of the previous year.

During the reporting period, the balance and percentage of special mention loans of the Group increased as a result of some borrowers' increased uncertainties of repayment reflected in the increase of retail loans overdue for less than one month and the downturn of the macro-economy. As at 31 December 2011, The balance of Special mention loans of the Group was RMB16.961 billion, up by RMB2.742 billion as compared that at the end of the previous year, of which special mention retail loans and special mention corporate loans increased by RMB1.514 billion and RMB1.229 billion respectively while the balance of special mention discounted bills decreased by RMB1 million. The percentage of special mention loan in total loans was 1.03%, an increase of 0.04 percentage point as compared to that at the end of the previous year.

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

	As at 31 December 2011				As at 31 December 2010			
	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	**994,041**	**60.57**	**7,395**	**0.74**	870,515	60.81	8,016	0.92
Working capital loans	**596,490**	**36.35**	**5,458**	**0.92**	516,749	36.10	5,734	1.11
Fixed asset loans	**282,995**	**17.24**	**999**	**0.35**	273,056	19.07	1,326	0.49
Trade finance	**69,333**	**4.22**	**497**	**0.72**	48,563	3.39	465	0.96
Others[2]	**45,223**	**2.76**	**441**	**0.98**	32,147	2.25	491	1.53
Discounted bills[3]	**75,826**	**4.62**	**–**	**–**	64,948	4.54	–	–
Retail loans	**571,208**	**34.81**	**1,778**	**0.31**	495,988	34.65	1,670	0.34
Personal housing loans	**323,640**	**19.72**	**389**	**0.12**	298,997	20.89	428	0.14
Personal operating Loans	**90,429**	**5.51**	**149**	**0.16**	64,609	4.51	62	0.10
Credit card loans	**73,305**	**4.47**	**1,021**	**1.39**	54,916	3.84	1,040	1.89
Others[4]	**83,834**	**5.11**	**219**	**0.26**	77,466	5.41	140	0.18
Total loans and advances to customers	**1,641,075**	**100.00**	**9,173**	**0.56**	1,431,451	100.00	9,686	0.68

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

(2) Consists primarily of corporate mortgage loans, including overdue discounted bills.

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

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

In 2011, the Group imposed prudent control over mid and long-term fixed assets loans while emphasizing coordinated management project construction cycle, operational cycle, cash flow and repayment plan, and gave priority support to short-term trade financing featured by real transaction and quick turnover and to supply chain financings, with a view to developing diversified and high-yield retail credit business in a stable way, carefully implementing the "Three Rules and One Guideline" issued by CBRC and clarifying the management and control measures for the key risks associated with our various credit products. All these measures brought about positive results and were proved effective.

During the reporting period, the percentage of trade financing and working capital loans in the Group's corporate loans increased while that of fixed assets loans decreased, leading to optimized asset structure and consistent asset quality. The percentage of retail operating loans and credit card loans increased while that of personal housing loans decreased, with the asset quality remaining stable. As at 31 December 2011, the ratio of non-performing corporate loans was 0.74%, down by 0.18 percentage point as compared to the end of the previous year. The ratio of non-performing retail loans was 0.31%, down by 0.03 percentage point as compared to the end of the previous year.

5.4.3 Distribution of loans and non-performing loans by industry

	As at 31 December 2011				As at 31 December 2010			
	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	**994,041**	**60.57**	**7,395**	**0.74**	870,515	60.81	8,016	0.92
Manufacturing	**307,972**	**18.77**	**2,682**	**0.87**	253,454	17.71	2,680	1.06
Wholesale and retail	**169,491**	**10.33**	**1,713**	**1.01**	116,068	8.11	1,711	1.47
Transportation, storage and postal services	**140,950**	**8.59**	**958**	**0.68**	131,555	9.19	852	0.65
Property development	**112,818**	**6.87**	**824**	**0.73**	113,182	7.91	896	0.79
Production and supply of electric power, gas and water	**66,009**	**4.02**	**334**	**0.51**	62,519	4.37	411	0.66
Construction	**44,036**	**2.68**	**134**	**0.30**	33,781	2.36	217	0.64
Leasing and commercial services	**37,568**	**2.29**	**136**	**0.36**	50,174	3.51	439	0.87
Mining	**36,979**	**2.25**	**–**	**–**	28,702	2.01	–	–
Water, environment and public utilities	**33,752**	**2.06**	**1**	**–**	31,894	2.23	61	0.19
Information transmission, computer service and software	**10,726**	**0.65**	**70**	**0.65**	7,290	0.51	162	2.22
Others(2)	**33,740**	**2.06**	**543**	**1.61**	41,896	2.90	587	1.40
Discounted bills	**75,826**	**4.62**	**–**	**–**	64,948	4.54	–	–
Retail loans	**571,208**	**34.81**	**1,778**	**0.31**	495,988	34.65	1,670	0.34
Total loans and advances to customers	**1,641,075**	**100.00**	**9,173**	**0.56**	1,431,451	100.00	9,686	0.68

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

(2) Consists primarily of finance, accommodation and catering, education, etc.

In 2011, guided by the State's 12th Five-year Plan while aiming at "allow more space to promote transformation", the Group continued to differentiate its credit policy for different industries by designing explicit credit policies for more than 40 industries based on three categories, namely "encouraged entrance, moderate entrance and prudent control industries." The Group also specified the threshold requirements for granting loans to a particular industry, gave more credit support to new strategic industries and exercised stricter control over loans to the real estate development industry, local government financing platforms, industries with over-capacity as well as disadvantaged traditional industries, so as to grant loans in a reasonable way. During the reporting period, the Group achieved the balanced growth and optimization of the credit structure by industry. As at the end of the reporting period, among the top ten industries except for the transportation, storage and postal services industry which recorded a slight increase in the non-performing loan ratio, the non-performing loan ratios of all other industries declined as compared to the end of the previous year.

5.4.4 Distribution of loans and non-performing loans by region

	As at 31 December 2011				As at 31 December 2010			
	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	**131,692**	**8.02**	**2,040**	**1.55**	94,149	6.58	2,238	2.38
Yangtze River Delta	**376,084**	**22.92**	**2,448**	**0.65**	350,522	24.49	2,140	0.61
Bohai Rim	**247,249**	**15.07**	**760**	**0.31**	225,999	15.79	833	0.37
Pearl River Delta and West Side of Taiwan Strait	**264,202**	**16.10**	**1,080**	**0.41**	232,236	16.22	1,226	0.53
North-east China	**95,552**	**5.82**	**323**	**0.34**	83,462	5.83	371	0.44
Central China	**180,229**	**10.98**	**1,145**	**0.64**	158,873	11.10	1,183	0.74
Western China	**210,829**	**12.85**	**1,068**	**0.51**	179,784	12.56	1,306	0.73
Overseas	**24,055**	**1.46**	**27**	**0.11**	21,076	1.47	32	0.15
Subsidiaries	**111,183**	**6.78**	**282**	**0.25**	85,350	5.96	357	0.42
Total loans and advances to customers	**1,641,075**	**100.00**	**9,173**	**0.56**	1,431,451	100.00	9,686	0.68

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

With the guidance of the bank-wide credit strategy, the Group formulated appropriate regional credit policies by fully taking into account the variations in regional resources, industry clusters and financial environment. Loans were granted to give special support to the pillar industries and value customers with growth potentials, which helped achieve the maximum returns by balancing geographic risks. In 2011, the Group's loans were extended to different regions in a balanced way. The growth rates of loans extended to Pearl River Delta and West Side of Taiwan Strait, Western China, Yangtze River Delta, Bohai Rim as well as Central China all contributed to 10-20% of the growth of loans newly granted. During the reporting period, the non-performing loan ratios decreased in all regions except in the Yangtze River Delta.

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

	As at 31 December 2011				As at 31 December 2010			
	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	**335,863**	**20.47**	**1,461**	**0.43**	306,669	21.42	1,540	0.50
Guaranteed loans	**397,218**	**24.20**	**3,485**	**0.88**	362,528	25.33	3,737	1.03
Collateralized loans	**697,758**	**42.52**	**3,623**	**0.52**	608,136	42.48	3,718	0.61
Pledged loans	**134,410**	**8.19**	**604**	**0.45**	89,170	6.23	691	0.77
Discounted bills	**75,826**	**4.62**	**–**	**–**	64,948	4.54	–	–
Total loans and advances to customers	**1,641,075**	**100.00**	**9,173**	**0.56**	1,431,451	100.00	9,686	0.68

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

Despite rising risks in the macro-economy, the Group managed to alleviate credit risks through a series of measures such as demanding more collateral. As at the end of the reporting period, the percentage of pledged and collateralized loans increased by 1.96 percentage points and 0.04 percentage point respectively as compared with the end of the previous year. The percentage of secured and guaranteed loans declined by 0.95 and 1.13 percentage points respectively as compared with the end of the previous year. During the reporting period, the non-performing loan ratios under different types of guarantees all declined, which indicated the balanced optimization of our asset quality.

5.4.6 Loans to the top ten single corporations

Top ten borrowers	Industry	Loan balance as at 31 December 2011 (in millions of RMB)	% of net capital	% of total loans
A	Transportation, storage and postal services	6,416	3.16	0.39
B	Transportation, storage and postal services	5,000	2.46	0.30
C	Leasing and commercial services	3,233	1.59	0.20
D	Transportation, storage and postal services	2,970	1.46	0.18
E	Transportation, storage and postal services	2,700	1.33	0.16
F	Transportation, storage and postal services	2,550	1.26	0.16
G	Leasing and commercial services	2,518	1.24	0.15
H	Transportation, storage and postal services	2,420	1.19	0.15
I	Water, environment and public utilities	2,224	1.10	0.14
J	Transportation, storage and postal services	2,176	1.07	0.13
Total		**32,207**	**15.86**	**1.96**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB6.416 billion, representing 3.16% of the Group's net capital. The loan balance of top ten single borrowers totalled RMB32.207 billion, accounting for 15.86% of the Group's net capital and 1.96% of the Group's total loans balance respectively.

5.4.7 Distribution of loans by overdue term

	As at 31 December 2011		As at 31 December 2010	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	**6,456**	**0.39**	4,395	0.31
Overdue more than 3 months but within 1 year	**1,005**	**0.06**	947	0.06
Overdue more than 1 year but within 3 years	**2,241**	**0.14**	2,570	0.18
Overdue more than 3 years	**3,919**	**0.24**	4,247	0.30
Total overdue loans	**13,621**	**0.83**	12,159	0.85
Total loans and advances to customers	**1,641,075**	**100.00**	1,431,451	100.00

As at the end of the reporting period, the percentage of overdue loans of the Group was 0.83%, a decrease of 0.02 percentage point as compared to the end of the previous year. Among them, the majority of new overdue loans were those overdue for less than 3 months, while the percentage of those overdue for more than 3 months declined by 0.10 percentage point as compared to the beginning of the year.

5.4.8 Restructured loans

	As at 31 December 2011		As at 31 December 2010	
	Amount	**Percentage of total loans %**	Amount	Percentage of total loans %
	(in millions of RMB, excluding percentages)			
Restructured loans	**1,298**	**0.08**	1,531	0.11
Of which: restructured loans overdue for more than 90 days	**662**	**0.04**	892	0.06

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 0.08%, a decrease of 0.03 percentage point as compared to that at the end of the previous year.

5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, total repossessed assets of the Group amounted to RMB914 million. After deduction of allowances for impairment losses of RMB873 million, the net repossessed assets amounted to RMB41 million.

5.4.10 Changes of allowances for impairment losses on loans

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

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

	2011	2010
	(in millions of RMB)	
Balance at the beginning of the period	**29,291**	24,005
Charge for the period	**9,048**	6,241
Release for the period	**(849)**	(671)
Unwinding of discount on impaired loans[1]	**(136)**	(110)
Recovery of loans and advances previously written off	**65**	48
Write-offs	**(583)**	(152)
Transfers in/out	**–**	34
Foreign exchange rate movements	**(132)**	(104)
Balance at the end of the period	**36,704**	29,291

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

The Group continued to adopt a stable and prudent policy in respect of making provisions. As at 31 December 2011, allowances for impairment losses on loans amounted to RMB36.704 billion, representing an increase of RMB7.413 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 400.13%, representing an increase of 97.72 percentage points as compared with that at the end of the previous year, the total loan allowances ratio was 2.24%, representing an increase of 0.19 percentage point as compared with that at the end of the previous year, which indicated that our capability to resist risks was further enhanced.

5.5 Analysis of capital adequacy ratio

As at 31 December 2011, the capital adequacy ratio and core capital adequacy ratio of the Group were 11.53% and 8.22% respectively, representing an increase of 0.06 percentage point and 0.18 percentage point respectively as compared with those at the beginning of the year, while the capital adequacy ratio and core capital adequacy ratio of the Bank were 11.28% and 8.74% respectively, representing an increase of 0.07 percentage point and 0.04 percentage point respectively as compared with those at the beginning of the year. In 2011, benefited from the effective control over the rate of capital consumption as well as the gradual improvement in the capital accumulation ability, the capital adequacy ratio and the core capital adequacy ratio of the Group and the Bank achieved slight increases as compared with the beginning of the year, though influenced by adjustments to the regulatory policies such as the new requirements of CBRC on loans extended through local government financing platforms and the regulations on the unused credit card commitment. Excluding the impact of adjustments in the regulatory policies such as the new requirements of CBRC on loans extended through local government financing platforms and the regulations on the unused credit card commitment, the risk-weighted assets would increase by 14.33% as compared to the end of 2010, which was lower than the growth rate of total assets.

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

	As at 31 December 2011	As at 31 December 2010
	(in millions of RMB)	
Core capital		
Paid-up ordinary share capital	**21,577**	21,577
Reserves	**134,771**	106,402
Total core capital	**156,348**	127,979
Supplementary capital		
General provisions for loans and advances	**29,251**	21,180
Term subordinated debts	**30,000**	30,000
Other supplementary capital	**255**	–
Total supplementary capital	**59,506**	51,180
Total capital base before deductions	**215,854**	179,159
Deductions:		
Goodwill	**9,598**	9,598
Investments in unconsolidated subsidiaries and other long-term investments	**1,589**	1,661
Investments in commercial real estate	**1,710**	1,946
Total capital base after deductions	**202,957**	165,954
Risk-weighted assets	**1,760,884**	1,446,883
Core capital adequacy ratio	**8.22%**	8.04%
Capital adequacy ratio	**11.53%**	11.47%

5.6 Segment operating results

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

The Group evaluated the performance of business segments through the internal funds transfer pricing mechanism ("FTP"). The internal FTP system has taken into account the structure and market rates of the assets and liabilities portfolio, and the business segments priced internal lending and borrowings at the internal interest rates. Net interest income of respective segments, including interest income from loans to other segments and interest expense for borrowings from other segments, reflected the profits or losses of funding allocation to the business segments through the FTP system. The allocation of costs 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. The following table summarizes the operating results of the business segments of the Group for the periods indicated.

Items	**Jan-Dec 2011**		Jan-Dec 2010	
	Profit before tax by segment	**Percentage (%)**	Profit before tax by segment	Percentage (%)
	(in millions of RMB, excluding percentages)			
Wholesale banking business	**36,507**	**77.47**	25,391	76.15
Retail banking business	**14,088**	**29.90**	6,400	19.19
Financial market business	**(2,842)**	**(6.03)**	2,350	7.05
Other businesses	**(631)**	**(1.34)**	(798)	(2.39)
Total	**47,122**	**100.00**	33,343	100.00

During the reporting period, the percentage of profit from retail banking business of the Group increased substantially. Profit before tax amounted to RMB14.088 billion, representing 29.90% of the total profit before tax and accounting for an increase of 10.71 percentage points as compared with the same period of the previous year. At the same time, cost-to-income ratio of retail banking business (excluding operation tax and surcharges) decreased to 53.81% from 63.05% in 2010.

Geographical segments

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

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

	Total Assets 31 December 2010		Total Liabilities 31 December 2010		Total Profit 2010	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
			(in million of RMB)			
Head Office	824,306	34%	729,245	32%	2,288	7%
Yangtze River Delta	385,049	16%	378,714	17%	8,463	25%
Bohai Rim	258,605	11%	254,138	11%	5,995	18%
Pearl River Delta and West Side of Taiwan Strait	275,887	11%	270,893	12%	6,496	20%
Northeast China	97,547	4%	96,285	4%	1,691	5%
Central China	180,027	7%	177,673	8%	3,149	9%
Western China	204,364	9%	201,647	9%	3,670	11%
Overseas	38,793	2%	38,736	2%	199	1%
Subsidiaries	137,929	6%	121,170	5%	1,392	4%
Total	**2,402,507**	**100%**	**2,268,501**	**100%**	**33,343**	**100%**

5.7 Other Information

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

The Group's off-balance-sheet items include derivatives, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and contingent liabilities. Credit commitments are the most important component. As at the end of 2011, the balance of credit commitments was RMB879.162 billion. For details of the contingent liabilities and commitments, please refer to the section headed "Contingent Liabilities and Commitments" in "Notes to the Financial Statements" of this report.

5.7.2 Outstanding overdue debts

As at the end of 2011, the Group did not have any outstanding overdue debts.

5.8 Business Operations

5.8.1 Retail Banking Segment

Business Overview

The year 2011 saw a complex and volatile financial environment at home and abroad. Against such background, the Company successively seized the opportunities arising from macro economy and market growth to speed up the advancement of the "Second Transformation" strategy, strengthened the resource integration, deepened process optimization of stepped up services innovation of enriched product mix, enhanced the expansion and management of customer base, actively carried out cross selling according to customers' need, expedited the diversified development of retail loans, continued to boost its wealth management business, thereby further sharpening our market competitive edges. As a result, all our retail banking businesses have achieved continuous and rapid growth.

In 2011, the number of high-value customers of the Company has gained a positive growth, recording 113,100 new Sunflower customers or above and the number of private banking customers has maintained a growth rate of over 30% for four consecutive years. Retail deposits and loans continued to expand steadily. During the year, retail deposits increased by RMB100.925 billion to RMB751.294 billion, accounting for 35.32% of the total customer deposits; and the balance of retail loans amounted to RMB556.935 billion, accounting for 36.40% of the total customer loans. According to the data released by PBOC, the Company ranked first among small and medium-sized national banks in terms of both balance and increment of retail deposits, and the fifth only next to the Big Four state-owned banks in terms of the balance of retail loans. The wealth management business developed at a rapid and steady pace, keeping the lead among peers in terms of both fund sales and fund inventory and ranking the top among small and medium-sized national banks and the fifth only next to the Big Four state-owned banks (according to the statistics for the insurance industry) by the size of insurance agency sales and commission income, whilst businesses such as wealth management products and precious metals continued to grow rapidly. Our retail services continued to maintain a leading edge. According to the monitoring by Sino-Classic, the overall score of the Company's outlet service was above its peers.

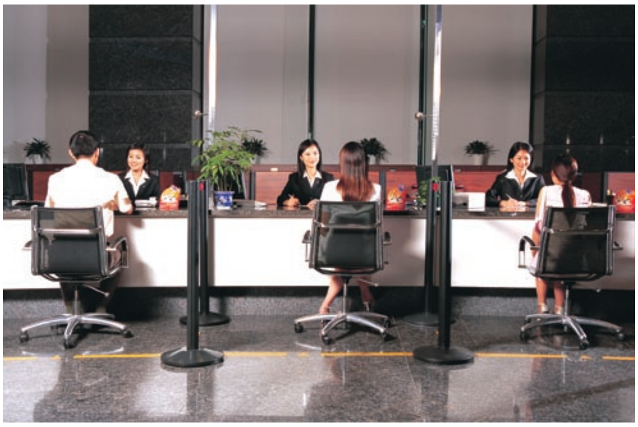
In 2011, net operating income generated by the Company's retail banking business grew steadily to RMB36.082 billion, increasing by 40.75% year-on-year, representing 39.05% of the Company's net operating income and accounting for a year-on-year increase of 1.62 percentage points. Amongst them, net interest income from retail business reached RMB26.841 billion, increasing by 44.19% year-on-year and accounting for 74.39% of the Company's net income from retail business; retail net non-interest income steadily climbed to RMB9.241 billion, up by 31.62% year-on-year and accounting for 25.61% of the net income from retail business and 50.14% of the Company's net non-interest income. In 2011, the Company recorded a commission income of RMB4.210 billion from bank cards (including credit cards), increasing by 17.11% year-on-year; income from fund agency services was RMB1.177 billion, down by 0.68% year-on-year; income from insurance agency services was RMB1.030 billion, increasing by 17.98% year-on-year; income from wealth management was RMB788 million, increasing by 59.19% year-on-year; income from trust plan agency services was RMB835 million, increasing by 330.41% year-on-year.

In 2012, the Company will adhere to its customer-oriented business philosophy, continue to optimize operational procedures, enhance resources integration, strengthen team and channel establishment, improve services management, intensify the expansion and management of customer base, continue to vigorously develop core businesses (such as wealth management, private banking, retail loans and credit cards), increase the brand influence and further enhance its competitive strength in the market.

Wealth Management Business

In recent years, the Company has been committed to wealth management business. By building a wealth management system which focuses on "customer assets management", we continuously improved the professional competence of client managers and proceeded well in allocating assets on behalf of customer groups with different assets sizes and risk preferences, hence fully satisfying the financial needs of our vast range of customers. In 2011, the Company proactively explored high potential market areas and follow closely customer demands. We launched wealth management products such as the "Jie Jie Gao Sheng" series and the Universiade Golden Financial Quarter, and recorded RMB2,063.571 billion of sales of personal financial products. We also continued with innovations in the fund distribution model and enlarged product range in the fund agency services, achieving an agency sale of open funds amounting to RMB143.421 billion. Standard premiums from insurance agency services reached RMB39.718 billion.

In 2012, the Company will continue to focus on customer assets management to follow customer demand and further foster a team of competent and professional client managers and investment consultants so that our professional competence in wealth management will be upgraded and customer satisfaction and loyalty will be increased. We will also continue to use our channel advantage in agency service, intensify efforts in fund and insurance agency businesses, accelerate the development of securities brokerage collective wealth management business and trustee wealth management business and vigorously develop personal bullion investment agency business, so as to foster the robust growth of the Company's wealth management business.



Private banking business

Our private banking business follows the concept of "It's our job to build your everlasting family fortune". Our local senior client managers work with the globally recruited investment experts to form "1+N" expert teams to provide our high-net-worth customers with a comprehensive, personalized and private wealth management services following carefully designed rules of "Four-Step Spiral-Up Workflow".

Meanwhile, through providing systematic and professional market research and analysis reports to relationship managers and private banking customers, we helped them optimize asset allocation in a changing financial environment. An open product platform and a more complete range of products were presented in an attempt to improve the private banking product range as well as value-added services. During the reporting period, the Company improved its sales mode and processes, enhanced product lifecycle management and innovated product design, aiming to meet customers' diversified needs.

In 2011, the Company had 16,493 private banking customers, representing a growth in customer number of 30.50% and maintaining a growth rate above 30% for four consecutive years. The total assets of private banking customers under management amounted to RMB369,879 million, representing a growth rate of 37.10%. As at the end of the reporting period, the Company had established 23 private banking centers in 21 major cities across the country, which further extended the coverage of customer service of private banking.

In 2011, the Company took the lead to introduce the localized global asset allocation model for high-end customers, thus further diversified and expanded the investment choices and professional asset allocation of private banking customers. During the reporting period, the Company issued "The Report on Chinese Private Wealth for 2011" jointly with Bain & Company, which is an in-depth and refined review of investment hotspots in various markets in the past two years following its first authoritative study on the high-end private wealth market of Mainland China issued in 2009, based on our constant attention of the Chinese private wealth market. The report revealed the investment attitude and behaviour of China's private wealth market and high-net-worth individuals and displayed future development trend, with a view to complete the understanding of domestic and international readers on China's private wealth market, high-net-worth individuals and private banking industry.

Bank Card Business

All-in-one cards

The Company has always been devoted to the expansion of cardholder base of "All-in-one card" and continued to improve integrated wealth management services offered by the cards with a view to achieve higher customer satisfaction and better awareness. In 2011, adhering to the customer-oriented principle, the Company further improved the cardholders' mix. The Company steadily revised the cardholders' mix by increasing the proportion of high-value customers while keeping a stable growth in the issuance volume of new cards. As at 31 December 2011, a cumulative total of 60.85 million All-in-one cards were issued, including 3.91 million cards newly issued during the year. Total deposit balance of All-in-one cards was RMB610.082 billion, accounting for 81.20% of the total retail deposits. Average balance per card surpassed the level of RMB10,000, increasing by RMB595 as compared to that at the beginning of the year. Transaction volume of All-in-one cards via POS amounted to 354.3 billion, increased by 30.98% as compared with the same period of the previous year, and average trading volume via POS amounted to RMB5,822 per card, up by 22.54% as compared with the same period of the previous year.

Credit cards

In 2011, in regard to the credit card business, the Company vision to become the best provider of payment experience, the best expert in consumer finance and the leader in diversified distribution platform in China so as to deepen Second Transformation through management transformation. During the reporting period, the Company continued to effectively acquire customers and gradually improve customer management and intensified refined operations management, which resulted in a positive development momentum for the overall business. In acquiring customers, upholding the principle of customer value, the Company increased efficiency in acquiring customers, and epitomized customer mix. As for customer management, with focus on the principles of "value, collaboration and efficiency", the Company reinforced the construction of a marketing platform and expanded profitable businesses, hence effectively increasing marketing efficiency and the customer management standards. As at the end of the reporting period, the average transaction value per month of each card of the Company increased by 24.33% from that in the previous year. In terms of operational management, the Company was committed to the construction of a low-cost, highly efficient and refined operational management model, blending new technological developments while exploring the room for cost reduction. The growth in operating expenses was lower than the growth in income by 22 percentage points.

During the reporting period, the Company proactively established and improved effective channels to acquire valued customers. A series of products aiming at a target group of customers was launched, including Perfect World Card, VANCL Card, Thunder Card, RenRen Card and QQ Card. Cinemas, department stores, reward points, preferential merchants and other marketing resources were integrated to further tap customer value and deepen customer management. We continued to promote the integration of internal and external resources and strengthen cross-selling to consolidate our leading edge in the retail business. Through professional risk control measures including improving credit policies, strengthening credit review, monitoring the quality of risk assets and optimizing the allocation of resources, the overall quality of assets of the credit card business was maintained. In August 2011 in particular, the Company completed the upgrading of the world's ultra-large single host system, providing more personalized and customized services under the customer-oriented principle and laying a solid foundation for the strengthening of the Company's service competitiveness.

As at the end of the reporting period, the Company had issued 39.61 million credit cards in total, including 4.84 million cards newly issued during the year, while the total number of cards in circulation was 18.89 million. The cumulative transaction value via credit cards for 2011 was RMB497.7 billion and the average transaction value per month of each card in circulation was RMB2,305. The percentage of the revolving balances of credit was 34.38%, decreasing by 0.97 percentage point from that as at the end of the previous year. The revolving balances of credit increased by 30.25% as compared with the previous year. Non-performing loan ratio of credit cards was 1.38%, down by 0.5 percentage point as compared with the previous year. Interest income from credit cards amounted to RMB4,513 million, an increase of 33.20% as compared to that in the previous year. Non-interest income from credit cards was RMB3,859 million, an increase of 30.55% as compared with that based on the same criteria in the previous year.

The Company will intensify the Second Transformation in 2012. By adhering to the value-oriented principle, we will optimize resources allocation, increase operating efficiency, devote efforts to enhance brand presence and strengthen cross-selling in order to increase profit contribution and to come into balance with value creation of the credit card business. Primarily relying on measures such as "innovating payment methods, strengthening product competitiveness, increasing operational efficiency, optimizing customer experience, improving customer communication system and deepening businesses with high-end customers", we will establish differentiated competitive advantages in the credit card business and further explore its sustainable development model.

Retail loans

In 2011, the Company continued to accelerate the diversified expansion process of retail loans, and increased the risk pricing ability of retail loans and the return on capital. While staying focused on the continuous development of personal housing loan business, the Company vigorously developed the non-housing loans, such as personal operating loans and personal consumption loans, so that our profitability of retail loans was significantly improved. In order to better cater to our customers' needs for full range of financial services, the Company endeavored to promote cross-selling retail loans to different groups of customers, thereby significantly increased our comprehensive income. Meanwhile, a series of differentiated innovative retail loan products were developed for different groups of customers, such as personal consumption loans for Diamond-class customers, exclusive loans for Sunflower and Gold Card customers, agency issuance of customer consumption loans, which practically satisfied customers' various loan needs and further sharpened our competitive edges in the market.

At the same time, the Company continued to optimize the retail loan procedures by integrating the middle and back office operational process for retail loans to reduce costs and enhance efficiency. We improved our bank-wide electronic loan service platform to boost customer satisfaction and cut down operating cost. We continued to improve our risk management system and pushed forward the construction of loan auto-evaluation system, the after-lending risk pre-warning system and other systems, so as to improve our risk management level. As at 31 December 2011, the Company's total retail loan amounted to RMB556.935 billion, an increase of RMB74.199 billion as compared to that at the end of the previous year. The non-performing loan ratio of retail loans was 0.31%, a slight decrease of 0.02 percentage point as compared to that at the beginning of the year.

Looking forward to 2012, in order to achieve coordinated growth in efficiency, quality and scale, the Company will further proceed with diversified expansion process of retail loans, vigorously develop small and micro enterprise business, successively upgrade the return on capital for retail loan business, reinforce the refined operation and management, further lower the operating cost and enhance the risk management expertise.

Retail Customer Deposits

The retail deposit products of the Company mainly consist of demand deposit, time deposit and call deposit. In 2011, to cope with the volatile global economic situation and the complex domestic and international financial market environment, the Company actively expanded the retail customer base by constantly widening saving deposit channels and provided customers with quality wealth management services, fostering the coordinated development of the wealth management business and volume of deposits. As at 31 December 2011, the total retail customer deposits of the Company amounted to RMB751.294 billion, increasing by 15.52% from the end of the previous year, of which demand deposits accounting for 58.29% of the total retail customer deposits. The total retail customer deposits accounted for 35.32% of the Company's total deposits.

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

Retail Customers

For the past few years, the Company kept on developing quality customers, solidifying customer base, revising and optimizing customer structure, so as to provide support to our business development. As at the end of the reporting period, the Company established and opened 53 branch-level wealth management centers based on the existing Sunflower Wealth Management Centers and Sunflower VIP Rooms, thereby further enhancing professional service level and continuously improving its mid and high-end customer service system.

In 2011, the Company's retail customer base kept growing at a steady pace with the customer structure further improved. As at the end of the reporting period, the total number of retail accounts of the Company was 50.08 million, of which, the total number of Sunflower customers or above (i.e. high-end customers with daily average assets per month of RMB500,000 or above deposited at the Company) was 783,200, with a growth of 16.88%. Their total deposit balance was RMB340.6 billion. The balance of total assets under management of the Company from Sunflower customers or above amounted to RMB1,436.4 billion, an increase of RMB264.7 billion or 22.59% from the end of the previous year, accounting for 69.43% of the balance of customers' total assets under management of the Company.

Brands and Marketing

With the sustained efforts of the Company in brand building for its products and services, the Company has been awarded "The Best Joint Stock Retail Bank in China" for seven consecutive years by The Asian Banker. The Company was awarded the honor of "Best Retail Bank" for the second time by "Stars of China 2011" of The Global Finance. In the "Result Release on the Seventh Survey of Preferred Brand Names of Chinese Multimillionaires" held by Chinese Hurun Report, the Company was recognized as "The Most Preferred Credit Card Issuer" for China's richest for seven consecutive years and the private banking of the Company was awarded "The Most Preferred Private Bank" for China's richest. Furthermore, the private banking of the Company was awarded "Best Private Bank in China" for the year 2011 by Private Banker International of Singapore, "Best Private Bank in China" for the second time by Financial Times of the U.K. and "Most Innovative Chinese Private Bank" by "Golden Shell Awards" jointly held by 21st Century Business Herald and the Southwestern University of Finance and Economics.

In 2011, while consolidating the brand advantages of "All-in-one Card", "All-in-one Net", "Sunflower Wealth Management", "i Wealth Management" and China Merchants Bank credit card, the Company continued to refine the "Sunflower Exclusive" value-added services, actively commenced target marketing based on customer database, progressively promoted the integration of sales and service processes, and strengthened the promotion of retail banking business and products. Major marketing campaigns such as "Sunflower" National Children Creative Drawing Competition, "Sunflower" Family Financial and Business Development Camp and "The Fifth Wealth Management Education Community Tour" were launched. Such efforts in brand building were not only effective in forging closer relations with our customers, but also helpful in developing our customer base and enhancing customer loyalty.

5.8.2 Wholesale banking

Business overview

The Company provides corporate customers, financial institutions and government agencies with a wide range of high quality wholesale banking products and services. As at 31 December 2011, the total corporate loans of the Company were RMB903.991 billion, an increase of 12.67% over the end of the previous year, accounting for 59.09% of the total customer loans, among which the balance of medium to long-term loans to domestic enterprises amounted to RMB369.290 billion, representing 41.97% of the total loans to domestic enterprises and accounting for a decrease of 4.08 percentage points as compared to that at the beginning of the year; the balance of total discounted bills was RMB68.966 billion, an increase of 12.99% over the end of the previous year, accounting for 4.51% of the total customer loans; and the total corporate customer deposits were RMB1,375.643 billion, an increase of 18.74% over the end of the previous year, accounting for 64.68% of the total customer deposits.

In 2011, net operating income of the Company's wholesale banking business achieved a steady growth to reach RMB60.058 billion, representing an increase of 44.74% as compared to that of the previous year, and accounted for 65.00% of the net operating income of the Company, representing an increase of 4.42 percentage points as compared to that of the previous year. The Company successfully optimized its pricing mechanism and system construction and fully improved its risk pricing capability by taking full advantage of market factors (including supply-demand relationship) in accordance with the strategic requirements of raising risk pricing of loans as set out in the "Second Transformation". As a result, the interest income across the Bank increased significantly. In 2011, the Company accomplished a net interest income of RMB49.841 billion from wholesale banking business, an increase of RMB14.945 billion or 42.83% as compared to that of the previous year. While driving the interest income up, the Company also endeavoured to raise the proportion of non-interest income. The Company faced a market environment which presented both challenges and opportunities in 2011, and effectively realized persistent steady growth in the non-interest income business. The Company made great efforts in exploration of new businesses such as financial advisory, cash management, debt instrument underwriting, asset custody, corporate wealth management, wealth management for other financial institutions, precious metal operations and leasing, business card, agency settlement for other financial institutions and annuity, and continued to maintain stable growth of income derived from traditional businesses including settlement business and financing related business, so as to ensure diverse sources of non-interest income. While continuing to strengthen product innovation, the Company further strengthened product operations and compliance management as well as the brand building of key products. As a result, the marketing and customer application indicators for various core products continued to make breakthroughs. In 2011, net non-interest income from wholesale banking business amounted to RMB10.217 billion, representing an increase of RMB3.619 billion or 54.85% over the previous year.

In 2011, the Company's wholesale banking business strictly complied with the requirements of the Second Transformation, thereby expediting rapid and healthy development of its various businesses and achieving steady improvement in scale, quality and profits. Total corporate customer deposits recorded a significant increase of RMB217.100 billion over the previous year, ranking the first among the small and medium sized joint stock commercial banks (according to the data released by PBOC). The Company's domestic SME corporate loans increased by RMB79.864 billion as compared to that at the end of the previous year, representing an increase of 3.50 percentage points in proportion of total domestic corporate loans. In addition, the Company's fully promoted "Qian Ying Zhan Yi" plan (千鷹展翼) attracted a total of 3,239 customers, representing a surge of 349.86% as compared to the end of the previous year. The Company was awarded the honor of "China's Best Domestic Cash Management Bank" for the sixth consecutive year by Asia Money. According to statistics of the PBOC, the Company had a balance of domestic deposits denominated in foreign currencies exceeding US$15.6 billion, ranking fifth only next to the Big Four among its domestic peers. According to the rating result published by the Factors Chain International ("FCI") in 2011, the Company ranked the first in China in terms of the quality of our export factoring services for the third consecutive year, and the second in the global ranking, 3 places up from the previous year. The Company's performance indicators (such as offshore deposits, settlements and net non-interest income and profitability) continued to rank first among its domestic peers in terms of market share (based on inter-bank information). The Company's newly issued open-ended funds, in terms of number and value, ranked first among all joint-stock banks with custodian business (according to statistics of custodian business published by China Banking Association).

Corporate Loans

Corporate loans products of the Company include working capital loans, fixed asset loans, trade finance and other loans such as corporate mortgage loans. In 2011, the Company actively provided premium loan services. The Company provided more supports for quality industries, such as those emerging strategic industries, modern service sector, renewable energy, environmental protection and high-tech industries. The Company restricted loans to industries under macro economic control, such as real estate, local government financing platforms and "high polluting, high energy consuming and over-capacity" industries. These all resulted in further optimization of the industry distribution of corporate loans.

On this basis, the Company pushed forward in 2011 the "Second Transformation" with emphasis on the development of small and medium enterprise (SME) business as its key strategy and realized a healthy and stable development of the business. According to the Interim Provisions on the Standards for Small and Medium Enterprises (《中小企業標準暫行規定》) jointly issued by four government agencies at the ministerial level in 2003, as at 31 December 2011, the total balance of our domestic SME corporate loans amounted to RMB468.282 billion, an increase of RMB79.864 billion over that at the end of last year, and the increase of loans accounted for 80.94% of the total increase of domestic corporate loans for the year. The Company's SME corporate loans accounted for 53.22% of the total domestic corporate loans, an increase of 3.50 percentage points as compared with that at the end of the previous year. Meanwhile, the quality of our SME corporate loans assets was further improved. The non-performing loan ratio was 1.17%, a decrease of 0.29 percentage point over that at the end of the previous year. In addition, according to the Notice on Issuing the Provisions on the Classification Standards for Small and Medium-sized Enterprises (《關於印發中小企業劃型標準規定的通知》) jointly issued by the aforesaid four government agencies at the ministerial level in 2011 as well as the regulatory and statistical standards of the CBRC, as at the end of 2011, loans granted to small and micro enterprises (including discounted bills and operating retail loans) amounted to RMB325.07 billion, representing an increase of 25.52% as compared to that of the end of the previous year.

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

Firstly, the Company further advanced and intensified the building of specialized system catering to SMEs. On one hand, the construction and business development of the credit centre for small-sized enterprises was accelerated. As at 31 December 2011, 36 branches of the credit centre for small-sized enterprises have been established in China. The credit centre for small-sized enterprises had granted loans with a cumulative amount of more than RMB60 billion and had a loan balance of RMB33.538 billion, an increase of RMB15.013 billion or 81.04% as compared with that at the beginning of the year. The number of active customers was 5,741, an increase of 2,606 or 83.13% over that at the beginning of the year. With the business growth of the Company, employee performance has been significantly improved. The average loan balance granted by each relationship manager of credit centre for small-sized enterprises was RMB114.46 million, an increase of RMB40.36 million or 54.47% as compared with that at the beginning of the year. The average number of customers served by each relationship manager was 19.6, an increase of 7 or 55.56% as compared with that at the beginning of the year, far above the average level for the whole banking industry. On the other hand, the Company vigorously introduced the experience of credit centre for small-sized enterprises into its branches and comprehensively promoted the building of professional units for SME financing at the branch level. The Company has already established a risk-embedded SME financing department in 28 branches. By dispatching loan granting officers and implementing countersign review system, the Company successfully achieved significant improvement in marketing ability and approval efficiency for the SME business and effectively promoted the SME business of those branches, which resulted in both bigger corporate loans granted and more customers served.

Secondly, the Company actively carried on product innovation to forge a finance brand for the SME business, formulating the innovative structure of SME financing products featured by interaction between the Head Office and branches. The Company strived to launch specialized financing products that fit the market circumstances of SMEs with different characteristics in different regions through product innovation authorization, and research and development of general financing products. Meanwhile, the Company further subdivided SME customer groups and provided customized product mix, such as "Xiao Dai Tong" (小貸通) and "Zhu Li Dai" (助力貸), for different small and micro enterprises as well as SMEs. The Company launched more than 70 new products in total and effectively helped the SMEs break financing bottleneck through continuous efforts in product innovation.

Thirdly, the Company strengthened the risk management for SME loans. Backed by the success achieved in 2010, the Company took proactive actions to optimize its loan granting procedures and further improve the risk management measures, which resulted in higher efficiency and better control of the risks originated from SME corporate loans. The Company mainly introduced a set of comprehensive measures, such as mass marketing to small enterprises, credit management policies, risk manager's operation code, loan granting officer dispatched to small-sized enterprises, optimization and upgrade of credit risk management system, simplification of modules for the inspection and approval of loan applications and after-lending reviews of small-sized enterprises, intensification of high-efficient countersign review system, establishment of rapid alert and reaction mechanism, with a view to raise its overall standard of risk management for SME corporate loans.

Syndicated Loans

In 2011, 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 31 December 2011, the balance of syndicated loans amounted to RMB66.150 billion, representing an increase of RMB6.833 billion or 11.52% as compared to the beginning of the year.

Discounted bills

In 2011, taking into consideration of the combined factors of total amount of loans, liquidity, yield and risks, the Company effectively drove the development of discounted bills. As at 31 December 2011, the balance of discounted bills loans was RMB68.966 billion.

Corporate customer deposits

In 2011, the Company's corporate customer deposits maintained its growth momentum. As at 31 December 2011, the balance of corporate customer deposits amounted to RMB1,375.643 billion, representing an increase of RMB217.100 billion as compared to that in the previous year, and such increase ranked top among all small-and-medium-sized joint stock commercial banks nationwide (according to the data released by PBOC). Daily balance amounted to RMB1,216.723 billion, representing an increase of RMB208.508 billion as compared to that in the previous year.

The Company attaches great importance to enhancing the returns on corporate customer deposits. With the expansion of innovative services such as online corporate banking and cash management, as well as higher quality marketing, cooperation between the Bank and corporate customers were effectively enhanced. As a result, large amount of low cost corporate customer deposits were obtained. Meanwhile, the Company absorbed some longer-term structured time deposits in a proper way so as to further improve the structure of corporate customer deposits. As at 31 December 2011, demand deposits accounted for 54.25% of the total corporate customer deposits, representing a decrease of 2.31 percentage points as compared to that at the end of the previous year, which was 8.50 percentage points higher than that of time deposits.

Settlement and cash management business

As for cash management, there has been a remarkable increase in the comprehensive yield from our products, which contributed remarkably to the Company's efforts in developing and retaining basic customers, absorbing and expanding low-cost corporate settlement deposits, improving the utilization ratio and turnover ratio of banking facilities granted to customers and promoting the cross selling of other wholesale and retail products. The Company was awarded the honor of "China's Best Domestic Cash Management Bank" for the sixth consecutive year by Asia Money, and won a number of major awards for cash management bank presented by some leading publications such as EuroFinance, Treasury China, Economic Observer and China Business Journal. As at 31 December 2011, the number of customers using cash management services reached 177,570, representing an increase of 34,631 as compared to the previous year. The balance of corporate deposits from customers using cash management services exceeded RMB900 billion. The balance of deposits from customers without loans exceeded RMB600 billion, accounting for over 70% of deposits from customers without loans of the Company.

With regard to online corporate banking business, as at 31 December 2011, the number of customers increased steadily to a total of 184,912, representing an increase of 25.20% as compared with the end of the previous year. Among the online corporate banking customers, SME customers accounted for over 90%. The use of U-BANK, our online corporate bank, by SME customers improved further, which led to the proportion of transaction volume of online banking business reaching nearly 60%. The Company continued to play a leading role in innovating online corporate banking in China with over 30,000 corporate mobile banking users. U-BANK, our online corporate bank, is characterized by its apparent low cost, the average cost of each transaction only accounts for 12% of that of traditional counter transactions. The products available from our online corporate bank, an important channel for sale of products, are becoming more diversified and covering more than 70 types of products offered by various wholesale businesses. The online corporate banking business has grown to a stage with independent profitability and sales volume. It can effectively support the development of wholesale businesses across the bank and fully demonstrate the Company's advantage of advanced science and technology.

As for corporate card business, through public and private coordinated marketing activities, as at 31 December 2011, the Company had issued a total of 116,368 corporate cards. Total revenue from corporate cards amounted to RMB131,193,500 for the whole year of 2011, representing an increase of 41.65% over the same period of last year, among which the non-interest income from domestic and overseas transactions was RMB78,568,800 and the income from recurring interest, the interest from cash advance loan and the overdue fine was RMB52,624,700.

Asset management business

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 for us to expand non-interest income, draw in new customers and enhance brand recognition. In 2011, the sales of our corporate wealth management products reached RMB869.053 billion, realizing an income from entrusted wealth management of RMB422 million.

With respect to the asset custody business, in 2011, the Company enhanced its efforts in marketing high yield custody products to overcome the unfavorable conditions resulted from the downward trend in the domestic stock market, adding 13 custody open-ended funds during the year and recording a total of RMB26.871 billion from initial issuance. Income from custody fees, assets under custody and deposits under custody all reached record high. The Company's custody business recorded an income of RMB510 million, representing an increase of 58.88% over the last year; the balance of assets under custody was RMB507.728 billion, representing an increase of 58.21% as compared to that at the beginning of the year; and daily average deposits under custody was RMB27.449 billion. The Company successfully attained ISAE 3402 international standard certification in respect of its custody business awarded by Ernst & Young, and was named the "Best Professional Custody Bank in China" by an international authoritative magazine, The Asset, for the second time and the "Best VC/PE Custodian Bank in 2011" by the 21st Century Business Herald.

As for annuity business, the total number of individual accounts of newly contracted annuity customers was 115,700 in 2011, newly contracted entrusted assets (including auxiliary entrusted assets) reached RMB15.043 billion and newly added custody assets reached RMB6.887 billion.

International business and offshore business

As for international business, the Company has been pushing forward its business transformation and continued to deepen coordinated business. During the reporting period, the Company's"Cross-Border Finance" branded service was awarded the "Best Innovative Bank for Cross-Border Financial Services in China" by Economics (《經濟》) Magazine. The cross-boarder collaboration deposits and loans of the Company amounted to US$12.951 billion and US$10.753 billion respectively, up by 59.12% and 39.32% respectively as compared to the previous year. According to the statistics released by PBOC, as the balance of our domestic foreign currency deposits exceeded US$15.6 billion, representing an increase of 23.87% over the last year and ranking the fifth, only next to the Big Four (Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China and China Construction Bank) among its domestic peers. As shown in the exchange data released by the NEARC of the International Forfaiting Association, the Company's Forfaiting business ranked the second among its domestic peers in 2010, on which basis the scale of our forfeiting business exceeded US$3.0 billion, representing an increase of 3.43 times from the same period of the previous year. Our cross-border Renminbi settlements amounted to RMB114.388 billion, representing an increase of over 3 times from the same period last year. According to the research report by ACNielsen, with respect to the process of services and products, the Company achieved highest satisfaction for its international business over its domestic peers. In 2011, the Company completed international settlements of US$321.175 billion; foreign exchange settlements amounted to US$108.978 billion; accumulated trade financing amounted to US$21.418 billion; international factoring business amounted to US$2.515 billion and non-interest income from international business amounted to RMB2.754 billion.

With regard to offshore business, as at 31 December 2011, the number of offshore customers reached 19,400, representing an increase of 22.25%, and deposits from offshore customers amounted to US$5.133 billion, representing an increase of 7.09% as compared to that at the beginning of the year; while credit assets of offshore customers reached US$2.926 billion, representing an increase of 20.51% as compared to that at the beginning of the year; credit assets continued to be of good quality, with new non-performing loan and new overdue assets remained zero. Cumulative incomes from fee-based businesses reached US$59.8727 million, representing an increase of 64.86% over the previous year.

Financial institutions business

With regard to financial institutions businesses, in 2011, the Company overcame the difficulty brought about by the volatility of the capital market, captured the focuses of the market and launched various innovative financial institutions products, which in turn led to a significant enhancement of business scale and economic benefits. As at 31 December 2011, the balance of debt financing with banks and other financial institutions (including deposits and placements from banks and other financial institutions and sale of repurchased financial assets) amounted to RMB277.574 billion, and the balance of assets with banks and other financial institutions (including deposits and placements to banks and other financial institutions and purchase of resold financial assets) amounted to RMB243.019 billion. The yield of deposits and placements to banks and other financial institutions reached 4.26%, representing an increase of 1.85 percentage points as compared with the previous year. As for third party custody business, the Company had 3.88 million customers, representing an increase of 100,000 over the previous year despite of an overall downturn trend in securities market. The balance of funds under third-party custody amounted to RMB55.598 billion. The sales volume of wealth management products through inter-bank channels reached RMB85.274 billion. The accumulated amount of cross-border RMB agency clearing service to other financial institutions amounted to RMB165.198 billion for the whole year, while the total number of clearing accounts reached 39. The margin trading and short selling business was carried out in partnership with 23 pilot securities firms. As the precious metal operations developed rapidly, the Company had traded gold and silver on behalf of its customers with a transaction volume of 170.47 tons and 12,162.31 tons respectively; the volume of precious metal leasing with institutional customers was 13.36 tons, representing an increase of 151.25% over the previous year.

Investment banking business

With respect to investment banking business, as at 31 December 2011, the revenue of investment banking business was RMB1.917 billion, representing an increase of 83.80% over the previous year. In 2011, the Company strengthened marketing efforts and vigorously expand the underwriting business of debt financing instruments. The lead underwriting volume of our underwriting business of debt financing instruments amounted to RMB117.5 billion, representing an increase of 41.40% as compared with the previous year. A total income of RMB592 million of the underwriting business of debt financing instruments was achieved, representing an increase of 38.32% over the previous year. Besides, the Company also focused on expanding its distinctive financial consulting business on merger and acquisition reorganisations, IPOs, PE and government financial advisory services. Total income of RMB1.325 billion from financial consulting business was recorded, representing an increase of 115.45% over the previous year. The Company had step up product innovation for its investment banking business and introduced a series of "Star Focus" products such as "featured product with short term" after research and development.

Wholesale customers

After 24 years of development, the Company has developed 433,500 corporate depositors and 29,200 corporate borrowers, including domestic industry leaders and large enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinationals. Meanwhile, the Company has been striving to develop small and medium-sized enterprises business to form a balanced customer mix with large, medium and small customers reasonably proportioned. The products and services of the Company's wholesale banking business have been widely recognized by our customers who maintain a high level of satisfactions with our services.

5.8.3 Financial market business

Operating strategy

With respect to RMB investment business, the Company made timely adjustments to its investment strategies in 2011 based on dynamic follow-up and analysis on various aspects such as the macro economy, CPI trend, monetary policies and capital market conditions, and remarkable results were achieved. During the first half of the year, in view of the increasingly higher level of inflation, PBOC continued to implement the tightening monetary policy, which led to a continuing tightened trend in capital market and tortuous rise of bond yields. The Company continued to follow the "short duration" investment strategy which required our key investment products to focus on floating-rate and short-term products with lower risk exposure. In the second half of the year, with increased uncertainties in both internal and external environments especially after the third quarter, the Company progressively handled longer duration portfolio and increased investments in fixed-rate debts and credit bonds of high credit ratings based on its judgment that economic growth and inflation level would be gradually on the decline. As at the end of the reporting period, the average duration of the debt portfolio denominated in RMB was 3.0 years.

With respect to the foreign currency investment business, on one hand, under the lingering impact brought about by the Eurozone debt crisis, risk aversion sentiment in the markets has been surging, resulting in declining yield of U.S. treasury bonds since the beginning of the year, and the yield of 10-year treasury bonds was only 1.7%, a new low since World War II. On the other hand, although the global credit market volatility intensified with the United States losing its AAA rating, credit spreads remained at relative high levels. Therefore, the Company strived to maintain a steady operation of its foreign currency bonds for the whole year and focused on Chinese enterprises' credit debts with higher security level as its new investments. At the end of the reporting period, the average duration of foreign currency bond portfolio was 1.8 years.

Operating results

In 2011, the yield rate of the Company's local and foreign currency bond portfolio is 3.51%, up by 60 basis points compared to 2010. This is resulted from the RMB interest rate hike channel started from 4th quarter of 2010 after which yield of new bonds were raised and existing bond were repriced. In 2011, the yield of finance business such as repurchase asset and credit interbank-lending was 4.62%, up by 221 basis points.

At the end of 2011, the proprietary investment of the Company was RMB441.886 billion, up by 18.06% as compared to the end of the previous year. Income from the Company's entrusted wealth management was RMB1.421 billion, up by 61.66% as compared to the end of 2010. Income from agency trading of precious metals amounted to RMB317 million, representing a more than sextuple surge as compared with the same period of the previous year.

Business development

In 2011, the Company actively explored the possibility of achieving sustainable and stable profitability in the long run with risks under control in the financial market business by means of strengthening innovation, upgrading pricing ability, optimizing the platform strategies and improving dealing methods. During the year, the Company introduced various innovative trading products such as the gold warrants, paper gold products denominated in RMB, gold hedging, dual-currency forward settlement and sale of foreign exchange and foreign exchange forward deals in order to create a new profit area while meeting our customers' requirements of risk aversion. As at the end of the reporting period, the Company was authorized by the State Administration of Foreign Exchange to conduct four key businesses such as "RMB/FX option trading on Chinese interbank FX market", "RMB/FX option trading targeting customers", "market maker of interbank forward FX market" and "market maker of interbank swap FX market". The Company was also granted all qualifications to trade derivative products by the State Administration of Foreign Exchange. As for traditional wealth management business, the Company continued to maintain strong growth momentum. In 2011, 3,438 wealth management products were launched with a total sales value of RMB3,017.9 billion, representing an increase of 82.75% over last year. Balance at the end of the period was RMB248.068 billion, representing an increase of 41.53% over the beginning of the year.

5.8.4 Distribution Channels

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

Physical Distribution Channels

The efficiently operated outlets of the Company are primarily located in China's economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium-sized cities in other regions. As at 31 December 2011, the Company had 87 branches, 801 sub-branches, 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 2,031 self-service centers and 8,427 cash self-service machines (including 2,691 automatic teller machines and 5,736 cash recycle machines) in more than 100 cities of Mainland China and a wholly-owned subsidiary, CMB Financial Leasing Co., Ltd.. The company also has a number of wholly-owned subsidiaries including Wing Lung Bank Ltd. and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States; and a representative office in London and Taipei respectively.

As at 31 December 2011, the Company's Small Enterprise Credit center has set up 36 sub-centers, including 12 first-tier sub-centers, 11 second-tier sub-centers and 13 third-tier sub-centers, in addition to 3 teams based in Shanghai and other regions. These sub-centers have built nearly 70 marketing teams in total, and owned a small enterprise service network in major cities in Yangtze River Delta, which is expanding to second and third-tier cities. Besides, financial service bases for small enterprises were set up in major cities in Pearl River Delta, West Side of Taiwan Strait and Bohai Rim Area, exploring the feasibility of exclusive operation service model therein. Meanwhile, the small enterprise credit center launched the service brand a "Partnership Project" service channel with characteristics of small enterprises through the cooperation with local governments, federation of industry and commerce, chambers of commerce and associations, based upon its own characteristics aiming to forge a channel to explore customer, barrier to prevent risk, platform to develop customer and vehicle to service brand, and had achieved initial results. Nearly 100 promotional events associated with "Partnership Project" were organized in 2011 in cities such as Suzhou, Hangzhou, Shanghai, Nanjing, Ningbo, Beijing, Qingdao, Shenzhen, Fuzhou, Xiamen, Dongguan and Nantong, in which the number of direct sales person involved was above 10,000.

e-banking Channels

The Company also attaches great importance to developing and improving e-banking channels such as online banking, direct banking and mobile banking, which is highly recognized and has effectively relieved the pressure on the business outlets of the Company. In 2011, the Overall counter-replacement ratio in respect of retail e-banking channels reached 86.57%; whereas it was 49.63% in respect of corporate e-banking channels.

Online banking

The Company's retail online banking business continued to grow rapidly in 2011. On one hand, the function of online banking transactions as an alternative became more prominent, playing a key role in reducing the cost of retail manpower and lessening the pressure at outlet counters. On the other hand, the Company put great emphasis on the construction of an online banking security system to cope with the complex network security environment at home and abroad. The Company adjusted down the transaction amount limit in respect of some high-risk online payment in a timely manner to ensure that the rapid growth in the number of online banking transactions could be maintained while safeguarding the safety of customer funds. In 2011, the replacement ratio in respect of retail online banking of the Company was 79.25%. The total cumulative number of online retail banking transactions was 501,442,500, up by 51.19% as compared to that in the previous year; and the accumulated transaction amount was RMB14,193.415 billion, up by 34.93% as compared to that in the previous year. In particular, the accumulated number of online banking transactions was 388,300,500, up by 80.32% as compared to that in the previous year; and the accumulated amount of online banking transactions was RMB160.476 billion, up by 64.20 % as compared to that in the previous year.

In the past few years, U-BANK, the online corporate bank of the Company, achieved comprehensive development at a rapid pace, with the customer base being constantly solidified and the efficiency of channels being constantly enhanced, and thus has become an efficiently operated channel connecting the majority of customers across various wholesale banking areas, evolving toward a tool for customer management, value exploitation, cross-selling and industry extension. As at 31 December 2011, the accumulated number of transactions done through U-BANK was 37.22 million, up by 30.60% as compared to that in the previous year. The accumulated transaction amount was RMB18,710 billion, increasing by 11.21% as compared to that in the previous year.

Direct banking

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

In 2011, in respect of Quick & Easy Wealth Management, the number of newly opened active accounts reached 1.573 million and the cumulative number of active accounts was 3.1413 million. The total number of transactions with Quick & Easy Wealth Management in 2011 was 7.9418 million, up by 30.37% year-on-year; and the transaction amount was RMB491.204 billion, up by 69.16% year-on-year. In 2011, the accumulated sales of funds through direct banking amounted to RMB17.845 billion, increasing by 496.02% year-on-year; whereas the accumulated sales of financial products was RMB111.064 billion, increasing by 113.09% year-on-year.

Mobile banking

The personal mobile banking service of the Company maintained rapid growth in 2011. We made further innovations on the basis of the "cement + mouse" business model and launched the "cement + mouse + thumb" business development model for the mobile internet era, that is, further creating new advantages in the mobile internet era while continue to optimize outlet layout and normal online- banking service. In July 2011 following the introduction of the CMB iPhone version in 2010, we joined hands with three major domestic operators to launch mobile banking service in the Android version and fully accomplished an all-around coverage of mid and high-end smart mobile users. Our developments were drastic in terms of mobile banking user groups, transaction volume and mobile payment. As at the end of 2011, the number of downloads by mobile banking users of the Company via iPhone and Android broke 2.5 million and the total number of mobile banking contracts signed reached 4.4947 million. The cumulative number of transactions (excluding mobile payment) was 2.149 million, up by 343.09% year-on-year; and the accumulated transaction amount was RMB118.742 billion, up by 373.06% year-on-year. In respect of mobile payment, the cumulative number of transactions was 10.799 million and the accumulated transaction amount was RMB2.432 billion.

5.8.5 Overseas businesses

Hong Kong Branch

The Company provides overseas banking business, including corporate and retail banking, via its Hong Kong Branch established in 2002. Corporate banking service provided by our Hong Kong Branch includes loans and deposits, remittance, factoring, international trade facilities and settlement, initiating or participating in syndicated loans, and participating in inter-bank transaction of funds, bonds and foreign exchange. Retail banking mainly includes providing cross-border electronic banking services for individual customers between Hong Kong and Mainland China. The featured products are the "Hong Kong All-in-one Card" and "HongKong Bank-Securities Express".

The cardholder of "Hong Kong All-in-one Card" can withdraw cash from ATM and pay with their cards via POS through "China UnionPay", "Hong Kong JETCO" and "EPS" in Hong Kong, Mainland China and overseas, and enjoy the counter and online remittance services of those places. The cardholder of "HongKong Bank-Securities Express" may trade Hong Kong stocks through online banking and direct banking, enjoying unparalleled ease and convenience in investment and wealth management. During the reporting period, in order to reinforce the safety performance of the All-in-one Card, our Hong Kong branch developed the All-in-one chip card, and planned to make an overall replacement for our customers in the next few years. In addition, our Hong Kong Branch, with a view to adapt to the changing market environment, activated the Bank-Securities Express for RMB denominated securities, thus provided more varieties of stock trading for customers.

In 2011, amidst changes of the external environment, the Hong Kong Branch implemented the Second Transformation development strategy of the Head Office, by taking advantage of the PRC government's adjustment in policies relating to cross-border RMB business, the Hong Kong branch aggressively absorbed RMB deposits so as to lay a solid foundation for the issuance of RMB loans in the future. According to the new regulatory requirement on the cap of credit assets, the Hong Kong branch, through the establishment of the inter-bank department during the year, speeded up the development of new business to replace old ones and carried out asset transfer business in order to meet the demand for coordinated financing. Over the years, the Hong Kong branch has constantly secured new business and served its customers through adapting to the changing market environment in a highly efficient and flexible way.

New York Branch

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

The New York Branch of the Company is positioned primarily as a bank committed to facilitating economic and trading cooperation between China and the U.S. It is primarily committed to offering tailored services for Chinese companies "going global" and US enterprises investing in China. Meanwhile, the New York Branch serves as the window and platform for enhancing the management of the Company to international level and increasing global services capability of the Company.

The services provided by the New York Branch include corporate deposits, corporate loans, project financing, trade financing, merger and acquisition financing, financial advisory, cash management, US dollar clearing and online banking. Its website and online banking system were launched and operated in June and December 2010 respectively.

2011 was the third year of full operation of the New York Branch. The New York Branch adopted its operating direction of "relying on the parent bank, building a solid foundation in the local market and creating an organic growth" at the beginning of the year pursuant to the internal and external environment where it operated and its own conditions. Over the past year, the business base of the New York branch had become more mature, the variety of business and mode of service had become more diversified and the operating results were beyond expectation. In line with the Second Transformation development strategy of the Head Office and with a view to break through restrictions on business development, the New York Branch launched a number of innovative financing solutions and achieved good operating results. The New York Branch realized steady growth in business through innovation, which led to profit for the year after provisions.

5.8.6 Information Technology and Research and Development

The Company highly stresses the importance of the building of and investments in its IT infrastructure. Under the Second Transformation development strategy, the Company proactively improved the core competitiveness of its IT infrastructure to support the development of its business and management requirements.

The Company proceeded with the development of CMMI and ITIL projects, released software process management system of version 2.0 covering the full life cycle of the system, enhanced its ability to standardize IT management and improve quality control standard. The Company also developed sound management system for the structure to improve its capacity on overall technology structure planning and management.

Based on the smooth operation of the system during the whole year, the Company successfully completed the protection of the Universiade IT system and maintained its leading position in the ranking of UnionPay indicators in China. Through upgrading the reliability and security performance of the system, strengthening the establishment of contingency plan and the emergency system, the Company enhanced the protection capability for system operation.

In order to maintain IT construction to support the continuous development in future, the third generation IT system project of the Company was approved by the IT management committee for commencement of development and implementation. The computer room of the data centre in Shanghai will be put into use in the near future, the second generation of the credit card system is operating smoothly. The Company completed 1,487 development projects during the year to support the Bank's management reform, work process optimization and business innovation.

5.8.7 Businesses of Wing Lung Group

Profile of Wing Lung Bank

Wing Lung Bank Limited ("WLB"), founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with prudence, service with sincerity" in providing personalized and sincere service to the public. The principal operations of WLB and its subsidiaries ("WL Group") comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities broking, wealth management service, insurance business, financial lease, property trustee and nominees service. As of 31 December 2011, the registered capital of WLB was HK$1.5 billion.

Business operation overview of Wing Lung Group

For the year ended 31 December 2011, Wing Lung Group recorded a consolidated profit after tax of HK$1.857 billion, representing an increase of 37.71% as compared to that of 2010, which was mainly driven by the net interest income. Non-interest income also increased significantly. In 2011, Wing Lung Group recorded a net interest income of HK$2.089 billion, representing an increase of 36.58% as compared to that of 2010; the net interest margin for the year was 1.47%, up by 14 basis points as compared with 2010. Net non-interest income was HK$1.356 billion, representing an increase of 26.14% as compared to that of 2010. Net fees and commission income amounted to HK$486 million, representing an increase of 13.99% from that of 2010. The insurance business achieved a net operating income of HK$83.22 million, representing a decrease of 4.13% as compared to that of 2010. Net gain from foreign exchange trading amounted to HK$356 million, representing an increase of 24.41% over 2010. Impairment charge for credit losses was HK$117 million, representing an increase of 37.79% from HK$85.18 million in 2010, primarily due to impairment charge for available-for-sale securities of HK$28.02 million in 2011 and the fact that a write-back of other credit losses of HK$13.07 million was included in 2010, which attributed to the difference in amount between the two years. Operating expenses amounted to HK$1.148 billion, representing an increase of 11.65% as compared to that of 2010. The cost-to-income ratio in 2011 was 33.34%, representing a decrease of 6.15 percentage points as compared to that of 2010.

At the end of 2011, the total assets and net assets of WL Group increased by 19.53% and 13.69% to HK$163.851 billion and HK$14.495 billion respectively when compared to that at the end of 2010. Loan-to-deposit ratio was 61.85%, which was lower by 4.48 percentage points as compared to that of 2010. As at 31 December 2011, the capital adequacy ratio and core capital adequacy ratio of WL Group were 13.86% and 9.63% respectively, and the average liquidity ratio for the reporting period was 43.32%, all above statutory requirements.

For detailed financial information on WL Group, please refer to the 2011 annual report of WLB, which is published at the website of WLB (www.winglungbank.com).

Deposits

As at 31 December 2011, total deposits of WL Group grew by 10.45% to HK$115.140 billion as compared with that at the end of 2010.

Among the various kinds of deposits, Hong Kong Dollar deposits increased by HK$114 million or 0.18%; US Dollar deposits after translation increased by HK$750 million or 4.53%; RMB deposits after translation rose substantially by HK$9,521 million or 119.91%; and deposits in other foreign currencies after being translated into Hong Kong Dollar grew by HK$503 million or 3.06% when compared to that at the end of 2010.

Advances to customers

As at 31 December 2011, WL Group's total advances to customers, including trade bills, grew by 20.99% to HK$85.312 billion as compared with that at the end of 2010. Overall loan quality remained sound with a non-performing loan ratio (including that of trade bills) of only 0.41%.

With respect to corporate banking business, the total corporate loans amounted to HK$35.904 billion as at 31 December 2011, an increase of 10.15% over that at the end of 2010. During the reporting period, WLB devoted efforts to obtaining loans for overseas enterprises which are secured by guarantees from their respective parent companies, syndicated loans, corporate loans to enterprises in China and Hong Kong as well as bilateral loans and the result was remarkable. In order to expand the revenue source, WLB actively explored non-interest income business, including promoting sales of RMB bonds and wealth management products in overseas markets, acting as the receiving bank in initial public offering of newly listed shares and the dividend paying bank for listed companies.

As to commercial banking business, the balance of loans amounted to HK$4,113 million as at 31 December 2011, representing an increase of 49.83% as compared to that at the end of 2010, which was mainly contributed by construction loans and mortgage loans. In addition, documentary bill financing business also improved significantly. In 2011, WLB proactively promoted the "Cross-border Renminbi/Discount Notes Financing Guarantee" business, and continued to regard the expansion of cross-border Renminbi trade settlement business as its major driver. With respect to the hire purchase and lease business, the financing business for vehicles, barges and machinery grew steadily in the first half of the year. During the second half of the year, however, in view of more challenging operating environment faced by the manufacturing industry, WLB closely monitored the market conditions by implementing prudent operational strategies to fend off relevant risks.

As for the mortgage and personal loan business, as at 31 December 2011, the balance of loans amounted to HK$26.071 billion, increased by 1.09% as compared with the end of 2010. Of the total loans, the balance of residential mortgage loans amounted to HK$8.619 billion, decreased by 3.28% as compared with the end of 2010. WLB will closely monitor the market development, take flexible measures and design competitive lending strategy to secure its market share. During the reporting period, WLB provided facility overdraft service for SMEs via "Xiao Dai Tong"「小貸通」, mortgage programme for the elderly and "Dai Nin Xiang"「貸您想」 and "Dai Tou Ru"「貸投入」programmes for retail customers. In addition, WLB launched comprehensive banking services for micro enterprises in mid-October 2011, thereby increasing cross-selling opportunities and achieving initial positive results.

With respect to the business of Mainland Branches, the total loans to customers amounted to HK$8.039 billion, increased by 46.02% as compared to that at the end of 2010. During the period, WLB actively acquired RMB deposits and vigorously expanded various businesses including direct discount business and RMB loans business, so as to optimize its asset structure and to increase net interest margin.

Investments

As at 31 December 2011, WL Group's debt securities investment amounted to HK$23.926 billion, which was approximate to that at the end of 2010. As at the end of the period, WL Group's foreign currencies (including Hong Kong dollar) debt securities investment amounted to HK$18.270 billion. More than 94.70% of the foreign currencies (including Hong Kong dollar) debt securities were rated A3 or above and were exposed to comparatively low risks.

Treasury business

In 2011, with RMB offshore business, RMB non-deliverable forward contracts and its related businesses, income from WL Group's foreign exchange trading business amounted to HK$145 million, representing an increase of 18.04% as compared with 2010. Revenue from foreign money exchanges amounted to HK$53.49 million, representing an increase of 21.42% as compared with 2010. In addition, income from foreign exchange swaps achieved remarkable growth. Net gain from foreign exchange business grew by 24.41%.

Strongly supported by the Company, WLB seized the opportunities in RMB related business through actively participating in RMB connected transactions and expanding non-trade-based RMB client base, so as to increase transaction volume and related revenue. With the growth of RMB business and increase of commercial customers, WLB will continuously launch new RMB products with a view to attracting more commercial customers. Since April 2011, corporate customers are permitted to purchase options within the PRC, which brings WLB an opportunity to expand its option business with commercial customers. In addition, WLB also strived to invest in on-shore RMB bond market and develop proprietary trading business by introduction of spot and options proprietary transactions, thereby increasing income streams.

Wealth management

WL Group's wealth management business realised a revenue of HK$37.89 million in 2011, representing an increase of 24.83% as compared to 2010.

WLB will continue to focus on developing its wealth management service branded "Sunflower", with a view to providing a comprehensive financial service platform to customers. During the reporting period, WLB aggressively launched promotional activities for its wealth management business and devoted itself to diversifying wealth management products, thereby successfully attracting new and existing customers to conduct transactions, thus transaction volume of funds, currencies linked deposits and debt securities all increased significantly. Looking forward, WLB will continue to provide more qualified funds and securities products available for customers to choose.

Credit card

WLB issued more than 250,000 credit cards as at 31 December 2011, representing an increase of 5.88% as compared to that at the end of 2010. The credit card receivables amounted to HK$421 million, representing an increase of 9.16% as compared to that of 2010. Merchant business turnover was HK$3.613 billion, representing a sharp increase of 24.39% as compared to 2010, reflecting the rigorous efforts in promoting the merchant business and the continuous growth of the Hong Kong consumption market.

Since WLB issued the world's first diamond credit card "Luxe Visa Infinite" and the first "World MasterCard for Business" in the Greater China, the number of high-end individuals and corporate customers have been in a steady growth. In order to attract and retain customers, WLB has launched "CUP (China UnionPay) Dual Currency Credit Card", as well as a number of flexible cash revolving and spending reward programs.

Securities broking

In 2011, Wing Lung Securities Limited ("Wing Lung Securities") realised a brokerage commission and related income of HK$178 million, representing a decrease of 15.58% as compared to that of 2010. During the reporting period, given the uncertain external economic environment and concerns over the sovereign debt problem in Europe, investors in Hong Kong market maintained a prudent attitude. In spite of that, Wing Lung Securities increased its efforts in the construction of electronic channels, aggressively introduced promotional plans related to securities business, promoted cross-selling and expanded customer base to enhance its trading volume.

Insurance

Wing Lung Insurance Company Limited ("Wing Lung Insurance") realised a gross premium income of HK$683 million in 2011, representing an increase of 15.24% as compared to that of 2010. Total insurance claims increased by 14.27% to HK$367 million. Underwriting business recorded a profit of HK$24.40 million, indicating an improvement as compared to that of 2010. The gross premium income was higher than the budget due to large construction projects underwritten by Wing Lung Insurance. Significant increase in contractors all risks insurance and employees' compensation businesses also contributed to the increase.

Branch network

At present, WLB has a total of 43 banking offices in Hong Kong. WLB is speeding up the construction and renovation of branches to expand network. Kowloon City Branch and Hong Kong Science Park Branch were inaugurated in mid-June and mid-September 2011 respectively.

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

Human resources

As at 31 December 2011, the total number of employees of WLB is 1,693 (31 December 2010: 1,726), of which 1,522 are in Hong Kong, 123 are in the PRC, 31 are in Macau and 17 are overseas.

Progress of Integration with WLB

After the acquisition of WLB, the Company attached great importance to integration of business, and prepared a detailed integration plan. We aim to enhance the coordination of domestic and overseas business and strengthen our key competencies. In 2011, the Company vigorously pushed forward the integration on the basis of the abovementioned policy and objective and reinforced the coordinated promotion of the emerging wholesale business and retail business with low capital consumption, which in turn accelerated the transformation of WLB. With persistent efforts, the two banks' business coordination as well as WLB's key capabilities and strategic transformation were enhanced significantly.

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and WLB jointly put great efforts and focused on the main business opportunity arising from demand from cross-border financial market. Sharing the customer resources and connecting the domestic and overseas business brought new break through to us and obtained sound effect. The Company and WLB worked together in various areas, such as accepting guarantees from domestic enterprises as security for loans granted to overseas entities, accepting guarantees from overseas entities as security for loans granted to domestic enterprises, international settlement, trade finance, financial market trading business, acting as receiving banker for IPOs, dividend distribution for listed companies, import bill advance by overseas institutions (海外代付), cross-border Renminbi trade settlement, Renminbi bonds, export collection, documentary bills, Account Opening Witnessed by CMB Manager (見證開戶), Sunflower Wealth Management, Professional Investor Program, Capital Investment Entrant Scheme and sharing merchant offers for credit card businesses. During the reporting period, WLB was authorized to access the domestic inter-bank bond market where it completed the launch and issuance of 8 Renminbi bonds. WLB also launched a number of innovative new businesses such as cross-border housing loan, wine financing and comprehensive financial service targeting "micro enterprises". In addition, WLB also extended its business of Account Opening Witnessed by CMB Manager (見證開戶) to retail customers in certain regions beyond the Pearl River Delta, thus further improved its cross-border financial products and service system. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with corporate deposits of HK$7.854 billion and corporate loans of HK$31.512 billion and realized income from intermediary business for corporate customers of HK$360 million, representing an increase of 105.71% as compared to that of 2010. The Company has successfully recommended individual customers to WLB with retail deposits of HK$394 million and loans of HK$306 million, and total assets under management amounted to HK$894 million respectively, representing an increase of 203.08%,123.36% and 149.03% respectively as compared to that of 2010.

Secondly, internal management was strengthened continually and key competencies were gradually enhanced. Based on the need of business development and under the guidance of the new management concept, and with the strong support and assistance of the Company, the construction and management of business channels of WLB has been improved continuously, while the streamlining of the operating procedures relating to deposits, documentary bills, Account Opening Witnessed by CMB Manager and internal review and approval has achieved progress. WLB has kept on enhancing its electronic channels and service capability. Its development of online corporate banking has been successfully completed, while the second phase construction of its new "call center" project as well as the development of mobile banking have achieved smooth progress. WLB and CMB have continued to reinforce co-operation in respect of risk management, and commenced a test of group modeling of credit risk and market risk assessment. The performance management standard and planned finance management standard of WLB also improved. During the reporting period, WLB made new progress in network construction with the commencement of business of its Kowloon City branch and the branch in Hong Kong Science & Technology Park in Shatin. The IT system building is being rolled out with the goal to "establish an integrated service platform featuring cross-border services". The replacement of core system has completed its first stage target. Encouraging results were obtained in the upgrading of business system and IT-based management system. At the same time, the communications and interactions between the two banks have been increasing, fostering a cultural integration between them.

5.8.8 Business of CMB Financial Leasing

To enrich the types of financial products provided by the Company and to satisfy the diversified financing and service requirements of the customers, and with the approval of the China Banking Regulatory Commission ("CBRC") through its Yin Jian Fu [2008] No. 110, the Company established CMB Financial Leasing Company Limited ("CMBFLC", a wholly-owned subsidiary of the Company) in Shanghai. CMBFL is guided by national industrial policies, and provides financial leasing of large-and-medium scale equipment in transportation, construction, power, mining and manufacturing sectors, financial leasing for SMEs as well as vendor leasing as its direction of development. It satisfies different needs from all over the country in respect of procurement of equipment, promotion of sales, activation of assets, tax burden equilibrium and improvement of financial structure. CMB Financial Leasing also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

CMBFL actively explores a professional and differentiated business development model, constructs a comprehensive risk management system and strengthens the building of a talented team. After over three years of hard work, CMBFL has achieved good operating results with stable and rapid developments across all the business lines. As at 31 December 2011, CMBFL had a registered capital of RMB2 billion and 97 employees; total assets of RMB37.534 billion, up by 64.69% from the end of the previous year; net asset of RMB2.814 billion, up by 17.47% from the end of the previous year. During the year, CMBFL has realized net profit of RMB419 million in aggregate, representing a growth of 57.52% as compared with last year. As a wholly-owned subsidiary of the Company, CMBFL continued to adhere to the philosophies of "Change as Situation Does and We are here, just for you", adopt to the core values of "Service, Innovation and Prudence", follow its motto of "high standard, high quality and excellent service", in an effort to build an excellent financial leasing platform for the Company.

5.8.9 Business of CMB International Capital

CMB International Capital Corporation Limited (CMBIC) is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage, assets management and proprietary investment business. As at 31 December 2011, CMBIC had a registered capital of HK$250 million and 76 employees.

In 2011, CMBIC has proactively responded to challenging market trend, enhanced coordinated market activities, strengthened comprehensive risk management, and achieved progress in business development, team building and internal control and management. The investment banking business has broken the ice under difficulty with great efforts to secure key sponsoring and underwriting projects, while the agency business and asset management business have achieved steady and rapid development. CMBIC also has proactively explored and carried out investment banking business, and put in efforts to make diversified products system. As of 31 December 2011, total asset of CMBIC was HK$566 million, net asset was HK$409 million, an increase of 8.49% as compared to the same period of the previous year. Realized operating income amounted to HK$105.5237 million in 2011, profit after tax was realized in three consecutive years.

5.8.10 Business of China Merchants Fund Management

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

As at 31 December 2011, CMFM reported total asset of RMB863 million and net asset of RMB636 million with 184 employees. CMFM operated 22 open-ended mutual funds, 4 social security portfolios, 20 annuity portfolios, 26 private wealth management portfolios and 2 QFII portfolios. The total assets under management were nearly RMB60.572 billion. In 2011, CMFM realized an operating income of RMB602 million, an increase of 6.35% as compared to the same period of last year; and a net profit of RMB171 million, an increase of 5.10% as compared to the same period of last year.

5.9 Risk Management

Over recent years, the Company steadily established a scientific risk management framework characterized by "a core culture, a strategic planning, a holistic perspective, a sustainable performance and pragmatic measures" through implementing the "Second Transformation", stepping up the construction of a risk management system centering on creating value after risk adjustment and aggressively exploring a comprehensive risk management system and operating mechanism under the principles of "Comprehensive, Professional, Independent and Balanced". Regarding credit risk management, the Company promoted overall process optimization and fully enhanced basic management, which led to consistently high quality assets, adequate provision for impairment loss and stable credit cost. With market risk control measures in place, our liquidity was secured, interest rate risk exposure and exchange rate risk exposure of bank accounts were controlled within respective limits, and risks associated with financial market business were managed under acceptable range. Thanks to the effective prevention and management of operational risk, compliance risk, IT risk and reputation risk, both risk management awareness and capability were enhanced. There was no serious incident arising from failure in controlling operational risk, compliance incident, lawsuit or incident arising from significant IT system failure. Our IT system was generally operating in a stable manner.

5.9.1 Credit risk management

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

Risk Control Committee of the Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management preference, policies and authorizations that has been approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. Based on different credit risk conditions, the Company reviews different risks at different authorization levels. The decision-making entities include: Risk Control Committee of the Head Office, the Professional Committee of Loan Assessment of Head Office, the Risk Control Committee of Branch and the Professional Committee of Loan Assessment of Branch. From business origination, due diligence, review and approval of credit, loan granting and post-loan management, the Company has established a credit risk management system with clear procedural requirements. By utilizing a number of management measures, including formulating credit policies, access approval, reviewing and approval of credit at different levels, credit inspection, risk warning, management of group clients, recovery and investigation of non-performing assets, categorized loan provision and internal rating and by introducing advanced quantitative modeling tools, the Company ensured an effective implementation of the risk management procedures. The Company managed risky assets in accordance with the classification specified by regulations. With the requirements of regulation and based on factors like borrowers' ability to repay, guarantor's position, conditions of pledges and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under a sophisticated internal classification system. The classification of a credit may be initiated by an account executive or risk control officer and then reviewed by credit risk management departments of the Head Office and branches according to their respective authorizations.

Despite multiple pressures from unparallelled complex domestic and overseas economic conditions, as well as increasingly stringent regulation on the banking sector and increasingly intense inter-bank competition, in 2011, the Company adhered to the guidelines of "setting targets, optimizing process, overall management and advancement for the upgrade of credit risk management", and continued to promote the overall risk management procedure optimization and the overall credit risk management plan upgrade and hence achieved improvement in the structure and quality of credit assets. During the reporting period, the Company focused on the credit risk of key sectors, staying cautious of systematic risks. It established a periodic reporting system for overall risk and credit risks management, and specified the three main objectives for credit risk management. It also launched the portfolio management project for credit assets and implemented refined and dynamic credit granting policy. The Company implemented the optimization of process for granting credit facilities to medium and large-sized enterprises, innovatively established an overall process management model for small enterprises credit and promoted centralized credit granting for cross-bank group customers and strategic group customers and management of concentrated risks of the Group involving large amount of credit facilities at a consolidated level. The Company deepened the "Authorization to Person" System of Loan Approval and refined its sector credit granting guidance. It also broadened the coverage of internal rating and formulated application plans for quantitative tools used in rating and improved the risk pricing management system. The Company detailed the classification of risks and intensified monitoring on the classification of risks, and improved management of unaccountability and the "black list". It commenced operation of the second phase of risk pre-warning system and formed a three-layer risk pre-warning system with coordination between the head quarter branches and sub-branches, and accelerated the recovery of non-performing loans and proactive exit from risky assets. It implemented the new generation of credit risk management system across the whole bank and continued to improve its functions, which have laid a solid foundation for the policies, mechanisms, processes, systems and team building of credit risk management. The Company acted in strict conformance with the requirements of the CBRC to exercise control and centralized management of risks in key areas. It also speeded up the formulation of loan repayment standards and category-based disposal of loans extended to local government financing platforms, while proactively reduced old loans and control new loans granted in this way, restructured loans with credit enhancements and reduced or even withdrew such loans. Furthermore, the Company implemented stringent credit policies towards the real estate industry and closely monitored the growth rate and total amount of loans granted thereto and managed the list of companies to be granted. The Company also strictly restricted loans to "high polluting, high energy consuming and overcapacity" sectors and other risky and sensitive sectors. The Company carefully implemented the new requirements for loan granting and proactively prevented risks associated with the uses of loans. Also, the Company implemented a co-ordinated settlement system between the Head Office and the branches, as a result, the collection and settlement issues attached to risky assets were effectively solved.

5.9.2 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 and 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 2011, the Company optimized the method and process of measuring market risk and further improved the market risk management system of the Company. Progress has been made in the Company's consolidated market risk management and our consolidated market risk management system has covered the whole Group.

In 2011, fluctuations were seen in the RMB and foreign currency markets. In China, the government further tightened its monetary policies until the end of the year. As a result, the market was confronted with stringent RMB liquidity throughout the year and intense fluctuations of interest rates in the money market, and the yield curve displayed periodic nature and abrupt downward trend. Worldwide, the European debt crisis is still spreading. As a result, market risks of Europe and the U.S. remained a major concern of the global market, and currently, the prospects of the European market remained uncertain.

The Group has formulated investment strategies based on the detailed studies and close monitoring on the situations of the domestic and worldwide macroeconomies, monetary policies, market liquidity and the trend of CPI. Currently, the investment portfolio of the Company mainly comprises PRC government bonds, bonds issued by PBOC, debt securities issued by policy banks, large domestic enterprises of high credit ratings and commercial banks. Consequently, we maintained a satisfactory level of various market risk indicators. As of 31 December 2011, the Company did not hold any debts issued by the governments, institutions and enterprises of PIIGS countries. The Company closely monitored its investment in foreign debts, continued to adjust its investment portfolio timely in accordance with market situations, and step up monitoring and reduced debt holdings when appropriate in order to avoid the spill-over risk of European debt crisis. In general, the Company's foreign currency debt investments remained in good quality with controllable risk.

5.9.3 Operational Risk Management

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

Using the opportunity of implementing the Basel II and regarding an effective operational risk management system as its core action, the Company strengthened management infrastructure, raising risk management techniques, enhancing risk monitoring and reporting as well as giving risk management training, so as to enhance the capability and effectiveness of operational risk management. Major measures taken during the reporting period were as follows:

1. Improved and promoted its operational risk management system, and introduced bank-wide unified duties, systems, methods and procedures of operational risk management.

2. Applied operational risk management tools and system, and effectively exercised the three major management tools in the main departments, business lines and procedures throughout the bank, and conducted operational risk assessment, monitoring and reporting in an orderly manner;

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

5.9.4 Liquidity risk management

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

The Company's major funding source is customer deposits, mainly deposits from companies, retail customers and other financial institutions. The Company's deposits have been growing continuously in recent years, with a rising variety of deposit products and diversified terms of maturity, as well as better stability.

In 2011, the Company optimized the risk limit system in an effort to strengthen the liquidity risk management system, laying a solid foundation for further improvement of the liquidity management of the Group.

In 2011, progress has been made in the Company's consolidated liquidity risk management and our consolidated liquidity risk management system has covered the whole Group.

In 2011, the market witnessed low liquidity due to the tightening monetary policy in China. Therefore, the Company adopted a series of measures to strengthen the proactive management on liquidity risks to ensure that the liquidity of the Company in terms of local and foreign currencies. Specific measures include: in-depth analysis on policy direction and market trends, control of scale of assets, attracting liability and optimizing assets and liabilities balance. The Company also strengthened real time monitoring on liquidity, kept a good grip on the market trends, stepped up our financing operations, improved the test scenario and test methods of stress tests and beefed up the ability to deal with extreme financial difficulties. In 2011, Renminbi excessive reserve ratios of the Company was 2.92%, up by 0.79 percentage point compared with the previous year.

In 2011, PBOC raised the required reserve ratio of RMB deposits for six times and lowered such reserve ratio for once. As at the end of December 2011, 19% (2010: 16.5%) and 5% (2010: 5%) of the total RMB deposits and foreign currency deposits of the Company were required to be placed in PBOC respectively.

5.9.5 Interest rate risk management

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

The Company mainly adopts the scenario simulation analysis, re-pricing gap analysis, duration analysis, stress test and other methods to measure and analyze interest rate risk. Under its limit framework, the Company monitors and reports interest rate risk on a monthly basis. The Company strengthened its treasury operating mechanism by streamlining work procedures and specifying roles and responsibilities through regular meetings on the analysis of treasury decisions, which serves as an efficient platform to effectively analyze the causes of interest rate risk, and propose and implement controlling measures.

In 2011, the Company continued to manage its interest rate risk in a proactive and forward looking manner and improved the risk limit system. It further specified and adopted the strategy of adjusting the duration of loans and bonds on balance sheet items, while hedging interest rate risk off-balance sheet. On balance sheet, the Company organically combined management of the interest rate risk with FTP and the pricing of products, adjusted on balance sheet assets structure and the interest rate risks characteristics. For the off-balance sheet part, the Company deepened hedging operation and expanded the scale of hedging operation.

In 2011, PBOC raised the RMB benchmark deposit and loan interest rates for three times, in which one-year time deposit benchmark interest rate increased by 75 bps. In light of the characteristics of our interest rate risk, the rise of benchmark deposit and loan interest rates is more likely to have positive impact on the net interest income of the Company. On the contrary, if benchmark deposit or loan interest rate drops, net interest income of the Company may be subject to negative impact. We always take a long-term perspective and will further enhance interest rate risk management to realize a steady growth of net interest income and economic value.

5.9.6 Exchange rate risk management

Exchange rate risk refers to the risk of the bank to suffer loss caused by foreign exchange and foreign exchange derivatives due to the unfavorable fluctuation in exchange rate. The Company's book currency is RMB. The Company's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar. The Company is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities. Through strict management of exchange rate risk exposure, the Company manages to control the exchange rate risk exposure under acceptable range.

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

In 2011, the Company improved the methods and tools for measuring exchange rate risk and strengthened the control over the foreign exchange risk exposure and adjusted the structure of foreign currency assets and liabilities. Progressive results were made in the Company's consolidated exchange rate risk management, and its consolidated risk management system covered the whole Group.

In 2011, the central parity rate of RMB against US dollars appreciated by approximately 5%. The Company managed to control the exchange loss within acceptable range by taking various measures.

5.9.7 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 2011, the Company took the following steps to improve its reputation risk management. Firstly, the Company amended and improved the "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd." and established a group-wide governance structure, which defines the management mechanism and measures on the reputation risk management, the management procedures and tools, the classification and ranking of risk, the response to and the treatment of reputation-related matters, the follow-up evaluation and accountability issues etc., so as to further improve the Company's operational system in reputation risk management. Secondly, the Company established a regular assessment mechanism for reputation risk, in which a qualitative assessment was conducted in two aspects (i.e. inherent risk and management capability) and the assessment results arising therefrom would be the basis for the Company to actively take precautionary measures to avoid the associated risks. Thirdly, the Company launched the reputation risk management system throughout the Bank which based on the structure of overall reputation risk management. It covers all the units and risk points associated with the reputation risk events, thus ensuring continuity among all units, lines and business sectors and procedures, thereby lowering the loss of reputation to the greatest extent.

5.9.8 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation diminishing as a result of their failure to comply with the laws, rules and guidelines. The board of directors of the Company is ultimately responsible for the compliance of the operating activities, and authorizes the Risk and Capital Management Committee under the Board to perform supervision on the compliance risk management. The Compliance Management Committee of the Head Office is the top management organization within the compliance risk management function of the whole company under the senior management of the Company.

By complying with the principles and requirements under "Guidelines on Compliance Risk Management of Commercial Banks" promulgated by CBRC and "Banks and Internal Compliance Departments of Banks (銀行與銀行內部合規部門)" promulgated by Basel Committee, the Company, after implementing its "compliance policies", has established a complete and effective compliance risk management framework and completed a risk management structure which comprises compliance management committees, heads of compliance matters, compliance officers, legal and compliance departments of Head Office and branches, management departments of branches and compliance supervisors of sub-branches. The Company has improved the three defense lines and double-line reporting mechanism of compliance risks management, and is continually refining and optimizing the management mechanism, as well as improving the risk management techniques and procedures, so as to ensure effective management of compliance risk.

During the reporting period, the Company continuously promoted a compliance culture within the whole bank, and conducted regular compliance education in an attempt to raise its staff's awareness via compliance training and themed education programs integrated with business flow. The Company conducted compliance discussion on all its products, systems and procedures to carefully identify and assess the compliance risks associated with new products, new businesses and major projects. The Company improved the functions of its compliance risk management system, optimized the compliance risk database, and established the monitory and pre-warning indicators in an attempt to carry out the compliance risk monitory and pre-warning work. The Company pushed forward the assessment of compliance risk management of its branches, highlighted the key areas and aspects in compliance risk management, completely reviewed the compliance risk points, and actively commenced compliance checks and tests.

5.9.9 Anti-money laundering management

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

During the reporting period, adhering to the principle of "knowing your customer", the Company upheld the risk-conscious philosophy and adopted various measures to prevent the compliance risk associated with economic sanctions. The Company strengthened identification of customers opening accounts using documents other than resident identity cards/documents and intensified the due diligence investigation to prevent money laundering risks from the very beginning. The Company also strengthened risk control over the online banking business, offshore banking business and other high-risk businesses. The Company enhanced the analysis of people involving in unusual transactions, improved the effectiveness of reports on suspicious transactions and consistently conducted anti-money laundering training.

5.9.10 Implementation of Basel II

Since 2007, in order to implement its international strategy and improve its operation and management, the Company has strived to become one of the first batch of banks approved by the CBRC to adopt Basel II. In October 2011, the Company made an application to the CBRC for formal appraisal of Basel II implementation, and was appraised on-site by the Basel II implementation panel of the CBRC in December.

5.10 Changes in External Environment and Responding Measures

5.10.1 Impacts of changes in operating environment and macroeconomic policies and key concerns in business operation

1. *Interest rates and statutory deposit reserve ratio*

In 2011, PBOC raised the benchmark interest rate on deposits and loans for three times, in which the benchmark interest rates for one-year time deposit and one-year loan both increased by 75 bps, and those for demand deposits went up by 14 bps. The increases in benchmark interest rates for deposits and loans had a positive impact on the Company's net interest margin ("NIM"). On one hand, relatively short re-pricing period of the Company's loans and higher market rates boosted by benchmark rate hikes drove the yield of our assets business higher in the course of rate hikes. On the other hand, due to the high proportion of the Company's demand deposits, such interest rate hikes had very limited impact on the cost ratio of its deposits.

Looking into 2012, it is expected that the monetary policy will be less rigid than that of 2011. As the positive impact of the recent interest rate hikes on the Company's NIM will last for a period of time, it is expected that the Company's NIM in 2012 will remain stable. In order to keep its NIM stable and control the NIM fluctuation risks the Company may be exposed to in future rate cut cycle, the Company has adopted a series of on and off balance sheet management measures, including optimizing assets and liabilities structure, employing derivative instruments to hedge interest rate risks, etc.

In the first half of 2011, PBOC raised the statutory deposit reserve ratio for six consecutive times. PBOC also announced in late August the expansion of the applicable scope of statutory deposit reserve funds, pursuant to which small and medium-sized banks (including CMB) were required to include various kinds of deposits in the applicable scope of statutory deposit reserve funds in a six-month progressive schedule from September 2011 to February 2012. The said tightening measure and governing policy had great impact on the Company's liquidity management, making its liquidity under a relatively tight condition for quite a long time. The Bank took various measures (including diligently expanding liabilities and optimizing the structure of assets and liabilities) to reduce liquidity risk, thus ensuring the adequacy and stability of its liquidity. At the end of 2011, our applicable statutory deposit reserve ratio was 19%. As the tendency of economic slowdown and falling inflation rate are almost certain, it is anticipated that the monetary policy will gradually be loosened and the statutory deposit reserve ratio will further come down following two interest rate cuts made in December 2011 and February 2012. With liquidity being gradually released, the Bank will proactively optimize the structure of assets and liabilities to maintain assets and liabilities in a balanced and stable state.

2. Loans extended through local government financing platforms

In 2011, the Company strictly complied with the regulatory requirements, and continued to enhance its efforts in preventing risks connected with loans extended through local government financing platforms. The Company earnestly followed the policy of "Four Types of Loans Be Allowed and Four Types of Loans Be Prohibited" introduced by CBRC aimed at reducing existing loans and controlling the grant of new loans, and implemented a stringent categorized management of government financing platform customers. The Company adopted a quota-and-namelist dual track control system, and set up a combined objective which restricted the quotas and balances of loans extended through local government financing platforms. The Company withdrew the mandate to approve government financing platform credit loans and adopted a dual review system under which the authority to review and approve the grant of loans through local government financing platform is vested in the Head Office. It also detailed the requirements for examination and granting of loans, increased minimum requirements for grants so that loans are granted in strict accordance to compliance bottom line. Also, the Company proactively pushed forward comprehensive reforms in the corporate governance of the companies obtaining loans through government financing platform, collaterals and guarantees, maturity of loans, means of repayment and interest rates for such borrowings, so as to manage the process of exiting such platform loans in a prudent and reliable manner. Moreover, the Company strived to mitigate underlying risks by speeding up the process of reducing existing platform loans, strictly implementing risk classification and expanding the coverage of allowance for impairment loss. During the reporting period, the total volume of loans granted through local government financing platforms declined, which further optimized the loan structure and maintained a high level of assets quality. As at the end of December 2011, balance of loans extended by the Company through local government financing platforms amounted to RMB114.183 billion, representing a decrease of RMB20.962 billion as compared with the end of the previous year and accounting for 7.46% of the total loans granted by the Company, down by 2.58 percentage points as compared with the end of the previous year. The non-performing loan ratio was 0.15% as at the end of 2011, down by 0.10 percentage point as compared with the end of the previous year.

In 2012, the government will vigorously advance the establishment of a long-term debt management mechanism for local government financing platforms. According to the principles of "reducing total loans, conducting level-by-level management, strictly observing compliance bottom line and preventing substantial risks", the Bank will unswervingly promote the task of reducing old platform loans and controlling the grant of new platform loans and earnestly implement the classified management system of "supported type, maintained type and compressed type" and the differentiated regulatory policies so as to continuously promote the prevention and control of platform loan risk.

3. SME corporate loans

The expansion of loans to SMEs is an important part of the Bank's strategy of the Second Transformation. As at the end of the reporting period, balance of the SME loans of the Company amounted to RMB468.282 billion, representing 53.22% of the total amount of corporate loans granted to domestic enterprises, an increase of 3.50 percentage points as compared to the end of the previous year. The relevant non-performing loan ratio was 1.17%, a decrease of 0.29 percentage point as compared to the end of the previous year. The balance of loans granted to small enterprises stood at RMB202.381 billion, representing 23.00% of total corporate loans granted to domestic enterprises and accounting for an increase of 3.95 percentage points as compared to the beginning of the year. Loans to small enterprises increased by 36.01% (RMB53.578 billion), representing 54.30% of new corporate loans granted to domestic enterprises. Non-performing loan ratio was 1.11%, representing a decrease of 0.28 percentage point as compared to the beginning of the year.

In 2011, there are cases of SMEs cash flow disruption caused by high interest non-bank credit. Most small enterprises face problems of persistent cost rise, low market need, slow technology upgrade and funding difficulty. In response to the changing market environment, the Company increased its efforts in risk inspection and pre-warning while stepping up the development of SME business. The Company inspected, prevented and controlled SME credit risk in a timely manner by taking various measures including improving its credit risk management system for small-sized enterprises, promoting the coordination of risk managers, increasing efforts in monitoring the use of loans granted and enterprises' operating capital, establishing the fast risk responding system triggered by pre-warning signals. According to the inspection results, the Company was exposed to higher risks in Yangtze River Delta due to the higher percentage of SME loans in the region, while overall risk in other regions was satisfactory. Therefore, there are no systematic risks. The overall customer mix and the industry structure of credit loans for small-sized enterprises were optimized, so that the risks involved were basically under control.

In response to the State policy requiring commercial banks to improve financial services for small- and micro-sized enterprises and for the purpose of effectively pushing forward the Second Transformation strategy, the Company has applied the issuance of financial bonds not more than RMB20.0 billion pursuant to the "Notice of China Banking Regulatory Commission on Supporting Commercial Banks in Further Improving Financial Services for Small-sized Enterprises" (《中國銀監會關於支援商業銀行進一步改進小企業金融服務的通知》) (Yin Jian Fa [2011] No.59) and the "Supplementary Notice of China Banking Regulatory Commission on Supporting Commercial Banks in Further Improving Financial Services for Small- and Micro-sized Enterprises" (《中國銀監會關於支援商業銀行進一步改進小企業金融服務補充通知》) (Yin Jian Fa [2011] No.94), and funds so raised will be specially used to support small- and micro-sized enterprises. As of 14 March 2012, the proceeds of RMB20 billion raised from the issuance of financial bonds had fully been credited into the Bank's account, which marked the successful completion of the issuance.

In 2012, the Company formulated the special credit policy for small enterprises, carefully selected the best anti-cycle industries for the grant of loans, promoted to implement the collaborative mechanism of risk managers and adhered to the credit model which prioritizes loan repayment and mitigated liquidity pressure through multi-channels. Meanwhile, the Company also optimized the model of small enterprise examination and post-loan management, implemented comprehensive risk management measures (including the event-trigger type post-loan management mechanism) and proactively prevented the regional and systematic risks in small enterprise credit.

4. *Risk management and control on loans for real estate development and affordable housing*

In 2011, the domestic real estate industry experienced a cooldown. Funding chain of real estate developers was getting tighter and accumulated loan risks were faced by banks as a result of the State's rigorous real estate control policy. In view of the above, the Company proactively took various counter measures, including (i) to exercise strict control over the total amount of loans extended to real estate developers by adhering to the "not exceeding two limits" principle (i.e. the growth of housing loans not exceeding the average growth rate of corporate loans, and the proportion of housing loans not exceeding 7% of our total loans); (ii) to maintain a name list to exercise strict control over loans extended to real estate groups and for commercial real estate development purposes; (iii) to raise the criteria for approval of loans to and increase the capital contribution ratio of real estate development projects, with the Head Office responsible for the relevant examination and approval, so as to select optimal projects; (iv) to carry out closed-end management and dynamic risk inspection, and to stop lending to defaulting developers immediately; and (v) to give stronger support to affordable housing in the municipalities, provincial capital cities and cities specifically designated in the state plan around the Bohai Rim, Yangtze River Delta and Pearl River Delta where the local fiscal revenue are comparably higher, and provided that the projects have been included in the government annual plan for affordable housing construction with complete examination certificates and approvals and relevant repurchase agreements with the government. Such requirements ensure timely repayment of both principal and interest on loans, with a closed-end management mode to this end. The effective implementation of the above measures led the total amount of the Company's loans to the real estate industry shrunken and its structure optimized. During the reporting period, the balance of the Company's housing loans decreased and both the amount and ratio of related non-performing loans were lower, so that the risks involved were basically under control. In addition, affordable housing loans were mainly used for reconstruction of slum areas, reclamation regions and dangerous buildings, therefore no special mention loan/non-performing loan were recorded in this respect.

In 2012, there are still many uncertainties in domestic real estate market. The Bank will carefully carry out its differentiated housing loan policy and, based on the general principle of "reducing total loan amount, adjusting existing loans and controlling the grant of new loans", make an overall plan for existing and additional loans granted to real estate enterprises, so as to optimize loan structure and support the construction and development of ordinary commercial housing projects which will focus on providing loans to individual residents who are buying commercial residential property for the first time. It will enhance the management of loan collection from project sales, strengthen the management of various types of loans mortgaged on properties in order to proactively prevent credit risk in this sector.

5. *Regulation on loan-to-deposit ratio*

In 2011, the Company's daily average loan-to-deposit ratio for the year and time-point loan-to-deposit ratio were 74.63% and 71.80% respectively, both lower than 75%. Affected by current macroeconomic conditions, most commercial banks (including the Company) are under pressure for deposit growth. The Bank has been adhering to the philosophy of "Deposit is the Basis", and has attached great importance to the development of liability business and promoted a coordinated and balanced development of the asset and liability business through enhancing the asset and liability management. In 2011, adaptive to the new environment, the Bank implemented a series of comprehensive measures (including budget management, balanced scorecard, internal funds transfer pricing, appropriately strengthened financial support, etc) to further enhance check-ups and promote steady expansion of deposit business. At the same time, in order to further improve the maturity distribution of assets and liabilities, the Bank further strengthened the operation and management of treasury at the Head Office and seized the right opportunities to carry out the active liability businesses (such as bonds issuance, negotiated deposits and treasury time deposit), which resulted in continued optimization of liability resources and liability terms.

In 2012, the Bank will continue to expand liability business and promote the diversification of its fund resources as required under the asset and liability management and liquidity management. For instance, according to the direction of the regulatory policies, the Bank will exert more efforts on bonds issuance so as to support the development of small and micro enterprise credit business. the Bank will adjust its asset-liability structure to properly arrange the scale of active liabilities including negotiated deposits. the Bank will vigorously promote cross-selling and business coordination, and take advantage of cross-border business to attract cross-border fund resource. the Bank will promote product innovation to provide and enrich product systems which can meet the diversified needs of its customers and explore potential resources. The Bank will improve the interbank business reviewing mechanism to promote healthy development of inter-bank debt financing business. In addition, the Bank will continue to properly control the scale of asset expansion, deepen the adjustment of asset structure and strengthen its efforts in exploring the potentials of existing businesses, and conduct asset securitization business at a proper time so as to facilitate coordinated development of asset-liability business.

6. *Capital management*

In 2011, the Company continued to promote the strategy of intensive capital management, and constantly improved capital utilization efficiency and capital management level. As a result, the Company's capital adequacy ratio entirely met relevant regulatory requirements throughout the year. As at 31 December 2011, the capital adequacy ratio and core capital adequacy ratio of the Group were 11.53% and 8.22% respectively, representing an increase of 0.06 percentage point and 0.18 percentage point respectively as compared with those at the beginning of the year, while the capital adequacy ratio and core capital adequacy ratio of the Company were 11.28% and 8.74% respectively, representing an increase of 0.07 percentage point and 0.04 percentage point respectively as compared with those at the beginning of the year.

In 2012, CBRC will promulgate and implement the "Measures for the Management of Capital of Commercial Banks" (《商業銀行資本管理辦法》), which is expected to have stricter standards on capital, measurement of risk assets and minimum capital adequacy ratio. The Company compiled in 2011 the "Mid-term Capital Management Plan of China Merchants Bank for 2011-2015" (《招商銀行2011-2015年資本管理中期規劃》), in which the Company had thoroughly considered the impacts of new capital governing policy. In addition, the Company proposed the rights issue of A Shares and H Shares of RMB35.0 billion in the second half of 2011, with a view to cover possible capital gaps for the next few years. According to the capital management plan, the Company will adhere to its capital intensive operational strategy and maintain a moderate growth rate of risk assets and a relatively stable proportion of cash dividend. After completion of the RMB35.0 billion rights issue of A Shares and H Shares and through organic capital accumulation, the Company will achieve its capital planning targets and lift its core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio to 8.5%, 9.5% and 11.5% respectively.

7. Net non-interest income

Thanks to the effective implementation of the Second Transformation, the Company's intermediate business has maintained rapid growth. At present, the Company has enriched its product offerings and optimized revenue structure. In 2011, the Company fully explored the potential of existing channels and products while actively created new products and new channels aiming at overcoming the adverse effect of external environment with quality service and marketing efforts. Consequently, a relatively fast growth in net non-interest income was maintained, with the wealth management and investment banking services being the driving force. In 2011, the Bank recorded net non-interest income of RMB18.430 billion, representing an increase of 40.13% over the previous year. The ratio of the net non-interest income to the total net operating income was 19.95%, representing an increase of 0.75 percentage point as compared with the same period of the previous year. Fee and commission income from wealth management business amounted to RMB4.710 billion, representing an increase of 48.67% over the previous year. Specifically, income from entrusted wealth management amounted to RMB1.421 billion, representing an increase of 61.66% as compared with the same period of the previous year; income from fund agency services amounted to RMB1.180 billion, representing a decrease of 0.84% as compared with the same period of the previous year; income from agency sale of insurance amounted to RMB1.032 billion, representing an increase of 18.12% as compared with the same period of the previous year; and income from trust plan agency services amounted to RMB846 million, representing an increase of 333.85% as compared with the same period of the previous year.

Generally speaking, in recent years, China's rapid economic growth, internationalization of the Renminbi and continuous increase in national income provided excellent external environment and opportunities for the development of intermediate business. But on the other hand, uncertainties in the capital market, possible changes in regulatory policies and homogeneous competition among banks brought challenges to the development of intermediate business.

In 2012, the Company will further optimize revenue structure, aggressively promote the development of emerging and cross-border intermediate business by capturing market opportunities, continuously sharpen the competitive edges of various products such as credit cards, wealth management and asset management. Furthermore, performance assessment will be enhanced through strict budgeting control, so that value orientation will be highlighted and intermediate business will be developed in a sustainable and healthy manner.

Our strategies for revenue growth mainly include: (i) to strengthen our existing competitive edges (for example, the Company's bank card, online banking, wealth management and asset management businesses, which are the main sources of the Company's fee income and enjoy certain competitive advantages in the industry); (ii) to attach great importance to the investment in emerging businesses so as to strengthen product innovation, to cater to or even create market demands and to continuously tap into new sources of income streams; (iii) to solidify customer base, develop quality customers, optimize customer structure and continuously strengthen cross-selling and business coordination, so as to diversify the structure of customer assets and increase customers' loyalty, thereby securing business expansion and sources of revenue growth; and (iv) to improve service quality and user experience and adhere to the philosophy of "good service and good reputation", so as to ensure improvement in both economic benefits and brand value.

8. *Cost/income ratio*

In 2011, the Company paid great attention to control costs and expenses and further improved the cost efficiency. By setting up a cost/income ratio cap in budget preparation, the Company tightened control over key regulated expense items and strengthened the management of capital expenditure. Furthermore, the Company conducted inspections on financial and economic discipline, thereby further improving the standardization of its financial management and the sophistication level of cost management. During the year, we saw a significant drop in the cost/income ratio and a substantial increase in cost efficiency.

In 2012, the Company will further improve cost management and continue to optimize the allocation of financial resources by strictly conforming the requirements of the Second Transformation and applying accounting methods. It will also clearly define the direction, proactively adapt itself to reforms and adequately coordinate capital, earnings and business development, so as to improve financial management on a full-range basis.

5.10.2 Analysis on outcome of the Second Transformation

Despite the tougher external environment in 2011, the Company made progress with the Second Transformation steadily and achieved positive results:

Capital utilization efficiency continued to increase. As at the end of 2011, the capital adequacy ratio of the Company was 11.28%, representing an increase of 0.07 percentage point as compared with the beginning of this year. The core capital adequacy ratio was 8.74%, representing an increase of 0.04 percentage point as compared with the beginning of this year. The net return on average equity (ROAE) was 22.07%, representing an increase of 1.66 percentage points as compared with the previous year. The risk-adjusted return on capital (RAROC, profit after tax) was 22.50%, representing an increase of 2.27 percentage points as compared with the previous year.

Risk pricing of loans was greatly improved. As at the end of 2011, the floating band of new weighted average interest rates of general corporate loans in RMB (weighted at actual amounts, same as below) increased by 11.66 percentage points as compared with the previous year. The floating band of weighted average interest rates of retail loans in RMB increased by 16.05 percentage points as compared with the previous year.

Operational efficiency continued to improve. As at the end of 2011, the cost-to-income ratio of the Company was 36.10%, representing a decrease of 3.53 percentage points as compared with the previous year; profit before tax per person was RMB1.02 million, representing an increase of 32.47% as compared with the previous year; profit before tax per sub-branch was RMB52.12 million, representing an increase of 28.53% as compared with the previous year.

The proportion of high-net-worth customer increased continuously. As at the end of 2011, the Company had 783,200 Sunflower (i.e. retail customers with monthly daily average total assets of RMB500,000 or above) or higher customers, representing an increase of 16.88% as compared with the beginning of this year; the number of its private banking customers increased by 30.50% as compared with the beginning of this year; the proportion of high-net-worth corporate customer was 14.21%, representing an increase of 5.51 percentage points as compared with the beginning of this year.

Non-performing loan ratio continued to decline. As at the end of 2011, the non-performing loans ratio of the Company was 0.58%, representing a decrease of 0.11 percentage point as compared with the beginning of this year, and was kept at a low level at all time.

5.11 Outlook and Measures

In 2012, both domestic and global financial situations will remain complicated and volatile. **Internationally**, the European debt crisis will continue to spread and the global financial market will be in turmoil. Commodity prices will fluctuate substantially and some major economies will experience a decline in economic growth. Emerging markets and countries will still be subject to relatively great inflation pressures and various forms of protectionism will be intensified. The instability and uncertainty in the global economic recovery is on the rise. **Domestically**, conflicts and problems arising from imbalance, incoordination and unsustainability in economic development will still be prominent. Downward pressure on economic growth and upward pressure on prices will co-exist and SMEs will confront greater difficulties in production and operation. Cross-border capital flow will be subject to various uncertainties and the risk of local government financing platforms and the real estate market will increase. The task of optimizing economic structure is arduous and the difficulty in regulating and controlling the macroeconomy will increase.

Under the tough operation environment, in spite of the grim challenges to our operation and management, the Company will come across many positive opportunities in its developments today and in the coming period: accelerated transformation of the economy and society, changes in consumer attitudes, rapid accumulation of social wealth, continuous reform of the financial market, advent of an aging society, steady progress in Renminbi internationalization and rapidly growing popularity of mobile internet. All these can create new business and value drivers.

Confronted with the opportunities and challenges under the new circumstances and in light of the guiding principle of "capturing the historical opportunities and deepening the Second Transformation", the Company will adopt the development strategy of "expanding existing advantages, transforming demerits into merits, creating unique edges and developing potential competitiveness" to further promote reforms, strengthen innovations, improve services, enhance management and accelerate the realization of a thorough transformation of the traditional expansive operational mode. In view of current operation environment, the Company anticipates that loans to customers will increase by approximately RMB205 billion and deposits from customers will increase by approximately RMB250 billion. The operation management measures the Company will adopt in 2012 are: (1) consolidating the leading edge in retail banking and further solidifying the customer, channel, team and service foundations to achieve major breakthroughs in Private Banking and Diamond Customer service business, micro enterprises, credit card business, cross-selling, mobile payment and other aspects; (2) highlighting the development focuses of wholesale banking, putting efforts in enhancing corporate deposits business, fully implementing the development strategies of small enterprise business, and adjusting and optimizing the structure of large and medium-sized customers so as to push intermediate business developments to a new level; (3) continuing to enhance the asset and liability management and capital management, deepening the application of management accounting, and integrating and improving the performance appraisal system for domestic first-tier branches; (4) enhancing the standards in managing credit risk, liquidity risk, market risk, operational risk and reputation risk, and strengthening internal control and compliance as well as law case prevention; (5) strengthening the human resources management and employee training to implement staff-caring measures; (6) accelerating the building of new IT advantages so as to drive workflow optimization and resource integration; and (7) deepening the progress in integrating and transforming Wing Lung Bank, and steadily promoting internationalized and integrated operation.

VI Share Capital Structure and Shareholder Base

6.1 Changes in shares of the Company during the reporting period

		31 December 2010		Changes in the reporting period	31 December 2011	
		Quantity (share)	Percentage (%)		**Quantity (share)**	**Percentage (%)**
I.	**Shares subject to trading moratorium**	–	–	**–**	**–**	**–**
II.	**Shares not subject to trading moratorium**	21,576,608,885	100.00	**–**	**21,576,608,885**	**100.00**
	1. Common shares in RMB (A Shares)	17,666,130,885	81.88	**–**	**17,666,130,885**	**81.88**
	2. Foreign shares listed domestically	–	–	**–**	**–**	**–**
	3. Foreign shares listed overseas (H Shares)	3,910,478,000	18.12	**–**	**3,910,478,000**	**18.12**
	4. Others	–	–	**–**	**–**	**–**
III.	**Total shares**	21,576,608,885	100.00	**–**	**21,576,608,885**	**100.00**

As at the end of the reporting period, the Company had a total of 596,037 shareholders, including 44,327 holders of H Shares and 551,710 holders of A Shares, and all the shares are not subject to trading moratorium.

As at 29 February 2012, the Company had a total of 575,088 shareholders, including 44,980 holders of H Shares and 530,108 holders of A Shares, and all the shares are not subject to trading moratorium.

Based on the public information available to the Company and as far as its directors are aware, as at 31 December 2011, the Company had met the public float requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

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

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital %	Type of shares	Changes in the reporting period (share)	Number of Shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.[1]	/	3,854,145,855	17.86	H Shares	7,774,516	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal person	2,675,612,600	12.40	A Shares not subject to trading moratorium	–	–	–
3	China Ocean Shipping (Group) Company	State-owned legal person	1,341,336,551	6.22	A Shares not subject to trading moratorium	57,196,395	–	–
4	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	636,788,489	2.95	A Shares not subject to trading moratorium	–	–	–
5	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal person	631,287,834	2.93	A Shares not subject to trading moratorium	–	–	–
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	556,333,611	2.58	A Shares not subject to trading moratorium	–	–	–
7	China Communications Construction Company Ltd.	State-owned legal person	383,445,439	1.78	A Shares not subject to trading moratorium	–	–	–
8	SAIC Motor Corporation Limited	State-owned legal person	368,079,979	1.71	A Shares not subject to trading moratorium	–	–	–
9	CNOOC Investment Co., Ltd.	State-owned legal person	301,593,148	1.40	A Shares not subject to trading moratorium	–	–	–
10	Hebei Port Group Company Ltd.	State-owned legal person	258,470,781	1.20	A Shares not subject to trading moratorium	–	–	–
10	China Shipping (Group) Company	State-owned legal person	258,470,781	1.20	A Shares not subject to trading moratorium	–	–	–
10	Shandong State-owned Assets Investment Holdings Company Ltd.	State-owned legal person	258,470,781	1.20	A Shares not subject to trading moratorium	–	–	–

Notes:

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

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

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

As at 31 December 2011, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/ short position	Capacity	No. of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage in 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
JPMorgan Chase & Co.	H	Long	Beneficial owner	52,378,942			
		Long	Investment manager	291,504,468			
		Long	Custodian	86,962,344			
				430,845,754	3	11.02	2.00
		Short	Beneficial owner	14,875,178	3	0.38	0.07
BlackRock, Inc	H	Long	Interest of controlled corporation	276,949,793	4	7.08	1.28
		Short	Interest of controlled corporation	17,177,605	4	0.44	0.08
Templeton Asset Management Ltd.	H	Long	Investment manager	321,910,880		8.23	1.49
Deutsche Bank Aktiengesellschaft	H	Long	Beneficial owner	82,712,191			
		Long	Investment manager	11,993,500			
		Long	Person securing interest in shares	120,275,332			
		Long	Custodian	3,164,500			
				218,145,523	5	5.58	1.01
		Short	Beneficial owner	71,828,033			
		Short	Person securing interest in shares	115,790,881	5	4.80	0.87

VI Share Capital Structure and Shareholder Base

* As at 31 December 2011, China Merchants Group Ltd. indirectly held an aggregate of 18.63% of the total issued shares of the Company, consisting of 18.43% of the A Shares of the Company and 0.20% of the H Shares of the Company, respectively.

The above numbers of shares were recorded in interests disclosure forms completed by the relevant substantial shareholders before 31 December 2011. During the period from the date on which the respective substantial shareholders submitted the said forms up to 31 December 2011, 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. held interest in a total of 3,886,912,452 A Shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

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

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

(1.3) Shenzhen Yan Qing Investment 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 interests 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 the interests in 695,697,834 A Shares (Long position) in the Company held by its wholly-owned subsidiaries as follows:

(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 430,845,754 H Shares (Long position) and 14,875,178 H Shares (Short position) in the Company by virtue of its control over the following corporations:

(3.1) JPMorgan Chase Bank, N.A. held 113,943,538 H Shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.

(3.2) JF Asset Management Limited held 2,000,000 H Shares (Long position) in the Company. JF Asset Management Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.3) J.P. Morgan Whitefriars Inc. held 33,507,717 H Shares (Long position) and 3,039,545 H Shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.4) J.P. Morgan Investment Management Inc. held 80,932,907 H Shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.5) JPMorgan Asset Management (UK) Limited held 173,614,450 H Shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.6) JPMorgan Asset Management (Taiwan) Limited held 4,912,782 H Shares (Long position) in the Company. JPMorgan Asset Management (Taiwan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.7) J.P. Morgan Securities Ltd. held 17,176,396 H Shares (Long position) and 10,008,016 H Shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.8) JPMorgan Asset Management (Singapore) Limited held 2,528,400 H Shares (Long position) in the Company. JPMorgan Asset Management (Singapore) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.9) JPMorgan Asset Management (Japan) Limited held 426,735 H Shares (Long position) in the Company. JPMorgan Asset Management (Japan) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.10) J.P. Morgan Whitefriars (UK) held 132,788 H Shares (Short position) in the Company. J.P. Morgan Whitefriars (UK) was owned as to 99.99% by J.P. Morgan Whitefriars Inc, which was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.11) China International Fund Management Co Ltd held 108,000 H Shares (Long position) in the Company. China International Fund Management Co Ltd was owned as to 49.00% by JPMorgan Asset Management (UK) Limited, which was in turn an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

(3.12) J.P. Morgan Markets Limited held 1,694,829 H Shares (Long position) and 1,694,829 H Shares (Short position) in the Company. J.P. Morgan Markets Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 86,962,344 H Shares. Besides, 14,669,535 H Shares (Long position) and 7,314,333 H Shares (Short position) were held through derivatives as follows:

2,436,000 H Shares (Long position) and 4,629,500 H Shares (Short position)	–	through physically settled derivatives (on exchange)
30,000 H Shares (Short position)	–	through cash settled derivatives (on exchange)
8,112,602 H Shares (Long position) and 2,264,635 H Shares (Short position)	–	through physically settled derivatives (off exchange)
4,120,933 H Shares (Long position) and 390,198 H Shares (Short position)	–	through cash settled derivatives (off exchange)

VI Share Capital Structure and Shareholder Base

(4) BlackRock, Inc. was deemed to hold interests in a total of 276,949,793 H Shares (Long position) and 17,177,605 H Shares (Short position) in the Company by virtue of its control over the following corporations:

(4.1) BlackRock Investment Management, LLC held 2,356,932 H Shares (Long position) in the Company. BlackRock Investment Management, LLC was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.2) BlackRock Financial Management, Inc. held 274,592,861 H Shares (Long position) and 17,177,605 H Shares (Short position) in the Company. BlackRock Financial Management, Inc. was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.3) BlackRock Fund Advisors held 163,871,005 H Shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company, N.A., the latter held interest in 203,752,055 H Shares (Long position) in the Company. BlackRock Institutional Trust Company, N.A. was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.4) BlackRock Advisors, LLC. held 10,722,600 H Shares (Long position) and 2,424,000 H Shares (Short position) in the Company. BlackRock Advisors, LLC. was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.5) BlackRock Capital Management, Inc. held 136,200 H Shares (Long position) in the Company. BlackRock Capital Management, Inc. was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.6) BlackRock Asset Management Canada Limited held 316,500 H Shares (Long position) in the Company. BlackRock Asset Management Canada Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.7) BlackRock Asset Management Japan Limited held 54,500 H Shares (Long position) in the Company. BlackRock Asset Management Japan Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.8) BlackRock Asset Management Australia Limited held 62,000 H Shares (Long position) in the Company. BlackRock Asset Management Australia Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.9) BlackRock Asset Management North Asia Limited held 5,506,124 H Shares (Long position) and 4,221,427 H Shares (Short position) in the Company. BlackRock Asset Management North Asia Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.10) BlackRock (Netherlands) B.V. held 109,000 H Shares (Long position) in the Company. BlackRock (Netherlands) B.V. was an indirect wholly-owned subsidiary of BlackRock, Inc..

(4.11) BlackRock (Luxembourg) S.A. held 177,600 H Shares (Long position) in the Company. BlackRock (Luxembourg) S.A. was an indirect wholly owned subsidiary of BlackRock, Inc..

(4.12) BlackRock Asset Management Ireland Limited held 27,299,030 H Shares (Long position) in the Company. BlackRock Asset Management Ireland Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.13) BlackRock Advisors (UK) Limited held 20,744,482 H Shares (Long position) and 10,532,178 H Shares (Short position) in the Company. BlackRock Advisors (UK) Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.14) BlackRock International Limited held 2,468,011 H Shares (Long position) in the Company. BlackRock International Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.15) BlackRock Fund Managers Limited held 349,459 H Shares (Long position) in the Company. BlackRock Fund Managers Limited was an indirect wholly-owned subsidiary of BlackRock, Inc.

(4.16) BlackRock Asset Management Deutschland AG held 631,000 H Shares (Long position) in the Company. BlackRock Asset Management Deutschland AG was an indirect wholly-owned subsidiary of BlackRock, Inc.

Among the entire interest of BlackRock, Inc. in the Company, a total of 2,424,000 H Shares (Short position) were held through physically settled derivatives (on exchange).

(5) Deutsche Bank Aktiengesellschaft held 12,879,500 H Shares (Long position) in the Company through a number of its wholly-owned subsidiaries.

Among the entire interest and short position of Deutsche Bank Aktiengesellshaft in the Company, there was a lending pool of 3,164,500 H Shares. Besides, 65,152,500 H Shares (Long position) and 66,750,827 H Shares (Short position) were held through derivatives as follows:

2,594,000 H Shares (Long position) and 2,904,700 H Shares (Short position)	–	through physically settled derivatives (on exchange)
62,558,500 H Shares (Long position) and 63,846,127 H Shares (Short position)	–	through cash settled derivatives (off exchange)

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2011 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

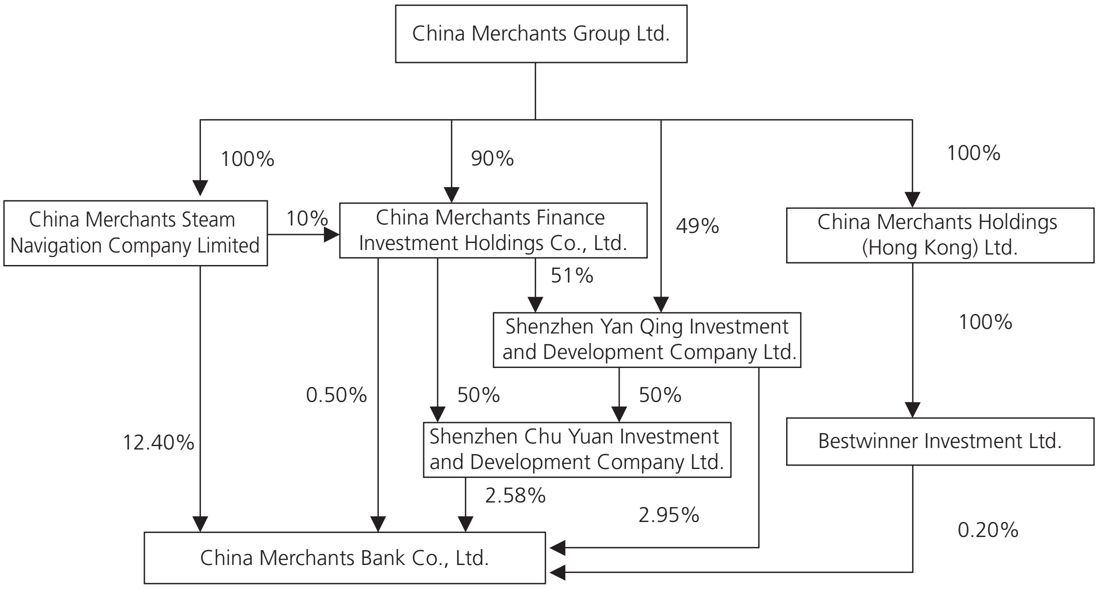
6.4 Information about the Company's largest shareholder and its parent company

(1) China Merchants Steam Navigation Company Ltd., being the largest shareholder of the Company, was founded on 11 October 1948 with a registered capital of RMB2.2 billion. Its legal representative is Mr. Fu Yuning. It is a wholly owned subsidiary of China Merchants Group Ltd. The said company is mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc; as well as investment and management of finance, insurance and trust businesses related to transportation.

(2) China Merchants Group Ltd. directly holds 100% equity interest in China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder. Its legal representative is Mr. Fu Yuning. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was incorporated in 1872, a time when China was in its late Qing Dynasty and was undergoing the Westernization Movement, and was one of the enterprises which played a significant role in promoting the modernization of China's national industries and commerce at that time. Nowadays, it has developed into a conglomerate, specializing in transportation infrastructure, industrial zone development, port, finance, property and logistics businesses, etc.

VI Share Capital Structure and Shareholder Base

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



Note: As at 31 December 2011, China Merchants Group Ltd. indirectly held an aggregate of 18.63% of the total shares of the Company, consisting of 18.43% of A Shares and 0.20% of H Shares of the Company.

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

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

6.6 Particulars on share issuance and listing

2010 rights issue

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

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

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

Shares held by staff

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

6.7 Issuance of subordinated debts

Issuance of subordinated debts in 2008

Pursuant to "The Approval from China Banking Regulatory Commission (CBRC) on the Issuance of Subordinated Debts by China Merchants Bank" (CBRC Approval [2008] No. 304) and "The Decision on the Administrative Approval from The People's Bank of China (PBOC)" (PBOC Decision [2008] No. 25), the Company successfully issued subordinated debts in an aggregate principal amount of RMB30 billion to institutional investors in the domestic interbank debt markets on 4 September 2008.

There are three types of debts being offered. Type I are fixed rate debts for a term of 10 years and the issue size is RMB19 billion. The coupon rate for the first 5 years is 5.70% and the Company may select to redeem the debts by the end of the first 5 years. Type II are fixed rate debts for a term of 15 years and the issue size is RMB7 billion. The coupon rate for the first 10 years is 5.90% and the Company may select to redeem the debts by the end of the first 10 years. Type III are floating rate debts for a term of 10 years and the issue size is RMB4 billion. The coupon rate for the first 5 years is R+1.53% and the Company may select to redeem the debts by the end of the first 5 years.

If the Company does not exercise the redemption right, then the annual coupon rate for Type II Debts for the last 5 interest-accruing years will be calculated at the initial coupon rate plus 3% from the eleventh interest-accruing year until maturity of the debts; while the annual coupon rate or basic interest spread for both Type I Debts and Type III Debts for the last 5 interest-accruing years will be calculated at the initial coupon rate or interest margin plus 3% from the sixth interest-accruing year to the maturity of the respective debts.

The benchmark interest rate R for Type III ten-year floating rate debts is the one-year Renminbi fixed deposit interest rate announced by PBOC. The benchmark interest rate for the first interest-accruing period is 4.14%, the one-year Renminbi fixed deposit interest rate announced by PBOC which was effective from 21 December 2007.

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

7.1 Directors, supervisors and senior management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Aggregate remunerations before tax received from the Company during the reporting period (RMB ten thousand)	Remunerations paid by shareholders' companies or other related companies
Fu Yuning	Male	1957.3	Chairman & Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Wei Jiafu	Male	1950.1	Vice Chairman & Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Li Yinquan	Male	1955.4	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8 – 2013.6	0	0	0	Yes
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Sun Yueying	Female	1958.6	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Wang Daxiong	Male	1960.12	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Fu Junyuan	Male	1961.5	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2010.6 – 2013.6	0	0	535.38	No
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2010.6 – 2013.6	0	0	349.67	No
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2010.6 – 2013.6	0	0	347.44	No
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2010.6 – 2013.6	0	0	30.00	No
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7 – 2013.6	0	0	12.50	No
Yan Lan	Female	1957.1	Independent Non-Executive Director	2010.6 – 2013.6	0	0	30.00	No
Chow Kwong Fai, Edward	Male	1952.8	Independent Non-Executive Director	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11 – 2013.6	0	0	5.00	No

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Aggregate remunerations before tax received from the Company during the reporting period (RMB ten thousand)	Remunerations paid by shareholders' companies or other related companies
Liu Hongxia	Female	1963.9	Independent Non-Executive Director	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors	2010.8 – 2013.6	0	0	323.14	No
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Hu Xupeng	Male	1975.10	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Li Jiangning	Male	1959.4	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Peng Zhijian (note 1)	Male	1948.11	External Supervisor	2011.10 – 2013.6	0	25,000	0	No
Pan Ji	Male	1949.4	External Supervisor	2011.5 – 2013.6	0	0	17.50	No
Yang Zongjian	Male	1957.4	Employee Supervisor	2010.6 – 2013.6	0	0	237.91	No
Zhou Qizheng	Male	1964.11	Employee Supervisor	2010.6 – 2013.6	0	0	234.40	No
Tang Zhihong	Male	1960.3	Executive Vice President	2010.6 – 2013.6	0	0	323.43	No
Yin Fenglan	Female	1953.7	Executive Vice President	2010.6 – 2013.6	0	0	323.14	No
Ding Wei	Male	1957.5	Executive Vice President	2010.6 – 2013.6	0	0	321.09	No
Zhu Qi (note 2)	Male	1960.7	Executive Vice President	2010.6 – 2013.6	0	0	0	Yes
Tang Xiaoqing	Male	1954.8	Secretary of Party Discipline Committee	2008.12 up to now	0	0	323.14	No
Wang Qingbin	Male	1956.12	Executive Vice President	2011.6 – 2013.6	0	0	310.31	No
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 up to now	0	0	214.79	No
Lan Qi	Male	1956.6	Secretary of Board of Directors	2010.6 – 2013.6	0	0	214.79	No

Notes: 1. Mr. Peng Zhijian was appointed as a Supervisor of the Company in October 2011, and the shares of the Company which he holds were acquired prior to such appointment. Mr. Peng Zhijian did not have remunerations paid by the Company in 2011.

2. Mr. Zhu Qi's remuneration was paid by the Company's subsidiary WLB.

3. The aggregate remuneration before tax of the full-time executive directors and senior management members is subject to confirmation. The remaining figures will be disclosed separately after actual remuneration is confirmed for payment.

7.2 Current positions held by the directors and supervisors in the shareholders' companies of the Bank

Name	Name of Company	Title	Term of office
Fu Yuning	China Merchants Group Ltd.	Chairman	From August 2010 up to now
Wei Jiafu	China Ocean Shipping (Group) Company	Chairman	From August 2011 up to now
Li Yinquan	China Merchants Group Ltd.	Vice President	From July 2002 up to now
Fu Gangfeng	China Merchants Group Ltd.	Chief Financial Officer	From November 2011 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Executive Assistant President & General Manager of China Merchants Finance Holdings Company Limited	From September 2011 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief Accountant	From December 2000 up to now
Wang Daxiong	China Shipping (Group) Company	Vice General Manager	From August 2011 up to now
Fu Junyuan	China Communications Construction Co., Ltd	Executive Director & Chief Financial Officer	From September 2006 up to now
Zhu Genlin	SAIC Motor Corporation Limited	Vice President	From January 2012 up to now
Hu Xupeng	Zhonghai Trust Co., Ltd. (note)	Vice President & Secretary of the Board	From July 2008 up to now
Li Jiangning	Shandong State-owned Assets Investment Holdings Co. Ltd	Vice President	From November 2005 up to now
Wen Jianguo	Hebei Port Group Co., Ltd.	Director & Chief Accountant	From July 2009 up to now

Note: Zhonghai Trust Co., Ltd. and CNOOC Investment Co., Ltd. (a shareholder of the Company) are both subsidiaries of China National Offshore Oil Corporation.

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

Directors

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

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

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

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

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

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

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

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

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

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

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

Mr. Yi Xiqun, independent non-executive director of the Bank. He has been a director of the Bank since October 2007. He obtained a master's degree in economics management engineering from Tsinghua University. He is currently the vice president of China Association of Private Equity and the vice president and the first alternate chairman of Beijing Association of Private Equity. He concurrently acts as an independent non-executive director of SOHO China Ltd. (a company listed on the Hong Kong Stock Exchange), Zheshang Jinhui Trust Co., Ltd. and Asian Capital (Corporate Finance) Limited, the president of Capital Enterprises Association (京城企業協會會長), the vice president of China Association for the Promotion of Industrial Development, and a member of Zhong Guancun Advisory Committee. He had been the president of Beijing Holdings Ltd., the chairman of the board of directors of Beijing Enterprises Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) and the president of Beijing Enterprises Group Company Ltd., the president of Beijing Private Equity Investment & Development Fund Management Co., Ltd. and the chairman of Bowei Capital.

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

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

Mr. Chow Kwong Fai, Edward, independent non-executive director of the Bank. He has been a director of the Bank since May 2006. Mr. Chow obtained a Bachelor's degree in business from Middlesex Polytechnic (subsequently renamed Middlesex University), the United Kingdom. He is a director and senior member of the Institute of Chartered Accountants in England and Wales and a senior member of the Hong Kong Institute of Certified Public Accountants, and an expert adviser of the Accounting Standards Committee of the Ministry of Finance, People's Republic of China. He is a member of the Chinese People's Political Consultative Conference – Zhejiang Province and the Election Committee of Hong Kong SAR. Mr. Chow has been the chairman of China Infrastructure Group Holdings PLC since May 1996, and the chairman of CIG Yangtze Ports PLC (a company listed on the Hong Kong Stock Exchange) from February 2003 to November 2010. He has also served as an independent non-executive director and chairman of the audit committee of COSCO Pacific Ltd. (a company listed on the Hong Kong Stock Exchange). He is also an executive deputy chairman of Business and Professionals Federation of Hong Kong, and a core member of the OECD/World Bank Asian Corporate Governance Roundtable. He previously served as the deputy chairman of the Hong Kong Institute of Directors (2006-2008), the president of the Hong Kong Institute of Certified Public Accountants (2005) and the chairman of the Professional Accountants in Business Committee of the International Federation of Accountants (2006-2008). Mr. Chow was appointed as a Justice of the Peace (JP) by the Chief Executive of Hong Kong SAR on 1 July 2008 and won "Directors of the Year Awards 2010" offered by the Hong Kong Institution of Directors in November 2010.

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

Ms. Liu Hongxia, independent non-executive director of the Bank. She has been a director of the Bank since May 2006. She obtained a Doctor's degree in management from the Central University of Finance and Economics and completed the postdoctoral research in the Corporate Governance Centre of Nankai University. She has taught at the Central University of Finance and Economics since 1999, and is currently a professor in accounting at the Central University of Finance and Economics and a mentor to doctoral students. She has also been an accreditation expert of Beijing senior accountants and an executive director at the Beijing Institute of Accounting. She has served as an independent director of Henan Zhongfu Industrial Co., Ltd. (a company listed on the Shanghai Stock Exchange), Shandong Tianrun Crankshaft Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Fangda Special Steel Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange) and Shandong Loften Aluminium foil Co., Ltd. (a company listed on the Shenzhen Stock Exchange).

Supervisors

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

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

Mr. Hu Xupeng, supervisor of the Company since June 2010. He holds a master's degree of economic law and is a qualified attorney. He has been the vice president and the secretary of the board of directors of Zhonghai Trust Co., Ltd. since July 2008 and serves as the director of Shanghai Puhuan Investment Development Company. He has successively served as the head of legal affairs of business department I, manager of risk management department, general manager of risk management department, compliance officer and secretary to the board of directors of Zhonghai Trust Co., Ltd. from April 2004 to July 2008.

Mr. Li Jiangning, supervisor of the Company since June 2007. He obtained a master's degree, and is a researcher, and serves as a MBA mentor at Management School of Shandong University. He has been the vice president of Shandong Provincial State-owned Asset Investment Holding Co., Ltd. since November 2005 and is also an independent director of Luyin Investment Group Co., Ltd. He was the head of the enterprise distribution Department of State-owned Assets Supervision and Administration Commission of Shandong Provincial Government from June 2004 to November 2005.

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

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

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

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

Mr. Zhou Qizheng, joined the Company in 1995 and has been an employee representative supervisor of the Company since June 2010. He is a postgraduate and is a senior economist. He served as the assistant general manager and the deputy general manager of the Credit Management Department of the Head Office of the Company, the deputy general manager of the Risk Control Department of the Head Office of the Company, the deputy general manager of the Wuhan Branch of the Company, the deputy general manager of the Asset Preservation Department of the Head Office of the Company, the deputy general manager of the Credit Control Department of the Head Office of the Company (responsible for overall management), and the general manager of the Credit Risk Control Office of the Head Office. He has been the general manager of the Audit Department of the Head Office since October 2011.

Senior Management

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

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

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

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

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

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

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

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

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

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

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

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

7.4 Explanation on the office location of Chairman of the Company

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

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

The Company offers remuneration to independent directors and external supervisors according to the "Resolution in respect of Adjustment to Remuneration of Independent Directors and External Supervisors"; offers remuneration to executive directors and other senior executives according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (as amended on 25 August 2011) of the Company; and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees of the Company. Shareholding directors and shareholding supervisors of the Company do not receive any remuneration from the Company.

The Board of Supervisors evaluates the performance of directors according to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)" and through the review of the working report of the Directors. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (as amended on 25 August 2011) and the "Assessment Standards of H-Share Appreciation Rights Incentive Scheme for the Senior Management".

For further details of remuneration for directors, supervisors and senior management, please refer to section 7.1 of this report.

7.6 H Share Appreciation Rights Incentive Scheme during the reporting period

To further establish and enhance its incentive system for reconciling the interests of shareholders, the Company and the senior management members, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 2007 First Extraordinary General Meeting held on 22 October 2007. On 30 October 2007, 7 November 2008, 16 November 2009 and 18 February 2011, the Board of Directors of the Company granted the H Share appreciation rights of Phases I, II, III and IV 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.

Following the completion of the rights issue for 2010 and the implementation of the Profit Appropriations Scheme for 2009, the Company adjusted the number of granted shares and the exercise prices under the H Share appreciation rights for Phases I, II, III and IV in accordance with the relevant regulations. For details of the adjustment, please refer to the announcement dated 18 February 2011 in respect of the resolutions passed at the 9th meeting of the Eighth Session of the Board of Directors which was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Following the implementation of the Profit Appropriations Scheme for 2010, the Company adjusted the exercise prices for the H Share appreciation rights of Phases I, II, III and IV in accordance with the relevant regulations. For details, of the adjustment, please refer to the announcement dated 30 August 2011 in respect of the resolutions passed at the 20th meeting of the Eighth Session of the Board of Directors which was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.7 Particular changes to Directors and Supervisors during the reporting period

1. Mr. Fu Yuning, Chairman and Non-Executive Director of the Company, was appointed as an independent non-executive director of Li & Fung Limited, and ceased to be a member of Hong Kong Securities and Futures Commission and an independent non-executive director of Sino Land Company Ltd.

2. Mr. Wei Jiafu, Vice Chairman and Non-Executive Director of the Company, was appointed as the chairman of China Ocean Shipping (Group) Company and non-executive director of China COSCO Holdings Company Ltd. He ceased to be the president of China Ocean Shipping (Group) Company, executive director of China COSCO Holdings Company Ltd., and director of COSCO (Hong Kong) Group Ltd.

3. Mr. Li Yinquan, Non-Executive Director of the Company, was appointed as the chairman of China Merchants Finance Holdings Company Limited and ceased to be the chief financial officer of China Merchants Group Ltd.

4. Mr. Fu Gangfeng, Non-Executive Director of the Company, was appointed as the chief financial officer of China Merchants Group Ltd., and ceased to be the general manager of the finance division of China Merchants Group Ltd. and director of China Merchants Property Development Co., Ltd.

5. Mr. Hong Xiaoyuan, Non-Executive Director of the Company, was appointed as an assistant to president of China Merchants Group Ltd. and the chairman of China Merchants Kunlun Equity Investment Fund Management Co., Ltd. (招商昆侖股權投資管理有限公司).

6. Mr. Fu Junyuan, Non-Executive Director of the Company, ceased to be a director of Shanghai Zhenhua Heavy Industry Co., Ltd.

7. Mr. Ma Weihua, Executive Director of the Company, was appointed as an independent non-executive director of Winox Holdings Limited.

8. Mr. Yi Xiqun, Independent Non-Executive Director of the Company, was appointed as a director of Asian Capital (Corporate Finance) Limited, and ceased to be the head of Beijing Equity Investment & Development Fund Management Co., Ltd. and the chairman of Bowei Capital.

9. Mr. Wong Kwai Lam, Independent Non-Executive Director of the Company, was appointed as the manager of Prosperity Real Estate Investment Trust, independent non-executive director of K. Wah International Holdings Limited, member of the Strategic Investment Society of The Chinese University of Hong Kong, and member of the Board of Trustee and the Strategic Investment Society of New Asia College of The Chinese University of Hong Kong, and ceased to be a member of Advisory Committee under the Securities and Futures Commission in Hong Kong.

10. Ms. Yan Lan, Independent Non-Executive Director of the Company, was appointed as the managing director of Lazard Ltd, the president of Greater China Investment Banking, independent non-executive director of Anhui Tianda Oil Pipe Company Limited and vice chairlady of Chinese Arts Fund, and ceased to be the chief representative in the Beijing Office of Gide Loyrette et Nouel, an arbitrator of China International Economic and Trade Arbitration Commission, a legal counsel of ICC CHINA and the chairman of the International Advisory Committee of Beijing Music Festival.

11. Mr. Chow Kwong Fai, Edward, Independent Non-Executive Director of the Company, was appointed as an executive deputy chairman of Business and Professionals Federation of Hong Kong.

12. Ms. Pan Yingli, Independent Non-Executive Director of the Company, was appointed as the director of Research Center for Global Finance, Shanghai Jiao Tong University.

13. Mr. Han Mingzhi, Chairman of the Board of Supervisors and Employee Supervisor of the Company, ceased to be the Director of the Association for Relations Across the Taiwan Straits.

14. Mr. Zhu Genlin, Shareholder Supervisor of the Company, was appointed as the vice president of Shanghai Automotive Industry Corporation, and ceased to be vice president of Shanghai Automotive Industry Corporation (Group) and supervisor of Shanghai Automotive Industry Corporation, all with effect from January 2012.

15. Mr. Wen Jianguo, Shareholder Supervisor of the Company, ceased to be a supervisor of Caofeidian Industrial Development Co., Ltd.

16. Mr. Hu Xupeng, Shareholder Supervisor of the Company, ceased to be the chief risk control officer of Zhonghai Trust Co., Ltd.

17. Mr. Peng Zhijian, External Supervision of the Company, ceased to be a member of People's Political Consultative Conference Standing Committee of Guangdong Province and the deputy director of the Economic Committee for People's Political Consultative Conference of Guangdong Province due to the expiration of his term of office.

18. Mr. Zhou Qizheng, Employee Supervisor of the Company, was appointed as General Manager of the Audit Department of the Company, and ceased to be the general manager of the Credit Risk Control Office of the Head Office.

7.8 Appointments and resignations during the reporting period

1. During the reporting period, Mr. Wu Jiesi, an independent non-executive director of the Company, ceased to be independent non-executive director of the Company due to expiration of his term of office.

2. During the reporting period, Mr. Liu Yongzhang, an independent non-executive director of the Company, ceased to be independent non-executive director of the Company due to job arrangements.

3. On 30 May 2011, the "Resolution on Change of Independent Non-executive Directors" was considered and passed at the 2010 Annual General Meeting, pursuant to which Mr. Wong Kwai Lam was appointed as an independent non-executive director of the Eighth Session of the Board of Directors and his qualifications were approved by CBRC Shenzhen Office on 19 July 2011.

4. On 9 September 2011, the "Proposal in relation to the Addition of Independent Director of China Merchants Bank" was considered and passed at the 2011 First Extraordinary General Meeting of the Company, pursuant to which Ms. Pan Yingli was appointed as an independent director of the Eighth Session of the Board of Directors. Her qualifications were approved by CBRC Shenzhen Office on 11 November 2011.

5. During the reporting period, given that the job and Party membership of Mr. Han Mingzhi, an external supervisor of the Company, was transferred to the Company, it would be inapplicable, under the regulatory requirements, for Mr. Han to continue to perform his duties in capacity as an external supervisor. Accordingly, Mr. Han Mingzhi submitted his resignation from the position as external supervisor to the Board of Supervisors of the Company on 29 March 2011. On the same day, the Company convened employee representative meeting where Mr. Han was recommended to serve as the Employee Supervisor of the Eighth Session of the Board of Supervisors. The proposal of the "Election of Han Mingzhi to Continue to be the Chairman of the Eighth Session of the Board of Supervisors" and the "Resolution on Appointment of an External Supervisor" were considered and passed at the 5th meeting of the Eighth Session of the Board of Supervisors of the Company held on 30 March 2011. Mr. Han Mingzhi was elected to continue to be the Chairman of the Eighth Session of the Board of Supervisors of the Company. Mr. Pan Ji was appointed as the external supervisor of the Company to fill the vacant position. On 30 May 2011, the 2010 Annual General Meeting held by the Company passed the "Resolution on Appointment of an External Supervisor" and approved the appointment of Mr. Pan Ji as the external supervisor of the Company.

6. During the reporting period, Mr. Shi Shunhua resigned from the position as the Employee Supervisor due to job-related reasons.

7. During the reporting period, Mr. Shao Ruiqing resigned from the position as the external supervisor due to job-related reasons.

8. On 9 September 2011, the 2011 First Extraordinary General Meeting held by the Company passed the "Resolution on Appointment of an External Supervisor of China Merchants Bank" and approved Mr. Peng Zhijian as an external supervisor of the Eighth Session of the Board of Supervisors of the Company. On 10 October 2011, Mr. Peng Zhijian was appointed as the external supervisor of the Eighth Session of the Board of Supervisors of the Company after obtaining approval from the regulatory authority.

   Save as disclosed above, there were no other changes to members of the Board of Directors and the Board of Supervisors during the reporting period. The announcements in relation to the change of members of the Board of Directors and the Board of Supervisors were published on China Securities Journal, Shanghai Securities News and Securities Times on 1 April 2011, 31 May 2011, 20 July 2011, 23 August 2011, 25 August 2011, 10 September 2011, 19 October 2011 and 18 November 2011 respectively and were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

9. The resolution on the appointment of Mr. Wang Qingbin as the Executive Vice President of the Company was passed at the 11th meeting of the Eighth Session of the Board of Directors and his qualifications were approved by CBRC, Shenzhen Office in June 2011. For details, please refer to announcements published on China Securities Journal, Shanghai Securities News and Securities Times on 21 June 2011 and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

10. Fan Peng, Chief Audit officer of the Company, had reached the retirement age under the state law of China on 6 February 2011. The 11th meeting of the Eighth Session of the Board of Directors agreed to Fan Peng's resignation as Chief Audit Officer of CMB. For details, please refer to announcements published on China Securities Journal, Shanghai Securities News, Securities Times on 1 April 2011, which were also published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.9 Information about employees

As at 31 December 2011, the Company had 45,344 employees, including 14,036 management staff, 30,254 ordinary staff and 1,054 supporting staff. Of these staff, 44,293 employees had associate bachelor education or above, accounting for 97.68%. Currently, the Company has 211 retirees.

7.10 Branches and representative offices

The Company continued to extend the branch network in 2011. During the reporting period, 14 domestic branches were approved to commence business, namely Ma'anshan Branch, Dongying Branch, Shangrao Branch, Tianjin Binhai Branch, Luzhou Branch, Zhangzhou Branch, Zhuhai Branch, Liuzhou Branch, Xuzhou Branch, Longyan Branch, Hulun Buir Branch, Shiyan Branch, Shuozhou Branch and Putian Branch. The Company received approvals for setting up another 5 branches, namely Xining Branch, Haikou Branch, Baoji Branch, Zunyi Branch and Jiangmen Branch. On 15 March 2011, our Taipei Representative Office was officially established.

The Company will continue to carry out its network planning in 2012. In such practice, the Company will adhere to the basic principles of "controlling development pace, emphasizing efficiency, ensuring quality and prioritizing key issues" with a focus on the development of second-tier branches and sub-branches at county level, continuously expand the coverage of its intra-city sub-branches and self-service equipment in urban area, and steadily proceed with the construction of its branches and representative offices. As for its regional layout, the Company will penetrate deeper into the three largest markets, namely Yangtze River Delta, Pearl River Delta and Bohai Rim, to further strengthen its development advantage, thus enhancing its regional competitiveness in these key regions.

The following table sets forth the branches and representative offices as at 31 December 2011:

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of assets (in millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,979	978,131
	Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,627	72,556
	Credit Center for Small Sized Enterprises	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	642	32,936
Yangtze River Delta	Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	58	2,550	120,946
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	23	1,163	51,616
	Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	457	12,234
	Changzhou Branch	120 Heping Road North, Changzhou	213003	7	240	8,280
	Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	5	179	4,719
	Zhenjiang Branch	Block 3, 18 Dianli Road, Zhenjiang	212000	2	89	2,379
	Taizhou Branch	28-8 Yinchun Road East, Taizhou, Jiangsu Province	225300	1	59	1,989
	Xuzhou Branch	6 Jiefang Road, Xuzhou	221000	1	60	968
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	30	1,206	51,832
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Wenzhou	325000	10	389	21,126
	Shaoxing Branch	357 Shengli Road East, Shaoxing	312000	8	315	15,091
	Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	4	150	7,375
	Ningbo Branch	938 Baizhang Road East, Ningbo	315041	18	706	32,972
	Taizhou Branch	535 Shifu Road, Taizhou	318000	4	158	7,662
	Suzhou Branch	128 Sanxiang Road, Suzhou	215004	15	687	48,272
	Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	4	149	6,230

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

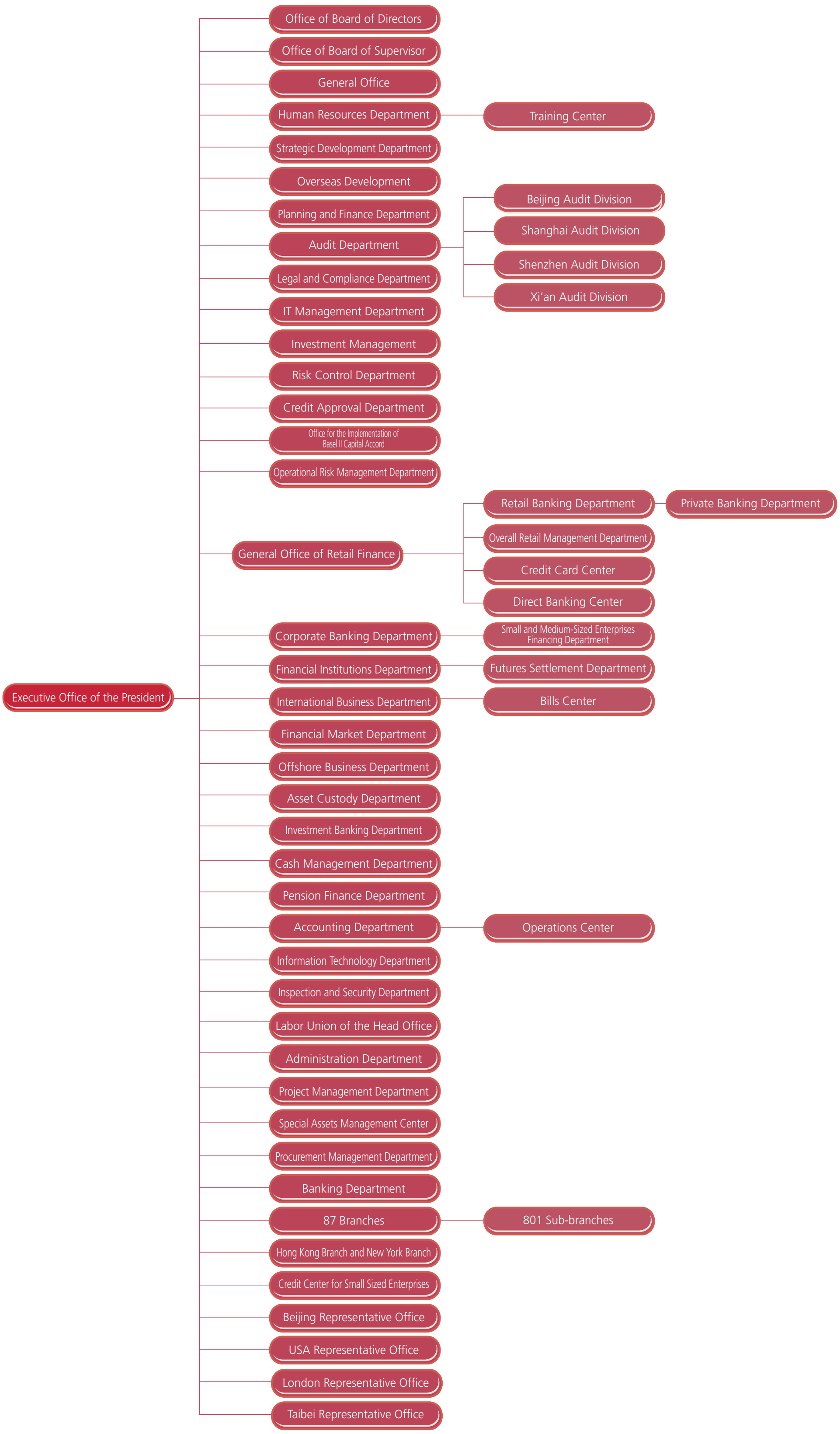
Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of assets (in millions of RMB)
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	6	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	57	2,840	136,346
	Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	17	881	33,343
	Weihai Branch	19 Qingdao Road North, Weihai	264200	3	110	2,401
	Zibo Branch	A1, 12 Renmin Road West, Zibo	255000	3	108	2,853
	Jining Branch	136 Guhuai Road, Jining	272000	1	62	1,473
	Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	28	866	32,446
	Tianjin Binhai Branch	33 Second Avenue, Economic and Technology Development Zone, Tianjin	300457	1	163	7,947
	Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	755	36,847
	Yantai Branch	237 Nanda Street, Yantai	264000	8	275	6,729
	Weifang Branch	Building No. 1, Financial Service Zone, Shengli Street East, Weifang	261041	5	165	5,163
	Linyi Branch	9 Xinhua No. 1 Road, Linyi	276000	2	70	2,389
	Dongying Branch	47 Jinan Road, Dongying	257000	1	57	1,673
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	2	116	5,010
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	43	1,616	55,775
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	70	2,977	149,253
	Huizhou Branch	3 Wenming No. 1 Road, Jiangbei, Huizhou	516000	1	44	929
	Zhuhai Branch	1263 Jiuzhou Avenue, Zhuhai	519000	1	44	397
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	16	687	25,884
	Quanzhou Branch	301 Fengze Street, Fengze District, Quanzhou	362000	8	277	9,056
	Longyan Branch	301 Denggao Road West, Xicheng, Xinluo District, Longyan	364000	1	42	578
	Putian Branch	Building 5, Licheng Avenue, Chengxiang District, Putian	351100	1	34	4,135
	Xiamen Branch	862 Xiahe Road, Xiamen	361004	13	504	20,850
	Zhangzhou Branch	70 Nanchang Road Central, Xiangcheng District, Zhangzhou	363000	1	54	1,194
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	18	668	20,426
	Foshan Branch	Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	13	478	31,489
	Zhongshan Branch	Building A3, Phase 3, Shengjing Garden, Zhongshan 4th Road, East District, Zhongshan	528400	3	66	2,663

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of assets (in millions of RMB)
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	18	1,079	40,654
	Dandong Branch	Block 11, Nanjinqiao Estate, Zhenxing District, Dandong	118000	4	104	1,790
	Anshan Branch	Qianshan Road Central, Tie Dong District, Anshan	114000	1	30	1,466
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	17	690	27,499
	Yingkou Branch	19 Bohai Street East, Zhanqian District, Yingkou	115000	2	75	1,923
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	14	581	21,077
	Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	6	246	14,442
Central China	Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	26	1,273	41,871
	Huangshi Branch	76 Hangzhou Road West, Development District, Tuanchengshan, Huangshi	435000	5	125	3,143
	Yichang Branch	70 Yiling Road, Yichang	443002	5	135	4,776
	Xiangyang Branch	20 Changhong Road, Xiangyang, Hubei Province	441100	1	42	1,414
	Shiyan Branch	16 Dongyue Road, Maojian District, Shiyan	442000	1	20	28
	Nanchang Branch	162 Bayi Avenue, Nanchang	330003	20	797	27,052
	Ganzhou Branch	66 Hongqi Street, Zhanggong District, Ganzhou	341000	2	62	2,624
	Shangrao Branch	71 Zhongshan Road West, Xinzhou District, Shangrao	334000	1	41	1,061
	Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	24	940	32,418
	Hengyang Branch	Huijing Garden, Hengyang	421000	2	53	2,302
	Hefei Branch	436 Changjiang Road Central, Hefei	230061	14	574	22,523
	Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	4	131	4,036
	Huainan Branch	Central Plaza, Xintiandi, Longhu Road, Huainan	232000	2	61	3,111
	Ma'anshan Branch	20 Hudong Road Central, Ma'anshan	243000	1	58	688
	Zhengzhou Branch	39 Huayuan Road, Zhengzhou	450000	16	579	23,673
	Luoyang Branch	Xiyuan Building, 7 Nanchang Road, Jianxi District, Luoyang	471000	2	69	1,498
	Anyang Branch	30 Jiefang Avenue, Anyang	455000	1	44	1,008
	Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	9	381	15,056
	Jincheng Branch	249 Zezhou Road, Jincheng	048000	1	44	1,862
	Shuozhou Branch	20 Gubeixi Street, Shuocheng District, Shuozhou	036002	1	32	10

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

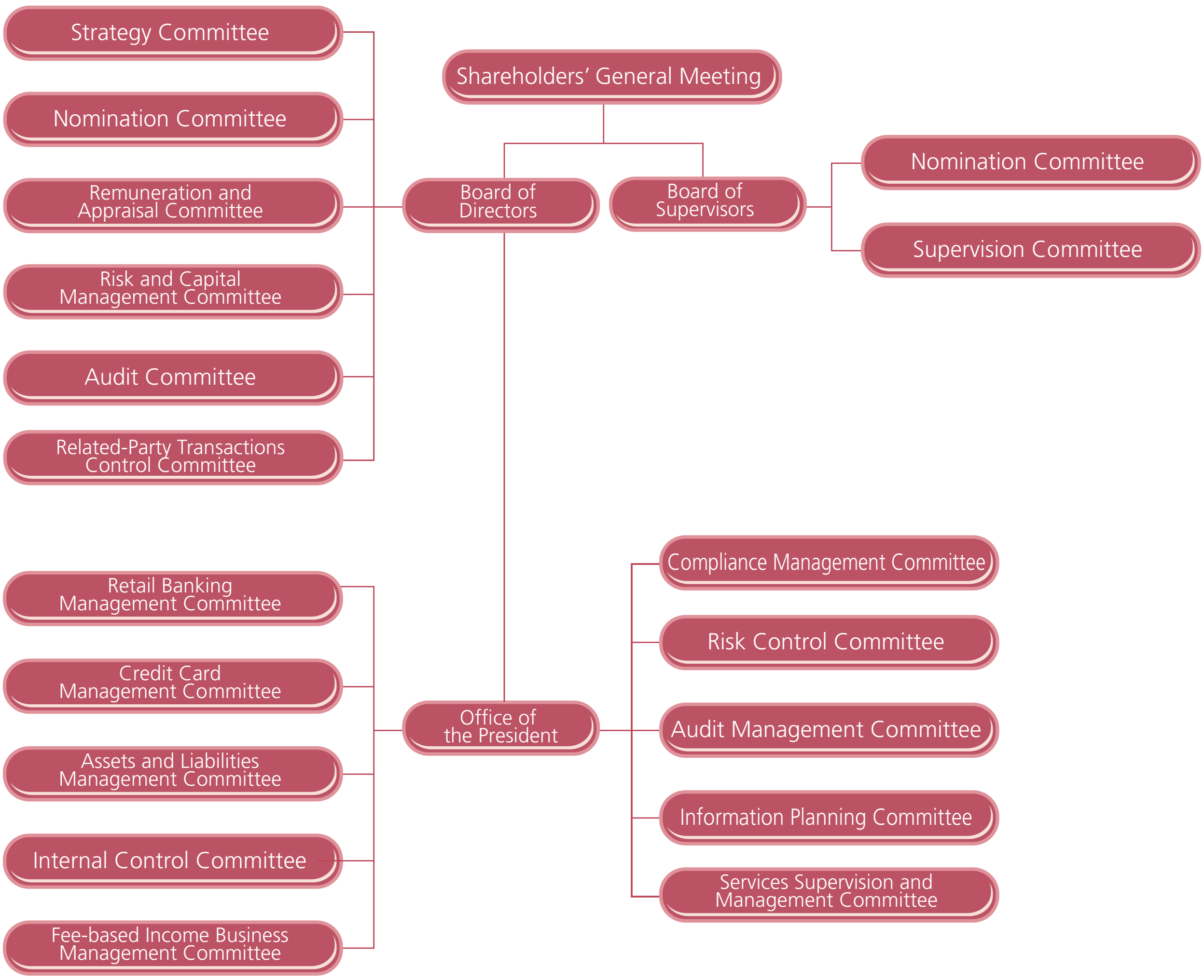
Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of assets (in millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	27	1,088	37,551
	Leshan Branch	90 Boyang Road Central, Shizhong District, Leshan	614000	1	40	961
	Luzhou Branch	39 Jiangyang Road West, Jiangyang District, Luzhou	646000	1	34	359
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	607	18,120
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	25	1,084	40,784
	Yulin Branch	1-2/F, Changfeng Building, Hangyu Road Central, Yulin	719000	2	66	1,526
	Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	28	1,050	36,227
	Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	431	15,165
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	20	763	27,487
	Qujing Branch	Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	2	59	1,675
	Lijiang Branch	222 Changshui Road, Gucheng District, Lijiang	674100	1	43	2,009
	Honghe Branch	279 Renmin Road, Gejiu, Yunnan Province	654400	1	32	361
	Hohhot Branch	56 Xinhua Street, Hohhot	010010	7	332	17,568
	Hulun Buir Branch	20 Alihe Road, Hailar District, Hulun Buir	021008	1	25	15
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	4	184	7,728
	Liuzhou Branch	26 Wenchang Road, Liuzhou	545000	1	53	982
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	1	128	8,158
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	3	119	6,450
Overseas	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	105	47,019
	USA Representative Office	509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A	–	1	1	1
	New York Branch	535 Madison Avenue	–	1	35	6,206
	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		–	–	897	45,344	2,649,924

7.11 The Company's Organizational Structure:



VIII Corporate Governance

8.1 Corporate Governance Structure:



8.2 Governance

Confronted with the complicated and changing external situation in 2011, the Shareholders' General Meeting, Board of Directors, Board of Supervisors and the special committees of the Company had consistently followed the nation's macroeconomic control policy and regulatory requirements, performed duties with diligence, forged ahead and functioned proactively and effectively, successfully completed analysis and review of important issues of the operation and management of the Company, provided solid support for the management team and guaranteed compliant operation, and sustainable and steady development of the Company. Particulars of which are set out as follows:

1. During the year, the Company organized and convened in aggregate 51 important meetings at which 162 proposals were reviewed and 29 reports were delivered. Among which, there were 2 general meetings (21 proposals were reviewed), 16 board meetings (57 proposals were reviewed and 7 reports were delivered), 7 meetings of the Board of Supervisors (25 proposals were reviewed and 8 reports were delivered), 23 meetings of the special committees of the Board of Directors (52 proposals were reviewed and 19 reports were delivered) and 3 meetings of the special committees of the Board of Supervisors (5 proposals were reviewed). The Board of Directors and Board of Supervisors organized 11 activities in the form of research and investigation and training.

2. The Board of Directors convened 16 meetings during the year and reviewed 57 resolutions of various kinds. The Board of Directors continued playing the role of decision-making and strategic management, conducted analysis, discussion and review of strategies for major issues in the development of the Company, continuously strengthened risk management and capital management, attached great importance to the implementation applications and scheduling of New Basel requirements, and guaranteed compliant operation and steady development of the Company. During the year, the special committees of the Board of Directors diligently organized and convened 23 meetings, and at these meetings, 52 significant resolutions were reviewed and approved. The special committees of the Board of Directors made full advantage of their expertise and research capability. The matters under their review had covered most of the resolutions proposed to the Board of Directors, thus enhanced the efficiency and scientific decision-making ability of the Board of Directors, and promoted the healthy development of various businesses of the Company.

3. The Board of Supervisors convened 7 meetings during the year and reviewed 25 resolutions of various kinds. During the year, the special committees of the Board of Supervisors convened 3 meetings, and at these meetings, 5 proposals were reviewed. Through their presence at the meetings of the Board of Directors and the special committees of the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors also supervised the convening of the meetings of the Board of Directors, the Board of Supervisors and the Shareholders' General Meetings, reviewed and voted for compliance of procedures, and supervised the performance of Directors.

4. The Company disclosed its significant information in a timely, accurate, truthful and complete manner in strict compliance with the requirements of the laws and regulations on information disclosure in China and overseas, to ensure the shareholders know all important issues faced by the Company in a timely manner and effectively protect the interests of investors. In 2011, a total of more than 230 documents were disclosed through the Shanghai Stock Exchange and the Hong Kong Stock Exchange, among which were periodic reports, announcements, corporate governance documents, shareholders' circulars, proxy forms and reply slips, with 1.45 million words in contents.

5. The Company continued to enhance its communications with both domestic and overseas investors, and made effort to improve the management of investor relations. During the reporting period, the Company held 2 periodic results referral meetings and analyst meetings, convened 1 press conference, and 1 telephone conference in relation to the fund-raising by way of rights issue in 2011, conducted 1 global roadshow, and 3 roadshow campaigns for 2011 interim results including roadshows in China, Hong Kong and the United States respectively. The Company received 292 visits from institutional investors and 130 visits from analysts, answered 790 telephone enquiries from analysts, handled 199 online messages and 35 email enquiries, and participated in 41 referral conferences held by investment banks at home and abroad.

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

In the reporting period, the Company has fully complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Hong Kong Listing Rules, and has been dedicated to maintain a high standard of corporate governance in accordance with the Principles of Good Corporate Governance, Code Provisions and Recommended Best Practice.

In the reporting period, the Company received recognitions from the capital markets and regulatory authorities and won a number of awards, mainly including the "Outstanding Board Award" from *Directors & Boards*, "The Best Board of Directors Award" from Association of Guangdong Enterprises, a gold award at the ARC International Annual Report contest organized by Mercomm of the United States, "Best Performance Award in Investor Relations" from *Investor Relations* of the United Kingdom, "Best Investor Relations Company", "Best CEO in Investor Relations" for President Ma Weihua and "Best CFO in Investor Relations" for Executive Vice President Li Hao from *IR Global Ranking*, "Outstanding Executive Director Award for 2011" for Executive Vice President Zhang Guanghua from Hong Kong Institute of Directors, and "Gold Medal Board Secretary" for Lan Qi, Secretary of the Board of Directors by *New Wealth* for six consecutive years. Lan Qi also received praises from China Securities Regulatory Commission Shenzhen Bureau and Shanghai Stock Exchange.

8.3 Information about general meetings

During the reporting period, the Company convened its 2010 Annual General Meeting in Shenzhen on 30 May 2011, and convened its 2011 First Extraordinary General Meeting, 2011 First A Shareholders Class Meeting and 2011 First H Shareholders Class Meeting on 9 September 2011 in Shenzhen. The notice and the convening, holding and voting procedures of the above meetings all complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and on China Securities Journal, Shanghai Securities News and Securities Times on 31 May 2011 and 10 September 2011.

8.4 Board of Directors

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

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

8.4.1 Composition of the Board of Directors

As at 31 December 2011, the Board of Directors of the Company had 17 members, including 8 non-executive directors, 3 executive directors, and 6 independent non-executive directors. All non-executive directors come from large state-owned enterprises where they hold key positions and are experienced in management. Most of them have work experience in financial industry. All 3 executive directors have been engaged in the management of banking operations and have extensive professional experience in this area. The 6 independent non-executive directors are renowned experts in finance, accounting and law who have extensive knowledge of the development of the domestic and overseas banking industry, with 2 from Hong Kong who is proficient in international accounting standards and Hong Kong capital market. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and high professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

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

8.4.2 Appointment, re-election and removal of directors

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

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

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

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

8.4.3 Responsibilities of directors

During the reporting period, all directors of the Company had cautiously, seriously and diligently exercised their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. During the year, their attendance of meetings has been satisfactory, with the attendance rates of each director reaching 92% or above.

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

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

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

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

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

Mr. Ma Weihua serves as President and CEO, responsible for the business operations and implementation of the strategic and business plans of the Company.

8.4.5 Attendance at Meetings of the Board of Directors

During the reporting period, the Board of Directors of the Company held a total of 16 meetings (3 physical meetings and 13 meetings by way of written resolutions), at which major issues involving the strategies, risks, remuneration, audit, finance and operations of the Company were reviewed and approved by the Board of Directors.

The following table sets forth the records of attendance of the respective directors at physical board meetings held in the year ended 31 December 2011.

Name of Director	Number of meetings attended/ Number of meetings held
Non-Executive Directors	
Fu Yuning	16/16
Wei Jiafu	14/16
Li Yinquan	16/16
Fu Gangfeng	16/16
Hong Xiaoyuan	16/16
Sun Yueying	16/16
Wang Daxiong	16/16
Fu Junyuan	15/16
Executive Directors	
Ma Weihua	16/16
Zhang Guanghua	16/16
Li Hao	16/16
Independent Non-Executive Directors	
Yi Xiqun	16/16
Wong Kwai Lam (Note 1)	7/7
Yan Lan	14/16
Chow Kwong Fai, Edward	16/16
Pan Yingli (Note 2)	2/2
Liu Hongxia	15/16
Wu Jiesi (Note 1)	8/9
Liu Yongzhang (Note 2)	13/14

Notes:

1. According to the resolution of 2010 Annual General Meeting convened on 30 May 2011, Mr. Wong Kwai Lam was appointed as a director of the Eighth Session of the Board of the Company with his qualification approved by CBRC Shenzhen Supervision Bureau on 19 July 2011. Mr. Wu Jiesi ceased to be a director of the Company.

2. According to the resolution of 2011 First Extraordinary General Meeting convened on 9 September 2011, Ms. Pan Yingli was appointed as a director of the Eighth Session of the Board of the Company with her qualification approved by CBRC Shenzhen Supervision Bureau on 11 November 2011. Mr. Liu Yongzhang ceased to be a director of the Company.

8.4.6 Meetings of the Board and contents of resolutions

1. The 9th meeting of the Eighth Session of the Board was convened on 18 February 2011 by way of written resolutions. The "Resolution on Phase IV of the Grant of H Shares Appreciation Rights to the Senior Management of China Merchants Bank", was considered and passed with 14 out of the 17 directors casting votes. Three executive directors, namely Ma Weihua, Zhang Guanghua and Li Hao, had abstained from the voting at the meeting.

2. The 10th meeting of the Eighth Session of the Board was convened on 29 March 2011 by way of written resolutions. The "Connected Party Transaction Report for the year 2010", the "Special Audit Report on Connected Party Transactions for the year 2010", the "Resolution on Revision of Market Risk Management Strategy and Caps" and the resolution on the write-off of large amount of bad debts were considered and passed with 17 out of 17 directors casting the vote.

3. The 11th meeting of the Eighth Session of the Board was convened on 31 March 2011 in Shenzhen by way of physical meeting. The "Work Report of the Board of Directors for the Year 2010", the "Work Report of the President for the Year 2010", the text and the summary of the "Annual Report for the Year 2010", the "Social Responsibility Report for the Year 2010", the "2010 Financial Statements", the "Profit Appropriation Plan for the Year 2010", the "Resolution on Appointing the Accounting Firms for the Year 2011 and their Remuneration", the "Self-evaluation Report on the Internal Control in relation to the Board of Directors for the Year 2010", the "2010 Risk Management Report and 2011 Risk Management Strategy", the "Resolution on the Placement and Actual Use of the Fund Raised in 2010", the "Resolution on the General Mandate to Issue New Shares and/or Share Options", the "Resolution on Revision of Plans and Mandate to Issue Bonds Denominated in RMB", the "Resolution Regarding Capital Increase of RMB2 Billion in CMB Financial Leasing Co., Ltd.", the "Resolution on Construction of Outlets in 2011", the "Resolution on Quantified Authorization Standards by the Board of Directors to the Senior Management (2011 revision)", the "Report on the Relevant Matters regarding CMB International", the "Resolution on Change of Independent Directors", the "Resolution on Appointment and Removal of Senior Management Members" and the "Notice for Convening 2010 Annual General Meeting" were considered and passed with 17 out of the 17 directors casting votes. There were 6 supervisors present at the meeting.

4. The 12th meeting of the Eighth Session of the Board was convened on 28 April 2011 by way of written resolutions. The "First Quarterly Report for 2011" and the "Implementation Plans for Internal Control Standards of China Merchants Bank" were considered and passed with 17 out of the 17 directors casting votes.

5. The 13th meeting of the Eighth Session of the Board was convened on 13 May 2011 by way of written resolutions. The "Resolution on Major Connected Party Transaction with China Ocean Shipping (Group) Company" (Wei Jiafu and Sun Yueying, being connected directors, abstained from the voting) and the "Work Plan for Secretary of the Board of China Merchants Bank Co., Ltd." were considered and passed with 17 out of the 17 directors attending the meeting.

6. The 14th meeting of the Eighth Session of the Board was convened on 3 June 2011 by way of written resolutions. The "Resolution of Continuing to Pursue the Acquisition of 50% Equity Interest in CIGNA and CMC Life Insurance Company Limited" was considered and passed (Fu Yuning, Li Yinquan, Fu Gangfeng, Hong Xiaoyuan, Ma Weihua, Zhang Guanghua and Li Hao, being connected directors, abstained from the voting) with 10 out of 17 directors casting the votes.

7. The 15th meeting of the Eighth Session of the Board was convened on 30 June 2011 by way of written resolutions. The "Resolution on the Confidentiality and Anti-Money Laundering Policies of the New York Branch of China Merchants Bank (2011-2012)", the "Resolution on the Policies on the Implementation of the Acts of the Office of Foreign Assets Controls of the U.S. Department of the Treasury by the New York Branch of China Merchants Bank (2011-2012)" and the "Administrative Measures on Connected Transactions of China Merchants Bank Co., Ltd. (Third Edition)" were considered and passed with 17 out of the 17 directors casting votes.

8. The 16th meeting of the Eighth Session of the Board was convened on 3 July 2011 by way of written resolutions. The "Resolution on Participation in the Tender of Land Purchasing and Building Construction in Beijing" was considered and passed with 17 out of the 17 directors casting votes.

9. On 18 July 2011, the 17th meeting of the Eighth Session of the Board of Directors was convened in Shenzhen by way of physical meeting. 17 out of 17 directors eligible for voting voted at the meeting. 7 supervisors were present at the meeting. The "Resolution Regarding the Proposal on the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd.", the "Proposal in relation to Undistributed Profits prior to the Completion of the Rights Issue of China Merchants Bank Co., Ltd. (關於招商銀行股份有限公司本次A股和H股配股前公司滾存的未分配利潤的處置議案)", the "Proposal regarding the Use of Proceeds to be raised from the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd (關於招商銀行股份有限公司本次A股和H股配股募集資金運用的議案)", the "Proposal regarding the report on the Use of Proceeds from the Previous Fund Raising by China Merchants Bank Co., Ltd. (關於招商銀行股份有限公司前次募集資金使用情況報告的議案)", the "Proposal regarding the "Mid-term Capital Management Plan of China Merchants Bank" (2011 Revised), and the "Proposal regarding the Convening of the 2011 1st Extraordinary General Meeting, the 2011 1st A Shareholders Class Meeting and the 2011 1st H Shareholders Class Meeting" were considered and passed at the meeting.

10. On 10 August 2011, the 18th meeting of the Eighth Session of the Board of Directors was convened by way of written resolution. 17 out of 17 directors eligible for voting voted at the meeting. The "Examination Report of China Merchants Bank on Risks relating to Loans Granted to Local Government Financing Platforms in the First Half of 2011" and the "Resolution on a Material Connected Party Transaction with China Ocean Shipping (Group) Company" (Wang Daxiong, being a connected director, abstained from voting) were considered and approved at the meeting.

11. On 16 August 2011, the 19th Meeting of the Eighth Session of the Board of Directors was convened by way of written resolution. 17 out of 17 eligible for voting voted at the meeting. The "Resolution on the Change of Members of the Remuneration and Appraisal Committee and the Connected Party Transactions Control Committee under the Board of Directors", The "Resolution on the Election of Chairman of the Remuneration and Appraisal Committee under the Board of Directors" were considered and passed.

12. On 30 August 2011, the 20th meeting of the Eighth Session of the Board of Directors was convened in Qingdao by way of physical meeting. 17 out of 17 directors eligible for voting voted at the meeting, and 5 supervisors were present at the meeting. The "Work Report of the President for the First Half of the Year 2011" and the full text and the summary of the "Interim Report for 2011", the "Resolution on Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd" (issued on 25 August 2011) and the "Resolution regarding the Adjustment to the Exercise Price of H-Share Appreciation Rights for Phase I, II, III and IV" were considered and approved at the meeting.

13. On 19 September 2011, the 21st meeting of the Eighth Session of the Board of Directors was convened by way of written resolution. 16 out of 16 directors eligible for voting voted at the meeting (Fu Junyuan, being a connected director, abstained from voting). The "Resolution on a Connected Party Transaction with Shanghai Zhenhua Heavy Industry (Group) Co., Ltd." was considered and approved at the meeting.

14. On 28 October 2011, the 22nd meeting of the Eighth Session of the Board of Directors was convened by way of written resolution. 17 out of 17 directors eligible for voting voted at the meeting. The "Third Quarterly Report for 2011", "Measures for Depositing and Use of Proceeds from Fund Raising of China Merchants Bank Co., Ltd." the "Resolution on Assignment and Transfer of Creditor's rights of Dalian Jinzuo Property Development Co., Ltd. (大連金座物業發展有限公司)" and the "Resolution regarding the Change of the Responsible Person of the Internal Audit Entity" were considered and approved at the meeting.

15. On 7 December 2011, the 23rd meeting of the Eighth Session of the Board of Directors was convened by way of written resolution. 17 out of 17 directors eligible for voting voted at the meeting. The "Resolution on the Change of Member of the Remuneration and Appraisal Committee and the Connected Party Transactions Control Committee under the Board of Directors" was considered and passed.

16. On 28 December 2011, the 24th meeting of the Eighth Session of the Board of Directors was convened by way of written resolution. 17 out of 17 directors eligible for voting voted at the meeting. The "Resolution on Reviewing the Annual Caps for Continuing Connected Transactions in 2012-2014" between the Company and CIGNA & CMC (Fu Yuning, Li Yinquan, Fu Gangfeng, Hong Xiaoyuan and Ma Weihua, being connected directors, abstained from voting), the "Resolution on Reviewing the Annual Caps for Continuing Connected Transactions in 2012-2014" between the Company and China Merchants Fund (Fu Yuning, Li Yinquan, Fu Gangfen, Hong Xiaoyuan and Ma Weihua, being connected directors, abstained from voting), and the "Resolution on Reviewing the Annual Caps for Continuing Connected Transactions in 2012-2014" between the Company and China Merchants Securities (Fu Yuning, Li Yinquan, Fu Gangfeng, Hong Xiaoyuan and Sun Yueying, being connected directors, abstained from voting) were considered and passed.

Through convening the meetings mentioned above, the Board of Directors of the Company has considered and passed in aggregate 56 proposals in relation to the Company's strategies, risk management, finance, operation, remuneration and audit.

8.4.7 Implementation by the Board of Directors of resolutions passed at shareholders' general meetings

1. The profit appropriation plan of the Company for the Year 2010 considered and passed at the 2010 Annual General Meeting of the Company was: the Company's profit after tax as per our 2010 audited financial statements (prepared under PRC accounting standards) was RMB24.618 billion. Based on the profit and according to relevant regulatory requirement, the profit appropriation plan of the Company for the Year 2010 was determined as follows: 1) RMB2.462 billion was transferred to the statutory surplus reserve in accordance with the provisions of the Company Law of the People's Republic of China; 2) the amount equivalent to 1% of the balance of the risky assets, totaling RMB1.7 billion, was appropriated to the general reserve; 3) based on the total number of A Shares and H Shares in issue on the record date for implementation of the profit appropriation, the Company declared a cash dividend of RMB2.90 (tax inclusive) for every 10 shares to all shareholders of the Company, payable in RMB for A shareholders and in HKD for H shareholders. The actual amount payable in HK dollars would be calculated based on the average benchmark RMB/HKD exchange rate published by PBOC one week before the date of the general meeting (inclusive). The retained profits would be carried forward to the next year. The Board of Directors of the Company had already implemented the above-mentioned dividend distribution plan.

2. The "Proposal on the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd." was considered and passed at the 2011 1st Extraordinary General Meeting, the 2011 1st A Shareholders Class Meeting and the 2011 1st H Shareholders Class Meeting of the Company. Pursuant to which, the Board of the Directors of the Company has started to carry out the formalities of reporting to and obtaining approval from relevant regulatory authorities in respect of the rights issue of A Shares and H Shares. Currently, the Company has obtained approval from the CBRC, while still subject to approvals from other relevant domestic and overseas regulatory authorities.

3. The resolution on revision of the plan and mandate to issue RMB denominated bonds was considered and approved at the 2010 Annual General Meeting, pursuant to which the Board of Directors implemented the plan to issue RMB20.0 billion financial bonds. The relevant announcements were posted on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company and published on China Securities Journal, Shanghai Securities News and Securities Times respectively on 31 May 2011 and 15 March 2012.

8.4.8 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2011.

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

8.4.9 Performance of duties by independent non-executive directors

The Board of Directors of the Company currently comprises 6 independent non-executive directors, the qualification, number and proportion of whom meet the relevant requirements of the CBRC, CSRC, the Shanghai Stock Exchange and the Hong Kong Listing Rules. Among all the members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related-Party Transactions Control Committee under the Board of Directors of the Company, the majority are independent non-executive directors, who also act as chairmen. During the reporting period, the 6 independent non-executive directors maintained communication with the Company through personal attendance at the meetings, on site visits, research and investigations and conferences, and diligently attended meetings of the Board and the special committees, actively expressed their opinions and attended to the interests and requests of small and medium shareholders, thus fully performed their functions as independent non-executive directors.

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

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

1. The independent non-executive directors received reports from the management and Chief Financial Officer on the operations, financial condition and operating results of the Company in 2011 and on significant matters such as investment and financing activities, and carried out on-site inspection on the development of the Company's SME business. The independent non-executive directors considered that the reports prepared by the management of the Company had fully and objectively reflected the operating results of the Company in 2011 as well as the progress of significant matters, and they recognized and were satisfied with the measures taken by the management team and the results recorded in 2011.

2. Prior to the annual audit conducted by the accounting firm in charge of the annual audit, the independent non-executive directors discussed with the certified public accountants in respect of the composition of the auditing team, the auditing plan, risk judgement, tests and assessment on risks and embezzlement as well as the key aspects of audit for the year.

3. After receiving the initial audit opinions from the auditors, the independent non-executive directors discussed the major issues with the auditors and formed their written opinions.

8.4.10 Attendance of independent non-executive directors at board meetings

Name of independent non executive director	Times of attendance required for the year	Attendance in person (times)	Attendance by proxy (times)	Absence (times)	Remarks
Yi Xiqun	16	16	0	0	
Wong Kwai Lam	7	7	0	0	Mr. Wong Kwai Lam was newly appointed as a director of the Eighth Session of the Board of Directors of the Company, and his qualification for this position was approved by CBRC Shenzhen Bureau on 19 July 2011.
Yan Lan	16	14	2	0	Yan Lan entrusted Liu Hongxia (being an independent non-executive director) to exercise the voting right on the 16th meeting of the Eighth Session of the Board of Directors; Yan Lan entrusted Chow Kwong Fai, Edward (being an independent non-executive director) to exercise the voting right on the 17th meeting of the Eighth Session of the Board of Directors.
Chow Kwong Fai, Edward	16	16	0	0	
Pan Yingli	2	2	0	0	Ms. Pan Yingli was newly appointed as a director of the Eighth Session of the Board of Directors of the Company, and her qualification for this position was approved by CBRC Shenzhen Bureau on 11 November 2011.
Liu Hongxia	16	15	1	0	Liu Hongxia entrusted Chow Kwong Fai, Edward (being an independent non-executive director) to exercise the voting right on the 17th meeting of the Eighth Session of the Board of Directors.
Wu Jiesi	9	8	1	0	Wu Jiesi entrusted Yi Xiqun (being an independent non-executive director) to exercise the voting right on the 17th meeting of the Eighth Session of the Board of Directors. Mr. Wu Jiesi ceased to be an independent non-executive director of the Company effective from 19 July 2011.
Liu Yongzhang	14	13	1	0	Liu Yongzhang entrusted Chow Kwong Fai, Edward (being an independent non-executive director) to exercise the voting right on the 20th meeting of the Eighth Session of the Board of Directors. Mr. Liu Yongzhang ceased to be an independent non-executive director of the Company effective from 11 November 2011.

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

During the reporting period, the Company's Board of Directors and Board of Supervisors organized 11 investigations/surveys and training activities to enhance duty performance and effectiveness of decision-making by Directors and Supervisors. These activities are as follows:

1. to organize Directors and Supervisors who were newly appointed and not exposed to any regulatory certification trainings to participate in training programs recognized by relevant regulatory authorities and authorized institutions.

2. taking advantage of the site meetings held by Risk and Capital Management Committee under the Board of Directors, to provide members of the Board committee with two special trainings on themes such as comprehensive risk and capital assessment under the New Basel Capital Accord and the RAROC application under the framework of the Basel Accord III, etc.

3. to organize investigations and surveys for independent non-executive directors to one branch, for chairman of the Board of Supervisors to 14 branches, 5 departments in the head office and one subsidiary as well as for members of Board of Supervisors to three branches, to understand the operation, risk management, compliance operation as well as problems and difficulties occurred in implementing the "Second Transformation" strategy by the head office.

4. to arrange a series of trainings for Directors and Supervisors according to the requirements of relevant regulatory authority, which mainly included: the "Training Forum for Directors and Supervisors on Shareholding of Small and Medium Sized Listed Commercial Banks" jointly organized by CSRC and CBRC, the "2011 Training for Qualifications of Directors and Supervisors" and "Anti-Insider Trading Training" hosted by the Shenzhen Branch of CSRC, the "Advanced Study Team for Chairmen of the Board of Supervisors of Financial Institutions" hosted by the Organization Department under the CPC Central Committee and the "Special Trainings for New Basel Capital Accord" required by CBRC Shenzhen Office for inspection and acceptance work of the New Basel Capital Accord.

8.5 Special Committees of the Board of Directors

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

In 2011, all special committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 23 meetings, studied and reviewed 52 proposals which were significant to the sustainable development of the Company and the enhancement of corporate governance, including periodic reporting, A Share + H Share rights issue proposal, mid-term planning for capital management, profit appropriation for the first half of the year, general mandate to issue shares, construction of outlets by subsidiary, changes of directors and senior management, remuneration and incentive packages for senior management, issuance of bonds, comprehensive risk management reports for each quarter in 2010 and 2011, doubtful debt write-offs, annual conclusive report and plan for account consolidation management work, development of information systems, internal control practices and self-assessment, audit summary report, material related-party transactions, amendments to management measures on related-party transactions, and audit report of the related-party transactions. All these efforts have improved the efficiency of the Board of Directors and made the decision-making of the Board of Directors more scientific, and were beneficial to the healthy development of all our businesses.

The composition and duties of the six special committees and their work performed in 2011 are summarized as follows:

8.5.1 Strategy Committee

The Strategy Committee consists of equity holding directors and directors from senior management, including Fu Yuning (chairman), Wei Jiafu, Wang Daxiong and Fu Junyuan (all being non-executive directors), and Ma Weihua (executive director).

Main authorities and duties:

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

In 2011, the Strategy Committee considered and passed the proposals on the 2010 profit appropriation plan (including declaration of final dividend), general mandate to issue of shares and/or share options and construction of outlets by subsidiary in 2011.

During the reporting period, the Strategy Committee held one meeting by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/held
Non-Executive Directors	
Fu Yuning (Chairman)	1/1
Wei Jiafu	1/1
Wang Daxiong	1/1
Fu Junyuan	1/1
Executive Director	
Ma Weihua	1/1

8.5.2 Nomination Committee

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

Main authorities and duties:

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

In 2011, the Nomination Committee considered and passed the proposals on the changes of independent non-executive directors and the appointment of Mr. Wang Qingbin as the Vice-president of China Merchants Bank.

During the reporting period, the Nomination Committee held one meeting by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/held
Independent Non-Executive Directors	
Yan Lan (Chairman)	1/1
Pan Yingli (Note)	–
Liu Hongxia	1/1
Liu Yongzhang (Note)	1/1
Non-Executive Director	
Fu Yuning	1/1
Executive Director	
Ma Weihua	1/1

Note: On the 23rd meeting of the Eighth Session of the Board held on 7 December 2011, the Company considered and passed the resolution of appointing Ms. Pan Yingli as a member of Nomination Committee and approving the resignation of Mr. Liu Yongzhang as the member of Nomination Committee.

8.5.3 Remuneration and Appraisal Committee

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

Main authorities and duties:

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

In 2011, the Remuneration and Appraisal Committee considered and passed the following proposals: granting the fourth H Shares Appreciation Rights to senior management of China Merchants Bank, adjustments to the number of granted shares and the exercise prices for the first, the second and the third H Shares Appreciation Rights upon completion of the 2010 H Share rights issue and the dividend distribution, the amendments to management measures on remuneration of the senior management, the relevant proposals on remuneration of the senior management, and the adjustments to exercise price of the H Shares Appreciation Rights based on the 2010 profit appropriation.

During the reporting period, the Remuneration and Appraisal Committee held two physical meetings and one telecommunication voting meeting. The attendance record is as follows:

Member	Number of meetings attended/held
Independent Non-Executive Directors	
Yi Xiqun (Chairman) (Note)	3/3
Wong Kwai Lam (Note)	1/1
Pan Yingli (Note)	–
Wu Jiesi (Note)	2/2
Liu Yongzhang (Note)	3/3
Non-Executive Directors	
Li Yinquan	3/3
Fu Junyuan	3/3

Note: On the 19th meeting of the Eighth Session of the Board of Directors held on 16 August 2011, the Company considered and passed the resolution of appointing Mr. Yi Xiqun as the Chairman of Remuneration and Appraisal Committee and Mr. Wong Kwai Lam as a member of Remuneration and Appraisal Committee, approving the resignation of Mr. Wu Jiesi as the Chairman of Remuneration and Appraisal Committee. On the 23rd meeting of the Eighth Session of the Board of Directors held on 7 December 2011, the Company considered and passed the resolution of appointing Ms. Pan Yingli as a member of Remuneration and Appraisal Committee and approving the resignation of Mr. Liu Yongzhang as the member of Remuneration and Appraisal Committee.

8.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (chairman), Wang Daxiong and Sun Yueying (all being non-executive directors), Zhang Guanghua (executive director), and Yi Xiqun (independent non-executive director).

Main authorities and duties:

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

In 2011, the Risk and Capital Management Committee promoted the integration work of comprehensive risk management responsibilities, strengthened the management of the risks other than capital planning and credit risk, supported to promote the implementation of the New Basel Capital Accord, studied and made decisions on important issues, including the Company's A Share + H Share rights issue proposal, the mid-term planning for capital management, the 2010 annual profit appropriation, issuance of bonds, additional capital contribution to CMB Financial Leasing, market risk management policies and limits adjustment, comprehensive risk management reports for each quarter in 2010 and 2011, risk inspections on the local government financing platforms in the first half of 2011, write-offs of large doubtful debts, annual working report and plan on account consolidation management, development of information systems, the modeling test on risk measurement under the New Basel Capital Accord, the comprehensive test on the operation of the internal assessment system, policy formation on management of a series of risks arising from the Debts Transfer of Dalian Golden Plaza (大連金座). In addition, the committee also conducted special trainings on themes such as comprehensive risk and capital assessment under the New Basel Capital Accord, the RAROC application under the framework of the Basel Accord III, etc.

During the reporting period, the Risk and Capital Management Committee held four physical meetings and three meetings by way of written resolutions. The attendance record of the meetings is as follows:

Member	Number of meetings attended/held
Non-Executive Directors	
Hong Xiaoyuan (Chairman)	7/7
Sun Yueying	7/7
Wang Daxiong	7/7
Executive Director	
Zhang Guanghua	7/7
Independent Non-Executive Director	
Yi Xiqun	7/7

8.5.5 Audit Committee

The majority of the members of the Audit Committee were independent non-executive directors, with one of them serving as the chairman. The members include Liu Hongxia (chairman), Yan Lan and Chow Kwong Fai, Edward, (all being independent non-executive directors), Fu Gangfeng and Sun Yueying (both being non-executive directors). It was verified that no member of the Audit Committee has ever served as a partner of the current auditors of the Company.

Main authorities and duties:

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

In 2011, the Audit Committee considered and passed the proposals on the Company's annual report and interim report, arrangement for auditor's review on the interim report and annual report, re-appointment of the auditors, the placement and use of raised fund for 2010, the self-assessment report by the Board of Directors on the internal control for 2010, the implementation programs for internal control standards, the implementation scope for internal control standards, arrangement for audit at year end, etc. and reviewed the internal audit work report and the annual work plan of the Audit Department.

According to "Work Procedures on Annual Reports for Audit Committee of the Board of Directors" adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the report for 2011:

1. Before the auditors commenced the annual audit, the Audit Committee considered and discussed the 2011 audit plan of the accounting firm, and exchanged opinions on the composition of the auditing members, audit methods adopted for internal control, the key aspects and level of importance of audit for 2011, renew of accounting standards and latest developments of the banking industry.

2. In the course of conducting annual audit and after a preliminary audit opinion being issued by the external auditors, the Audit Committee reviewed the management's report on the operations and the progress of significant matters of the Company for 2011. The Audit Committee exchanged opinions on the significant matters and the audit progress with the external auditors conducting annual audit and reviewed the financial statements of the Company. The Audit Committee then made written opinions for the above issues.

3. Before the annual meeting of Board of Directors commenced, the Audit Committee voted on and made a resolution on the Company's Annual Report for 2011 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2011 to the Board of Directors.

During the reporting period, the Audit Committee held one physical meeting and three telecommunication voting meetings and one telephone meeting. The attendance record is as follows:

Member	Number of meetings attended/held
Independent Non-Executive Directors	
Liu Hongxia (Chairman)	5/5
Yan Lan	4/5
Chow Kwong Fai, Edward	5/5
Non-Executive Directors	
Fu Gangfeng	5/5
Sun Yueying	5/5

8.5.6 Connected Transactions Control Committee

The majority of members of the Connected Transactions Control Committee are independent non-executive directors, with one serving as the chairman. The members include Chow Kwong Fai, Edward (chairman), Wong Kwai Lam and Liu Hongxia (all being independent non-executive directors), Hong Xiaoyuan (non-executive director) and Li Hao (executive director).

Main authorities and duties:

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

In 2011, the Connected Transaction Control Committee considered and passed the report on the connected transactions of the Company for 2010, the audit report on the connected transactions for 2010, the management plan for the connected transactions in 2011, the name list of connected parties for 2011, Management Measures on Connected Transactions (Version III), the annual caps for continuing connected transactions for 2012-2014 as well as the major connected transactions with China Shipping, COSCO, Shanghai Zhenhua Heavy Industry Co., Ltd., etc.

During the reporting period, the Related-Party Transactions Control Committee held one physical meeting and five meetings by way of written resolutions. The attendance record is as follows:

Members	Number of meetings attended/held
Independent Non-Executive Directors	
Chow Kwong Fai, Edward (Chairman)	6/6
Wong Kwai Lam (Note)	2/2
Liu Hongxia	6/6
Wu Jiesi (Note)	3/4
Non-Executive Director	
Hong Xiaoyuan	6/6
Executive Director	
Li Hao	6/6

Note: On the 19th meeting of the Eighth Session of the Board held on 16 August 2011, the Company considered and passed the resolution of appointing Mr. Wong Kwai Lam as a member of Related-Party Transactions Control Committee and approving the resignation of Mr. Wu Jiesi as the member of Related-Party Transactions Control Committee.

8.6 Board of Supervisors

The Board of Supervisors is established to monitor the Company's financial position, compliance with laws and regulations, and the performance of duties by the Board of Directors and management, thereby protecting the interests of depositors and shareholders.

8.6.1 Composition of the Board of Supervisors

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

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

8.6.2 How the Board of Supervisors performs its supervisory duties

The duties of the Board of Supervisors are to inspect and supervise the operations, risk management and internal control of the Company as well as the duty performance of directors and the senior management, and to evaluate the annual duty performance of directors. These duties are performed by holding regular meetings, attending shareholders' general meetings, board meetings and special committee meetings, working conferences of the President of the Bank and fund analysis meetings; reviewing various documents submitted by the Company, reviewing work reports and specific reports of the management, conducting investigations and surveys at domestic and overseas branches of the Company and having talks with the senior management, etc.

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

During the reporting period, the Board of Supervisors convened 7 meetings, of which 3 were physical meetings and 4 were meetings convened and voted by correspondence.

On 18 February 2011, the 4th meeting of the Eighth Session of the Board of Supervisors was convened and voted by correspondence. 9 out of 9 supervisors eligible for voting voted at the meeting. The "Resolution on Granting Appreciation Rights of the H Share of China Merchants Bank to Senior Management for Phase IV" was considered and approved at the meeting.

On 30 and 31 March 2011, the 5th meeting of the Eighth Session of the Board of Supervisors was convened in Shenzhen. 8 out of 8 supervisors eligible for voting voted at the meeting. A number of items including the "Resolution on Re-electing Han Mingzhi as the Chairman of the Eighth Session of the Board of Supervisors", the "Work Report of the President for the Year 2010", the proposal of the "Full Text and Summary of the 2010 Annual Report", the "Social Responsibility Report for the Year 2010", the "2010 Financial Statements and 2011 Budget Report", the "Profit Distribution Plan for the Year 2010", the "Resolution on Appointing the Accounting Firms for the Year 2011 and their Remuneration", the "Resolution on Placement and Use of Raised Fund for the Year 2010", the "Work Report of the Board of Supervisors for the Year 2010", the "Work Plan of the Board of Supervisor for the Year 2011", the "Resolution on Appointing an External Supervisor to Fill a Vacant Position", the "Appraisal Report on the Duty Performance of Directors in 2010", the "Appraisal Report on the Duty Performance of Supervisors in 2010", the "Self-assessment Report by the Board of Directors on the Internal Control for 2010" were considered and approved at the meeting. In addition, the Board of Supervisors also reviewed the "Internal Audit Report for the Whole Bank for the Year 2010", the "Audit Report on Related-party Transactions in 2010", the "Report on Quality of Credit Assets of the whole Bank for 2010" and the "Work Report on Case Prevention and Control in 2010".

On 28 April 2011, the 6th meeting of the Eighth Session of the Board of Supervisors was convened and voted by correspondence. 8 out of 8 supervisors eligible for voting voted at the meeting. The "First Quarterly Report for 2011" of the Company was considered and approved at the meeting.

On 30 June 2011, the 7th meeting of the Eighth Session of the Board of Supervisors was convened and voted by correspondence. 9 out of 9 supervisors eligible for voting voted at the meeting. The "Resolution on the Auditing Conclusion regarding Resignation of Fan Peng as Chief Audit Officer", the "Resolution on the Auditing Conclusion regarding Resignation of Wang Qingbin as Executive Assistant President" and the "Resolution on the Change of the members of the Nomination Committee under the Board of Supervisors" were considered and approved.

On 18 July 2011, the 8th meeting of the Eighth Session of the Board of Supervisors was convened in Shenzhen. 7 out of 9 supervisors eligible for voting voted at the meeting. Supervisors Li Jiangning and Wen Jianguo authorized supervisor Zhu Genlin to exercise the right to vote on their behalf. At the meeting the supervisors considered and approved the "Resolution regarding the Ratio and Number of Shares to be Issued under the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd.", the "Resolution on the Disposal of the Accumulated Retained Profits prior to the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd."

On 29 August 2011, the 9th meeting of the Eighth Session of the Board of Supervisors was convened in Qingdao. 9 out of 9 supervisors eligible for voting voted at the meeting. The "Work Report of the President for the First Half of the Year 2011" and the text and the summary of the "Interim Report for 2011" were considered and approved at the meeting. In addition, the Board of Supervisors also discussed and determined the priorities of its work for the second half of 2011.

On 28 October 2011, the 10th meeting of the Eighth Session of the Board of Supervisors was convened and voted by correspondence. 9 out of 9 supervisors eligible for voting voted at the meeting. The "Third Quarterly Report for 2011" of the Company and the "Resolution on the Change of the Members of the Supervision Committee under the Board of Supervisors" were considered and approved at the meeting.

In 2011, the Company convened 2 general meetings and 16 board meetings. Supervisors attended the general meetings and were presented at the board meetings as non-voting delegates, and supervised the law and regulation compliance, voting procedures of the general meetings and board meetings, Directors' attendance, statements made and voting at the general meetings and board meetings respectively.

8.6.4 Reviewing specific reports and conducting investigations and surveys by the Board of Supervisors

At the 5th meeting of the Eighth Session of the Board of Supervisors convened in March 2011, the Supervisors reviewed the "Internal Audit Report on the Whole Bank for the Year 2010", the "Audit Report on Related-party Transactions in 2010", the "Report on Quality of Credit Assets of the Whole Bank for 2010" and the "Work Report on Case Prevention and Control in 2010".

In June 2011, certain members of the Board of Supervisors conducted a survey in the U.S.. The Board of Supervisors visited the Company's New York branch, the U.S. representative office and carried out extensive discussions with officials of the Federal Reserve Bank of New York and the New York State Banking Department, and the leaders of several Chinese financial institutions based in the U.S., including PBOC, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications. The discussions covered issues of Chinese and American economies, financial regulation and the operation of Chinese financial institutions in the U.S.. The visit provided the Board of Supervisors with more information of foreign economy and its financial environment and enable supervisors to learn from its foreign counterpart about governance and operation.

In August and November 2011, the Board of Supervisors visited the Qingdao Branch and Kunming Branch respectively to conduct a collective investigation, so as to gain thorough understanding of the risk management and compliance management conducted by the branches and sub-branches of the Company as well as the problems and difficulties confronted in implementing the strategy of the "Second Transformation" initiated by the Head Office. During the process of investigation, the supervisors put forward their opinions and suggestions to the branches on many aspects including ways to enhance refined management, to intensify development of SME business, to perfect internal control system, to strengthen service management and product innovation, to reinforce construction of organization and cultivation of talents, etc.

During the reporting period, the chairman of the Board of Supervisors visited 12 branches and 1 sub-branch in Guangzhou, Dongguan, Zhengzhou, Tianjin, Dalian, Qingdao, Shanghai, Fuzhou, Kunming, Chongqing, Chengdu, Nanning, Ganzhou, and departments at the Head Office including the Remote Banking Centre, the Credit Card Centre, CMB Financial Leasing Company Limited as well as some of its subsidiaries. With such investigation, the chairman gained comprehensive understanding of the implementation of the "Second Transformation" by these branches and the risk control and compliance management as well as the duty performances of the leaders of these branches. Moreover, the chairman of the Board of Supervisors also met the heads of the regulatory departments in each branch's jurisdiction so as to obtain further information on the operations of these branches from the regulators' perspective and their appraisals for such branches.

8.6.5 Operation of the Special Committees under the Board of Supervisors

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

The Nomination Committee under the Board of Supervisors

The members of the Eighth Session of the Nomination Committee were Han Mingzhi (chairman, resigned on 29 March 2011), Pan Ji (chairman, appointed on 30 June 2011), Zhu Genlin and Yang Zongjian. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for supervisors; to undertake preliminary examination on the qualifications of the candidates for supervisors nominated by shareholders and provide relevant recommendations.

On 28 March 2011, the first meeting of the Eighth Session of the Nomination Committee was convened and voted by correspondence. The "Resolution on Appointing of an External Supervisor to Fill a Vacant Position", the "Appraisal Report on the Duty Performance of Supervisors in 2010" were considered and approved at the meeting.

The Supervision Committee under the Board of Supervisors

The members of the Eighth Session of the Supervision Committee were Shao Ruiqing (chairman, resigned on 22 August 2011), Peng Zhijian (chairman, appointed on 28 October 2011), Hu Xupeng and Zhou Qizheng. The major duties of the Supervision Committee are to carry out inspection on the Company's financial position, to assess the duty performance of directors and senior management, and to conduct supervision and investigation in the audit of resigning directors and senior management.

On 28 March 2011, the first meeting of the Eighth Session of the Supervision Committee was convened and voted by correspondence. The "Appraisal Report on the Duty Performance of Directors in 2010" was considered and approved at the meeting.

On 27 June 2011, the second meeting of the Eighth Session of the Supervision Committee was convened and voted by correspondence. The "Resolution on the Auditing Conclusion regarding Resignation of Fan Peng as Chief Audit Officer" and the "Resolution on the Auditing Conclusion regarding Resignation of Wang Qingbin as Executive Assistant President" were considered and approved at the meeting.

On 17 November 2011, the chairman of Board of Supervisors and the members of the Supervision Committee attended the 11th meeting of the Eighth Session of the Risk and Capital Management Committee under the Board of Directors held in Shanghai, and together with the Risk and Capital Management Committee under the Board of Directors, reviewed on matters in relation to the "Progress of Implementation of the New Basel Capital Accord", the "Brief Introduction on the Methodology of Major Risks Assessment", the "Work Report on the Comprehensive Risk Management for the Third Quarter of 2011", heard the discussions made by the Risk and Capital Management Committee. The Board of Supervisors was of the view that the contents of the meetings of the Risk and Capital Management Committee under the Board of Directors were substantial and the members of the committee performed their duties diligently and faithfully. They were able to propose issues pertinent to the subject of the conference and conducted substantial discussion, which showed their understanding on risk management was improved continuously and their work brought about fruitful results.

8.7 Appointment of accounting firm

According to the resolutions passed at the 2010 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the auditor for domestic business for the year 2011 and KPMG Certified Public Accountants as the auditor for overseas business for the year 2011.

The financial statements of the Group for the year 2011 prepared under PRC GAAP and the internal control of the Group as at the year end date of 2011 were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2011 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB13.00 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries). The auditor's responsibility statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Certified Public Accountants was RMB2.00 million, mainly covered services in respect of (i) interim financial statements; (ii) results announcement of H Shares; and (iii) tax consultation. KPMG Certified Public Accountants and KPMG Huazhen Certified Public Accountants have acted as the Company's auditors for more than 3 years.

8.8 Internal Control and Internal Audit

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

1. *Internal Control System*

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

2. *The Internal Control Structure and its Responsibilities*

Under the requirements of the relevant laws, regulations and rules, the Company has established a relatively sound corporate governance structure of effective checks and balances and positive interaction across the Board of Directors, the Board of Supervisors and the senior management. The Board of Directors is responsible for ensuring an adequate and effective internal control system is in position and implemented by the Company. The Board of Supervisors is responsible for supervising the Board of Directors and senior management to establish and implement internal control. The senior management is responsible for the daily operation of internal control of the Company.

In consideration of the needs for internal management and risk management, the Company established an internal control management structure with clear accountability, diversified specification and well-defined responsibility, which involves management of various departments and at all levels and all employees of the Company. The Company has established internal control committees under the Head Office and the branches as the platform for conducting studies, decision making and negotiations in terms of the significant matters and management measures relating to the Company's internal control. All departments of the Company are responsible for the establishment, management and execution of internal control system under their respective business lines. The Company's Audit Department is responsible for comprehensive monitoring and assessment on the implementation of internal control in all business lines, branches and representative offices. Departments of disciplinary inspection and supervision and human resource are responsible for the accountability of neglect of duties and neglect of supervision. The Company's management members at all levels are responsible for implementation and monitoring of internal control system under their respective responsibilities. All the staff are responsible for feedback of significant information regarding the measures of internal control and their implementation.

3. The Internal Control System and its Operation

The Company has put in place an effective internal control system, which ensures that risks associated with business operation and realization of internal control targets are well managed. During the reporting period, the Company organized programs to educate occupational ethics, integrity and honesty, invited compliance officer to give lectures on law compliance and arranged general managers from sub-branches to lecture on compliance issues, with a view to guide staff to assimilate compliance culture into their daily lives and pursue in the whole process of business operation. Moreover, the Company also launched a special program on implementation of internal control standards and proactively created an environment for implementing internal control standards within the Company, and disseminated the core management concept with an aim to raise awareness of internal control among staff members and to continuously cultivate a sound compliance culture and internal control environment. By adhering to the principle of "systems and internal control always go first", the Company strived to execute system development. During the reporting period, the Company issued 136 regulations and measures, including the "Administrative Measures on Strategic Risk Management of China Merchants Bank Co., Ltd.", "Measures on Country Risk Management of China Merchants Bank" and "Policies of China Merchants Bank Co., Ltd. on IT Risk Management" and implemented the same across the Bank.

During the reporting period, the Company established and improved a compliance risk management system and continued to enhance identification and assessment of such risks. The Company also carried out bank-wide application of its operational risk management system, and ensured effective implementation of the New Basel II Capital Accord across the Bank. Meanwhile, management and examination of suspicious acts of staff were reinforced to prevent internal cases. The Company also continuously improved the tools and processes to review credit risks so as to constitute an index system for credit risk classification and hence improve the scientific reliability and accuracy of risk management. Pursuant to the principle of separation among the front, middle and back offices, the Company continued to streamline the workflows in such business lines as credit, accounting and retailing. The Company also upgraded its hardware facilities and software systems, with a view to enable IT better support various business activities and risk management. Besides, the Company continued to enhance on-site/off-side inspection and auditing/monitoring capacity across all business lines, so as to detect any violation occurred during operation/administration and urge rectification by the relevant departments in a timely manner.

With the standardization of audit and review, the Company guarantees the truthfulness and completeness of its accounting information as well as the truthfulness and fairness of its financial statements. To strictly comply with the accounting standards, the Company has established a standardized accounting process, and formulated "China Merchants Bank Accounting Policy Handbook" and accounting systems for various businesses, for the purpose of improving accountancy management of the Company and increasing the quality level of accountancy management. During the reporting period, no material defects were identified in the Company's internal control system in terms of financial reporting.

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

With the improvement of the State's legal system and the Company's business development, the Company will continue to improve the completeness, reasonableness and effectiveness of internal control. During the reporting period, the Company assigned all the departments under the Head Office, and its branches and sub-branches to assess the effectiveness of their respective internal control system and give an accurate and comprehensive account of the state of their internal control for 2011. As reviewed by the Board of Directors of the Company, no significant defects were found in the Company's internal control system in terms of completeness, reasonableness and effectiveness. For more details, please refer to the "2011 Report on the Assessment of Internal Control of China Merchants Bank Co., Ltd.", and the "Auditors' Report on Internal Control" issued by KPMG Huazhen Certified Public Accountants with standard unqualified opinion.

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

The Company has put great emphasis on the thorough implementation of the "Basic Principles for Internal Control of Enterprises" and their supporting guidelines. During the reporting period, the Company carried out comprehensive review, analysis and research in respect of the existing internal control structure and the results achieved. With the aim of establishing an integrated internal control framework that is complete, sound and compliant with regulatory requirements while fully blending with the existing management structure and practices, we decided to introduce external consulting firms to oversee the progress of internal control projects in the form of project consulting.

In accordance with the requirements in the circulars of China Securities Regulatory Commission and Shenzhen Securities Regulatory Bureau and taking into account the actual internal control circumstances, the Company prepared and disclosed the "Working Plan for the Implementation of Internal Control Principles of China Merchants Bank" and established a leading and working group at the Head office for the internal control regulation project, with all detailed tasks and their corresponding departments in charge and the scheduled date of completion specified. After scrutinizing a number of consulting firms, we appointed Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as an adviser of the Company and the internal control regulation project was officially commenced throughout the bank.

Based upon the principle of importance and comprehensiveness as well as the requirements covering internal control related to financial reports, the Company determined the scope of implementation of the internal control regulation project for the year 2011, conducted a comprehensive system review with focus on the contents within the scope, summarized the necessary internal control mechanisms and requirements to be established in the Company and implemented a comparative analysis of the Company's actual internal control practices in details. Amongst which, in respect of control measures closely related to financial reports, we prepared a control matrix and implemented testing throughout the bank. Meanwhile, results of internal control review conducted along four lines, namely wholesale, retail, international and accounting, were publicized to the entire bank in concert with the actual business management situation. Based on the results of the internal control review and testing, we prepared the "China Merchants Bank Internal Control Handbook", which has fully described the Company's current internal control management conditions, initially forming internal control management standards of distinct layers, clear objectives and well-defined responsibilities.

In the internal control regulation project, the Company also conducted a system review and enhancement in respect of the internal control management structure of the entire bank, further defining the overall framework of internal control management structure which has determined the workflow and division of responsibilities, and regulating and subdividing details including internal control review, rectification and training. In accordance with the requirements of the "Internal Control Evaluation Guidelines for Enterprises", we formulated the "Internal Control Evaluation Measures of China Merchants Bank Co., Ltd.", defining the organization, management and division of responsibilities of internal control evaluation, specifying the principle, content, formula, approach, defect identifying criteria, format of report and other details in assessing internal control and establishing an internal control evaluation mechanism compliant with regulatory requirements. At the same time, in accordance with relevant provisions of the "Basic Principles for Internal Control of Enterprises" and their supporting guidelines, and the "Internal Control Evaluation Measures of China Merchants Bank Co., Ltd.", the Company formulated the "Internal Control Evaluation Implementation Plan of China Merchants Bank", and organized and conducted internal control self-evaluation work for the year 2011. Through the implementation of the internal control regulation project, the Company has initially constructed an integrated internal control management structure covering all processes from the two perspectives of executing internal control establishments and monitoring evaluation.

As at the end of the reporting period, the Company conducted various tasks for the purpose of internal control regulation according to the schedule in the "Working Plan for the Implementation of Internal Control Principles of China Merchants Bank".

8.8.2 Internal Audit

The Company has established a two-tier audit management system covering the Head Office and branches. An audit committee is placed under the Board of Directors to take charge of supervision over the Company's internal audit system and its implementation. In terms of the allocation of internal audit departments, the head office has set up an Audit Department governing four audit divisions, namely Beijing, Shanghai, Shenzhen and Xi'an, which is independent from all levels of business organs to be audited and reports its audit findings directly to the Board of Directors, Board of Supervisors and senior management. Internal audit departments at each branch are running on a dual-management and dual-reporting mechanism, with any audit findings reported directly to the Audit Department under the head office.

The Internal Audit department of the Company is responsible for inspecting and assessing all internal control structures, systems and implementations of the whole bank, supervising rectification on internal control defects identified from inspection, and applying inspection results to the annual appraisal of audited entities. The scope of audit includes all business lines while covering various risks such as credit risk, market risk, operational risk and IT risk. In 2011, the Audit Department focused on the inspection and monitoring of compliance and risk issues as well as follow-up supervision over problem correction on the basis of continuously enhanced audit coverage. We also strengthened the supervision of internal control management and promoted the construction of internal control mechanism, giving gear to improving internal control management standards of the whole bank.

8.9 Misconduct Reporting and Monitoring

In 2011, the Company reported no material internal cases or external malignant cases of consummated theft and robbery and severe accidents. During the reporting period, the Company adopted the following major preventive measures:

1. Implementing clean party conduct building and crime prevention responsibility system.

A Letter of Responsibilities was executed at all levels of the whole bank and a Letter of Commitment to Honesty and Self-discipline was signed by all departments to improve and drive the construction of a punishment and prevention system. During the year, we organized and amended the "Measures for Implementation of Clean Party Conduct Building Responsibility System of China Merchants Bank (Second Edition)". We also arranged and convened the first meeting for the secretary of some branch disciplinary committees to report on their work onsite.

2. Conducting education on clean practice and crime prevention.

Education activities on professional conduct and clean practice, concentrated training on corruption fighting and online testing of clean practical knowledge of cadres in office were performed at the whole bank to increase the self-awareness of employees toward various regulations governing the thorough implementation of professional conduct and clean practice, strengthen their anti-corruption consciousness and the ability of risk resistance, and foster clean party conduct building and corruption fighting in the Company.

3. Following up the activity of "Year of Implementation of Internal Control and Crime Prevention".

In response to the questions raised by the regulatory authorities in relation to the inspection work carried out by the Company for "Year of Implementation of Internal Control and Crime Prevention" in 2010, the Company further reviewed its internal control and crime prevention system, thereby improving its long-term mechanism for crime prevention.

4. Preparing and encouraging investigations on abnormal behaviors of employees and risks in key positions and areas.

Surprise inspections on the intensity in executing internal control and crime preventive systems and special investigations on credit case (risk) remediation work and counter operations were fully conducted in close connection with the actual investigations on abnormal behaviors of employees to effectively curb the risk of occurrence of various crimes.

5. Deepening administrative supervision on an ongoing basis.

We intensified efforts in supervision over integrity work and promoted thorough implementation of the "Administrative Measures for Selection and Appointment of Cadres of China Merchants Bank", the "Procurement Administrative Measures of China Merchants Bank (Second Edition)" and the "Circular on Further Strengthening of Implementation of "Three Measures and One Guideline" Series of New Loan Regulations". We made conscientious preparations for the prevention and punishment of commercial bribery and monitored the enforcement of law.

6. Investigating and punishing various types of violation of regulations in a serious manner.

We improved and verified the case handling responsibility system and conducted collective accountability assessment to investigate relevant liabilities in strict accordance with the "Regulations Governing Treatment of Violation of Rules by Employees of China Merchants Bank".

8.10 Communications with Shareholders

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

8.11 Information Disclosure and Investor Relations

Information Disclosure

Disclosure of the Company's information was based on our well-established corporate governance and comprehensive internal control system, and is governed by a sound information disclosure system, ensuring that the investors could receive information in a timely, accurate and fair manner.

During the reporting period, the Company disclosed significant information in an accurate, truthful, complete, timely and fair way pursuant to the relevant provisions of laws and regulations on information disclosure. Apart from fulfilling legal obligation of information disclosure, the Company also takes the initiatives in information disclosure. During the preparation of periodic reports, the Company optimized and integrated the structure of disclosed information, which resulted in clearer framework of disclosure. Meanwhile, we placed special emphasis on hot issues that the investors concerned and particular information relating to the banking industry. As a result, the initiatives, transparency and efficiency of information disclosure have been further improved.

During the reporting period, in order to further regulate the standards and workflow in releasing results previews and updates and improve the regulated operation of our information disclosure, the Company formulated the "Mechanism on the Release of Results Previews and Updates" which was officially implemented during the year. The release of such mechanism helps the Company to strengthen the initiatives and timeliness in releasing results previews and updates and guide market expectations towards an accurate direction so that the volatility in share price resulting from market speculation can be avoided. At the same time, the risk borne by the Board and the management of the Company due to leakage of sensitive information may be effectively avoided.

During the reporting period, the Company further optimized information disclosure workflow by strengthening control over procedures and continuously improving efficiency, as a result of which the compliance and operational risks were kept under control throughout the process of information disclosure. During the reporting period, the Company reported no major error in information disclosure.

In 2011, the Company published over 230 documents, representing a total of more than 1,450,000 words, on Shanghai Stock Exchange and Hong Kong Stock Exchange, including periodic reports, announcements, corporate governance documents, circulars to shareholders, proxy forms and reply slips, etc.

Investor Relations

In 2011, adhering to the basic investor-oriented principle of improving investor experience and increasing efficiency, the Company maintained positive communication with various investors and analysts in the capital markets with a positive, professional, open and innovative attitude. We delivered the strategies, operating results, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. During the year, the Company held two regular results announcement and analyst meetings, one press conference, one telephone conference on 2011 global placement, one global roadshow and three roadshows for 2011 interim results covering China, Hong Kong and the U.S. We received 130 visits from 292 institutional investors and analysts, answered 790 inquiry calls from investors and analysts, timely handled 199 online messages and 35 email enquiries from investors, and participated in 41 investment banking presentations in China and abroad.

The Company also made innovations in marketing approach, preparing Investor Day activities featuring two different themes, namely Retail Finance and Integration with Wing Lung Bank. In order to expand the channels and forms of communication with investors, we conducted investor perception surveys surrounding the Company's stagewise objectives and hot issues concerned, taking the initiatives to collect and listen to various reasonable opinions and recommendations from investors. Three capital market feedback reports were submitted to the management. We have completed the development of an investor online reservation system, and we are currently carrying out online testing on the system. We also updated, maintained and improved the web page concerning investor relations to ensure the timeliness, accuracy and efficiency of the contents, further enhancing the experience of investors and increasing their satisfaction.

Awards and Honours

Through extensive, careful and effective work, the investor relationship management of the Company has won widespread recognition. During the reporting period, the Company won a lot of honors:

In the selection organized by IR Global Rankings which is one of the world's most authoritative investor relationship contests, the Company received the top award – the title of "Company (A Share Listed Company) for Best Investor Relations in China" and four major prizes: President Ma Weihua was awarded with the "Best Investor Relations by a CEO", Vice President Li Hao was awarded with the "Best Investor Relations by a CFO" and the Company was name as the "Company (A Share Listed Company) for Best Investor Relations" and the "Company (Hong Kong Listed Company) for Best Investor Relations".

In the election organized by IR Magazine of the U.K., the Company received three nominations for the "Top Award for Best Investor Relations (Large Caps)", "Best Public Investment Conference in China" and "Regional Award: Best Banking and Financial Service" respectively and was one of the four Asian companies nominated for the "Top Award for Best Investor Relations".

In the "13th (2010) Summit Forum for China-Listed Companies and Golden Bull Award Presentation Ceremony" hosted by China Securities Journal, the Company was named the "Most Trusted Company by Investors".

In ARC's International Annual Report Competition, the Company's 2010 annual report won a gold award.

In the election of The 2011 All-Asia Executive Team organized by the Institutional Investor Magazine (United States), the Company won two honours: President Ma Weihua and Executive Vice President Li Hao were honoured as the Best CEO and the Best CFO respectively.

Lan Qi, secretary of the Board of Directors, was honored for the sixth consecutive time the title of "New Fortune Golden Secretary to the Board of Directors" in the election of "7th New Fortune Golden Board Secretary".

8.12 Independent operation of the Company

The Company has no controlling shareholders nor de facto controllers. As a commercial bank, the Company maintains full independence in terms of business, staff, assets, organization and finance under the regulation of PBOC and CBRC. The Company is an independent legal person responsible for its own profits and losses, running independent and complete business and is capable of independent business operation.

IX Report of the Board of Directors

9.1 Principal business activities

The Company is engaged in banking and related financial services.

9.2 Financial highlights

Details are set out in Chapter II Financial Highlights of this annual report.

9.3 Reserve

Details of the changes of reserve of the Company are set out in "Statement of Changes in Equity" of the Company.

9.4 Profit appropriation

Proposal of the profit appropriation for the year 2011

As stated in the audited financial statements of the Company for 2011, 10% of the profit after tax of RMB34.452 billion, equivalent to RMB3.445 billion, was transferred to the statutory surplus reserve, while 1% of the total amount of the increased risk assets in this reporting period, namely RMB1.871 billion was appropriated to the general reserve.

Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend (tax included) of RMB4.20 for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The actual distribution amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by PBOC for the week before the date of the general meeting (inclusive of the day of the general meeting). The retained profit will be carried forward to the next year. The above proposal of profit appropriation is subject to consideration and approval at the 2011 Annual General Meeting of the Company.

Dividend payout for the previous 3 years:

Year	Total cash dividends (Tax included)	Net profit for the year [1]	Payout ratio (%)
	(in millions of RMB, excluding percentages)		
2008	1,471	21,077	6.98[2]
2009	4,531	18,235	24.85
2010	6,257	25,769	24.28

Notes: (1) The net profit for the year represents the net profit attributable to the shareholders of ordinary shares of the Company as shown in the adjusted consolidated financial statements.

(2) Under the 2008 Profit Appropriations Scheme, there also included a total of 4,412,161,148 bonus shares which were distributed by way of a bonus issue of 3 bonus shares for every 10 shares, which increased our paid-up share capital by approximately RMB4.412 billion, representing 20.93% of our net profit for the year. Total profits distributed for 2008 accounted for 27.91% of our net profit for the year.

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

1. As specified in the Articles of Association (revised in 2010), the profit distribution policies of the Company are:

   (1) profit distribution of the Company shall focus on reasonable returns to investment of the investors, and such policies shall maintain continuity and stability;

   (2) dividend may be distributed by way of cash or be satisfied by allotment of new shares. Interim cash dividend may be paid out. Unless another resolution is passed at the shareholders' meeting, the Board shall be authorized at the shareholders' meeting to approve interim dividend distribution policy;

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

   (4) where appropriation of fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated.

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

2. The Board of Directors agrees that, in principle, cash dividends to be distributed by the Company each year commencing from 2012 (including 2012 Profit Appropriations Scheme) shall be no less than 30% of net profit after tax for that year as audited in accordance with PRC GAAP and in compliance with the laws, regulations and regulatory requirements on capital adequacy ratio then in force with a view to enhance the reasonable return of shareholders' investments and to maintain the consistency and stability of the Company's dividend appropriation policy.

3. During the reporting period, the Company implemented the equity distribution plan for 2010 in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 11th meeting of the Eighth Session of the Board of Directors of the Company and approved at the 2010 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific. For details about the implementation of the Company's 2009 Profit Distribution Plan, please see the section headed "Implementation by the Board of Directors of resolutions passed at shareholders' general meetings" in Chapter VIII of this report. The Company will also implement the 2011 Profit Distribution Plan in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 28th meeting of the Eighth Session of the Board of Directors of the Company and will be submitted to the 2011 Annual General Meeting for approval. The independent directors of the Company have expressed independent opinions on those profit distribution plans for 2010 and 2011 that the equity distribution plans of the Company and their implementation process have adequately protected the legal rights and interests of minority shareholders.

9.5 Donations

The total amount of the charitable donations and other donations contributed by the Company and its employees for the year ended 31 December 2011 was RMB16,602,000.

9.6 Fixed Assets

Changes in fixed assets as at 31 December 2011 of the Company are set out in Note 25 to the financial statements in this annual report.

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

Shareholdings in non-listed financial companies

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/ (losses) for the reporting period[1] ('000)	Changes in owners' equity for the reporting period ('000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	1,256,352	1,163,232	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	1,019	6,041	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	2,000,000	100.00	N/A	2,000,000	419,418	418,547	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914	33.40	70,000,000	258,291	47,441	22,498	Equity investment
Taizhou Bank Co., Ltd.	306,671	10.00	180,000,000	345,708	–	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.75	110,000,000	155,000	–	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2	HK$8,400	–	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	209,600	–	–	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	20,000,000	HK$68,779	HK$13,137	HK$(58)	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	2.88	20,000	HK$8,847	HK$986	–	Equity investment

IX Report of the Board of Directors

Name of companies	Initial investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/ (losses) for the reporting period[1] ('000)	Changes in owners' equity for the reporting period ('000)	Origination of shares
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$79,236	HK$11,199	HK$(46)	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	21,000,000	HK$35,635	HK$(7,993)	–	Equity investment
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$4,901	HK$2,242	HK$(55)	Equity investment
Equity Underwriters Ltd.	HK$2,173	40.00	1,580,000	HK$0[2]	HK$0	–	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$3,141	HK$(27)	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$7,174	–	HK$(22)	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment

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

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

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Percentage of total investment at end of period (%)	Profits/(losses) for the reporting period ('000)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	2,689	996,042	124,206	27.81	–
03988.HK	Bank of China Ltd.	HK$	64,666	21,757,901	62,228	13.93	–
00941.HK	China Mobile Ltd.	HK$	39,683	522,300	39,616	8.87	–
01288.HK	Agricultural Bank of China Ltd.	HK$	32,323	10,000,000	33,300	7.45	–
00883.HK	CNOOC Limited	HK$	24,297	1,874,461	25,455	5.70	–
00005.HK	HSBC Holdings plc	HK$	30,883	376,994	22,243	4.98	(7,727)
02778.HK	Champion Real Estate Investment Trust	HK$	31,755	6,164,000	17,999	4.03	–
00939.HK	China Construction Bank Corporation	HK$	8,059	3,210,000	17,334	3.88	–
01398.HK	Industrial and Commercial Bank of China Ltd.	HK$	15,246	3,135,000	14,452	3.24	–
V	Visa Inc	HK$	2,049	54,361	5,135	1.15	–
Other securities investments at end of period		HK$	72,155	N/A	84,715	18.96	(20,877)
Total		**HK$**	**323,805**	**N/A**	**446,683**	**100.00**	**(28,604)**

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.

9.8 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.

9.9 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.

9.10 Pre-emptive rights

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

9.11 Retirement and welfare

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

9.12 Principal customers

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

9.13 Use of fund raised and major investment not financed by raised fund

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

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

Major investment not financed by raised fund

As at the end of 2011, the total amount of fund invested in Shanghai Lujiazui Project was RMB1,400 million, of which RMB185 million was invested during the reporting period.

9.14 Interests and short positions of Directors, Supervisors and chief executives under Hong Kong laws and regulations

As at 31 December 2011, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Peng Zhijian	Supervisor	A	Long position	Beneficial Owner	25,000	0.00014	0.00012

9.15 Directors' interests in competing business

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

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

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

9.17 Contractual rights and service contacts of directors and supervisors

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

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

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

9.19 Confirmation of the independence of independent non-executive directors

None of the six independent non-executive directors of the Company were involved in any matters set out in Rule 3.13 of the Hong Kong Listing Rules which would lead to concern over his/her independence. In addition, the Company has received annual confirmation in writing from each of the independent non-executive directors with regard to his/her independence according to the requirements of the Hong Kong Listing Rules and therefore considers each of them to be independent.

9.20 Undertakings made by the Company

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

9.21 Significant connected transactions

9.21.1 Overview of connected transactions

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

9.21.2 Non-exempt continuing connected transactions

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

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

CIGNA & CMC Life Insurance

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

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

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

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

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

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

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

The annual cap for continuing connected transactions between the Company and CIGNA & CMC Life Insurance for 2011 was set at RMB500,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2011, the aggregate value of connected transactions between the Company and CIGNA & CMC Life Insurance amounted to RMB233,140,000.

CMFM

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

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

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

The annual cap for continuing connected transactions between the Company and CMFM for 2011 was set at RMB800,000,000 which was less than 5% of the relevant percentage ratio calculated in according with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2011, the aggregate value of connected transactions between the Company and CMFM amounted to RMB102,050,000.

CM Securities

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

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

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

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

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

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

The annual cap for continuing connected transactions between the Company and CM Securities for 2011 was set at RMB1,000,000,000 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 be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2011, the aggregate value of connected transactions between the Company and CM Securities amounted to RMB57,410,000.

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

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

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

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

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

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

9.21.3 Material related-party transactions

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

9.22 Internal transactions

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

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

9.23 Material litigation and arbitration

So far as the Company is aware, as at 31 December 2011, the Company was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases in which the Company was involved totaled 1,187 with a total principal amount of approximately RMB1,923,469,300 and total interest of approximately RMB359,772,000. Of which, there were a total of 140 pending litigation and arbitration cases against the Company as at 31 December 2011, with a total principal amount of approximately RMB414,424,200 and total interest of approximately RMB25,584,700. There were two pending cases each with a principal amount exceeding RMB100,000,000, involving a total principal amount of approximately RMB396,331,900 and total interest of RMB31,364,700. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

9.24 Material contracts and their performance

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

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

Significant guarantees

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

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.

9.25 Significant event in respect of fund entrusting

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

9.26 Major activities in asset acquisition, disposal and reorganization

9.26.1 Progress of the acquisition of CIGNA & CMC Life Insurance

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

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

The acquisition was approved by the Board and the shareholders' general meeting of the Company. Currently, the Company had made re-submissions concerning the acquisition to relevant regulatory authorities in accordance with the Pilot Administrative Measures for Commercial Banks to Make Equity Investment in Insurance Companies, and the acquisition is still pending for the approvals from relevant regulatory authorities.

Further details of the above acquisition were set out in the announcements published by the Company on newspapers and websites designated for disclosure of the information on 6 May 2008, 28 June 2008 and 4 June 2011.

9.26.2 Progress of the acquisition of Tibet Trust

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

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

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

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

For details about the implementation of the Company's Share Appreciation Rights Incentive Scheme, please refer to the section "Directors, supervisors, senior management, employees and branch operational structure".

9.28 Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

China Merchants Bank Co., Ltd

Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

In accordance with CSRC Approval [2003] No. 56 of China Securities Regulatory Commission and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due diligence review of the Company's guarantees for 2011 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the People's Bank of China and China Securities Regulatory Commission, and it is carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2011, the balance of the Company's guarantee business (including irrecoverable letters of guarantees and shipping guarantees) was RMB111.522 billion, representing an increase of 4.91% from the beginning of the year.

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

China Merchants Bank Co., Ltd.
Independent Non-executive Directors
Yi Xiqun Wong Kwai Lam Yan Lan Chow Kwong Fai, Edward Pan Yingli Liu Hong Xia

9.29 Use of funds by related parties

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

9.30 Establishment and implementation of the management system regarding inside information and insiders

In order to regulate the management of the Company's inside information, enhance the confidentiality of inside information, maintain the principle of fairness in information disclosure and safeguard the legal interests of investing public, the Board of Directors of the Company approved the "Inside Information and the Rules on Persons with knowledge of inside information of China Merchants Bank Co., Ltd." ("Insider Information and the Rules on the Management of Insiders"). During the reporting period, in accordance with the requirements of the "Insider Information and the Rules on Persons with inside information", the Company regulated the persons with inside information and completed registration and filing for inside information in four cases. During the reporting period, in accordance with the relevant requirements of the Notice Regarding the Conscientious Implementation of Resolutions Made at the "Special Working Conference for Information Disclosure by Companies Listed on Shenzhen Stock Exchange"(Shen Zheng Ju Gong Si Zi [2011] No.87) issued by Shenzhen Securities Regulatory Bureau, the Company provided a "special training on prevention of insider transaction" to all directors, supervisors, senior management as well as the key employees who may have access to inside information, so as to further improve the awareness of prevention and control of insider transaction within the whole Company. By way of this training, the Company further implemented various measures relating to the prevention of insider transaction, so as to effectively prevent and control potential illegal act of insider transaction within the Company. During the reporting period, none of the persons were found taking advantage of the inside information to trade in the Company's shares.

9.31 Responsibility statements on internal control

The Board of Directors of the Company is responsible to i) ensure the establishment and implementation of an adequate and effective internal control system by the Company; ii) examine and approve the overall business strategies and major policies of the Company and conduct regular checks and evaluations on their execution; iii) ensure that the Company operates in compliance with laws and regulatory policies; iv) clearly set up the acceptable risk level; v) ensure that the senior management adopts all necessary measures to identify, measure, monitor and control risks; vi) approve the Company's organizational structures; and vii) ensure that the senior management monitors and evaluates the adequacy and effectiveness of the internal control system. The Audit Committee under the Board of Directors is responsible to monitor the effectiveness of the implementation of the Company's internal control and the self-assessment of internal control as well as coordinate internal control audits and other relevant matters.

The Company will strengthen its internal control according to regulatory requirements and its management needs. By conducting self-assessment of internal control, issues can be identified and subsequent improvements will be made, thereby the Company's ability to prevent risks and the quality of standardized practice will be enhanced.

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

The senior management of the Company provides the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2011 to present a true view of the operating results of the Company. So far as the directors are aware, there is no material uncertainties related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

9.33 Compliance with Banking (Disclosure) Rules

The Company has prepared the financial statements in respect of H Shares for the year 2011 in strict compliance with the Banking (Disclosure) Rules issued by Hong Kong Monetary Authority.

9.34 Review on annual results

KPMG Huazhen and KPMG Certified Public Accountants, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee of the Company has reviewed the results and financial report of the Company for the year ended 31 December 2011.

9.35 Annual general meeting and closure of register of members

The Company's 2011 Annual General Meeting will be convened on Wednesday, 30 May 2012, the notice of which will be further announced by the Company.

Closure of register of members for 2011 Annual General Meeting

In order to determine the list of holders of H Shares who are entitled to attend the 2011 Annual General Meeting, the Company will close its register of members and suspend registration of transfer of H Shares from Monday, 30 April 2012 to Wednesday, 30 May 2012 (both days inclusive).

In order to qualify to attend the 2011 Annual General Meeting, holders of H Shares of the Company whose transfer documents have not been registered should deposit their transfer documents accompanied by the relevant share certificates at the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 27 April 2012. Holders of H Shares whose names appear on the register of members of the Company on Wednesday, 30 May 2012 will be entitled to attend the 2011 Annual General Meeting of the Company.

Closure of register of members for payment of final dividend of 2011

In order to determine the list of holders of H Shares who are entitled to receive the final dividend for the year ended 31 December 2011, the Company will close its register of members and suspend registration of transfer of H Shares from Tuesday, 5 June 2012 to Sunday, 10 June 2012 (both days inclusive).

In order to qualify to receive the final dividend, holders of H Shares of the Company whose transfer documents have not been registered should deposit their transfer documents accompanied by the relevant share certificates at the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 4 June 2012. Holders of H Shares whose names appear on the register of members of the Company on Sunday, 10 June 2012 will be entitled to receive the final dividend of 2011.

9.36 Publication of annual report

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

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

By Order of the Board of Directors

Fu Yuning
Chairman of the Board of Directors

28 March 2012

X Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has fulfilled supervisory duties pursuant to the Company Law and Articles of Association of the Company.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

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

Authenticity of financial statements

KPMG Huazhen and KPMG audited the financial reports for 2011 in accordance with the PRC accounting standards and the international accounting standards respectively and have each produced a standard unqualified audit report, stating that the financial reports give a true, objective and accurate view of the financial position and operating results of the Company.

Use of capital raised

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

Purchase and sale of assets

During the reporting period, the Company was not involved in any material acquisition. The Board of Supervisors was not aware of any insider dealing or act which was detrimental to the interests of shareholders of the Company or caused the loss of the Company's assets.

Connected party transactions

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

Implementation of resolutions passed at the general meetings

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meetings for 2011, and concluded that the board had duly implemented relevant resolutions passed by the General Meetings.

Internal control

The Board of Supervisors had reviewed the "2011 Report on the Assessment of Internal Control of China Merchants Bank Co., Ltd.", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors

Han Mingzhi
Chairman of the Board of Supervisors

28 March 2012

XI Corporate Social Responsibilities

President Ma Weihua attended the 2011 Guiyang Ecological Culture Meeting and made speech.

China Merchants Bank held a video conference call for comprehensive financial services in the 2011 Shenzhen Universiade.

In 2011, by adhering to the principle of "ploughing back to the society", the Company has fulfilled the corporate social responsibilities in respect of disaster relief and anti-poverty work, green finance, public benefit activities and support to SMEs. As at the end of the reporting period, the Company contributed to the society a value of RMB5.49 per share.

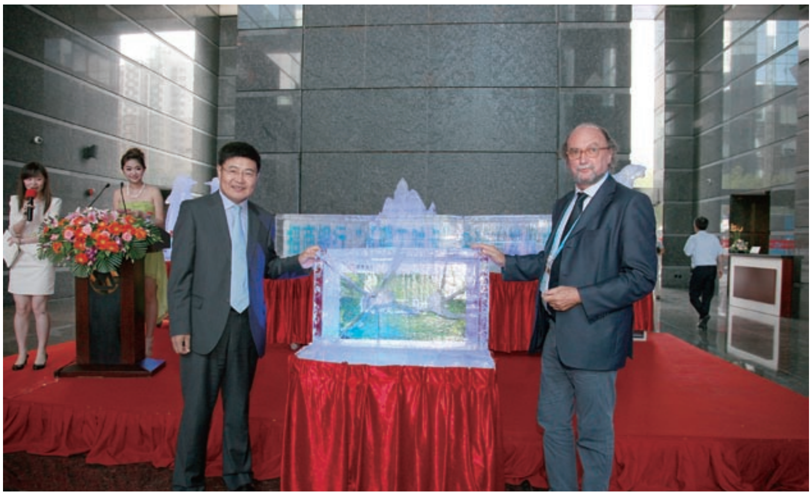
I. Continuous efforts in poverty relief

The year 2011 marked the thirteenth year of the Company to provide designated poverty relief to Yongren County and Wuding County in Yunnan Province. During the year, the Company deployed four poverty-alleviation cadres off the job to station at the two counties to provide designated relief. More than RMB4 million in small sum loans were granted to the two counties; staff of the Company donated RMB8.61 million in cash, 290 computers and 31,000 clothes. The Company provided financial aids to 65 impoverished college students in these two counties and more than 1,200 secondary and primary students were given paired subsidies under the "1+1" poverty relief campaign. The Company also constructed one youth recreation center, two student apartments, two computer rooms, one lecture hall and six student canteens at the two counties. In addition, the Company completed the construction of one bridge, one road, one drinking water project, two water cellars and one new industries demonstration zone, hence further reinforcing the infrastructure construction in the two counties. The Company joined hands with local governments in creating a children's choir of the Yi ethnic minority group, organized training in the Yi ethnic embroidery and helped the Yi ethnic embroidery factories introduce packaging equipments, so as to protect and foster the development of the Yi ethnic embroidery culture.

The Company's poverty relief work was highly praised by various communities. The Company was named as the "Pioneering Collective Entity in Poverty Relief and Development for Eleventh Five-Year Period in Yunnan Province" by the Yunnan Provincial Government and awarded with the "Community Award for 2011" by China Foundation for Poverty Alleviation.

II. Implementation of green finance

The Company persistently adhered to the philosophy of promoting green finance and assisting the construction of low-carbon economy. In regard to industries labeled as "high polluting, high energy consuming and overcapacity", the Company has established stringent accessing thresholds and review mechanisms to restrict relevant loan extensions. As at the end of 2011, the balance of loans to such industries amounted to RMB122.988 billion, accounting for 8.04% of the total balance of loans, which remained equal to that at the beginning of the year. As for green industries, the Company guided loan resources to lean towards relevant projects through a lot of publicity, training and supervision, which resulted in the continuous growth in the balance of loans to green credit area. As at the end of 2011, the balance of loans to green credit area amounted to RMB50.982 billion, increasing by RMB4.731 billion as compared with the beginning of the year. Amongst which, RMB11.596 billion was granted to clean energy (including RMB10.67 billion to renewable energy) and RMB39.386 billion to environment protection area.



China Merchants Bank initiated the "low-carbon contribution card" global launching ceremony.

In respect of product innovation, in 2011, the Company continued to put efforts in improving the green finance product structure and in particular strengthening the innovation of carbon finance business. Products including the clean development mechanism, project consulting service and clean development mechanism, emission-reduction gain-backed loans were launched. At the same time, with the support of the Company's "Qian Ying Zhan Yi" Innovative and Growth Enterprise Program, the Company introduced equity investments to quality green SMEs and provided them with services on investment-linked products.

In respect of international cooperation, as a member of UNEP FI (United Nations Environment Programme Finance Initiative), the Company actively learnt from advanced international experience by carrying out international cooperation. In October 2011, representatives of the Company participated in the Global Roundtable in Washington at which important remarks were on behalf of China's banking industry. Furthermore, the Company continued with the extensive cooperation with AFD on green loans projects. Phase II is currently in smooth operation and so far loans have been extended to several projects.

In the selection of "2011 Most Trusted Bank by Chinese CFO Awards" sponsored by CFO World, the Company was granted the highest prize of the "Best Green Bank". The receipt of this prize for two consecutive years has demonstrated the fact that the Company was recognized by enterprises, social organizations, public and media for promoting the development of green finance, hence forming a new starting point for the Company's search for green developments.

III. Support to the development of small and medium-sized enterprises (SMEs)

In 2011, the Company continued to regard the SMEs financial strategy as a key strategy in the "Second Transformation" and stepped up the support for SMEs. The Company exerted its efforts in: (1) accelerating the establishment of small-sized enterprise credit subcentres; in 2011, 6 subcentres were established with the total number of subcentres of the Company increasing to 36, further expanding the coverage of specialized organs; (2) increasing the scope of specialized services to cover 28 branches in 2011 on the basis of the test-run of specialized services at the small enterprise finance department of 18 branches; (3) launching policies on bulk marketing and credit management for small enterprises, improving the risk manager operating systems, implementing the system of secondment of loan review officials to small enterprise finance departments, optimizing new-generation credit risk management system workflow and templates for small enterprise loan review and follow-up inspection, establishing efficient dual-signature review and approval system and setting up rapid alert response mechanism so as to strengthen the control over SMEs credit risk and to increase the operating efficiency in review and approval;

(4) building two major brand structures targeting micro enterprises and SMEs, namely "Xiao Dai Tong" and "Zhu Li Dai", to assist SMEs break financing bottlenecks for rapid growth through constant innovations. As at the end of the reporting period, balance of loans granted to SMEs by the Company amounted to RMB468.282 billion, representing an increase of RMB79.864 billion as compared to the beginning of the year; and its proportion in loans to domestic enterprises was up to 53.22%, representing an increase of 3.50 percentage points as compared to the end of the previous year.

IV. Full support to the 2011 Universiade Shenzhen

The 2011 Universiade Shenzhen was the first worldwide comprehensive sports event organized in Shenzhen. Being the exclusive global banking partner of this Universiade, the Company spared no efforts in providing the best financial services for the event. A series of featured financial products, including "Universiade All-in-one Card", "Universiade Co-Branded Credit Card", "Universiade IC Card" and licensed physical gold "Zhao Yun Jin", was launched and a bunch of integrated financial services covering credit finance, payment settlement, investment banking, retail finance and other areas was offered to the Universiade, effectively satisfying the Universiade's financial service needs. Our successful provision of financial service to the Universiade was widely praised by the Universide Organizing Committee, Shenzhen Municipal Government and the society. What worth mentioning is that, during the event, our 129 staff working at the Universide Village and the 8 service outlets of the media center received over 130 national representative teams and several hundred thousand guests and dealt with over 13,000 operations, which resulted in over 400 verbal and written commendations from customers. The Company's direct banking center provided nine foreign language services during the event, recording an increase of 21% in the number of online customers and a telephone connection rate of over 99%, fully satisfying the diversified customer needs as the "World's Best Call Center". Besides, through the combination of both online and offline means, the Company organized a series of Universiade events, including "University Student Volunteers Ambassador Selection", "Universiade Torch Summit Dream" mountaineering event, Universiade torch relay and float parade. These events were well-received and widely recognized by university students and young customers, to whom the spirit of the Universiade was spread.

V. Social welfare activities

Since its establishment, the Company was actively involved in social welfare activities, fulfilling its social responsibilities in various ways, including the construction of Project Hope primary schools, "1+1 Pairs Forming" and the setting up of scholarship etc., so as to support education through donation. Meanwhile, the Company successively sponsored Universiade 2011 Shenzhen and UIM F1 World Championship, giving full support to Chinese culture and sports events. In March 2011, the Company actively participated in the "Earth Hour" organized by WWF, making our contribution to the environment protection. In August 2011, jointly with China Children and Teenagers' Fund and 21st Century Business Herald, the Company launched the programme of "Sunflower Yi Minority Group Children's Choir", taking care of instructors, national costumes and various kinds of folk instruments for the choir. As at the end of the reporting period, 10 volunteers with expertise in music were selected to participate in local visits and education for providing support to the inheritance of the intangible cultural heritage of China's Yi minority group. Meanwhile, the company's 2011 summer camp programme of Inspiring the Universiade under the "Sunflower Children's Growth Fund" was launched and 36 children from quake-hit areas (Yunnan Province's Yongren and Wuding and Sichuan Province) took part in this activity.

The details of the corporate social responsibility of the Company were set out in "China Merchants Bank Social Responsibility Report for the Year of 2011".

XII Financial Report

Independent Auditor's Report

KPMG

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

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

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiaries (together the "Group") set out on pages 184 to 346 which comprise the consolidated and Bank statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated and Bank statements of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of affairs of the Bank and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

28 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2011	2010
Interest income	3	**121,245**	84,513
Interest expense	4	**(44,938)**	(27,437)
Net interest income		**76,307**	57,076
Fee and commission income	5	**16,924**	12,409
Fee and commission expense		**(1,296)**	(1,079)
Net fee and commission income		**15,628**	11,330
Other net income	6	**4,294**	2,933
Insurance operating income		**374**	353
Operating income		**96,603**	71,692
Operating expenses	7	**(40,889)**	(32,634)
Charge for insurance claims		**(305)**	(278)
Operating profit before impairment losses		**55,409**	38,780
Impairment losses	11	**(8,350)**	(5,501)
Share of profits of associates		**49**	48
Share of profits of jointly controlled entities		**14**	16
Profit before taxation		**47,122**	33,343
Income tax	12	**(10,995)**	(7,574)
Profit for the year		**36,127**	25,769
Attributable to:			
Equity shareholders of the Bank		**36,129**	25,769
Non-controlling interests		**(2)**	–

The notes on pages 195 to 346 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in note 46.

Consolidated Statement of Comprehensive Income

	Note	**2011**	2010
Earnings per share			
Basic (RMB)	14(a)	**1.67**	1.23
Diluted (RMB)	14(b)	**1.67**	1.23
Other comprehensive income for the year (after tax and reclassification adjustments)	13		
Exchange differences		**(624)**	(504)
Available for sale investments: net movement in fair value reserve		**1,468**	(1,081)
Cash flow hedge: net movements in hedging reserve		**275**	3
		1,119	(1,582)
Total comprehensive income for the year		**37,246**	24,187
Attributable to:			
Equity shareholders of the Bank		**37,248**	24,187
Equity shareholders of the non-controlling interests		**(2)**	–

The notes on pages 195 to 346 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2011	2010
Assets			
Cash		**10,725**	9,250
Balances with central bank	15	**397,579**	285,705
Balances with banks and other financial institutions	16	**63,046**	28,961
Placements with banks and other financial institutions	17	**131,381**	58,917
Amounts held under resale agreements	18	**73,975**	176,547
Loans and advances to customers	19	**1,604,371**	1,402,160
Interest receivable	20	**10,852**	7,588
Financial assets at fair value through profit or loss	21(a)	**15,530**	15,229
Derivative financial assets	53(h)	**1,887**	1,738
Available-for-sale investments	21(b)	**275,860**	272,370
Held-to-maturity debt securities	21(c)	**145,586**	97,614
Receivables	21(d)	**22,085**	7,225
Interest in associates	23	**297**	285
Interest in jointly controlled entities	24	**159**	158
Fixed assets	25	**17,500**	16,451
Investment properties	26	**1,710**	1,946
Intangible assets	27	**2,605**	2,620
Goodwill	28	**9,598**	9,598
Deferred tax assets	29	**4,337**	3,706
Other assets	30	**5,888**	4,439
Total assets		**2,794,971**	2,402,507
Liabilities			
Deposits from banks and other financial institutions	31	**205,699**	203,011
Placements from banks and other financial institutions	32	**67,484**	45,573
Amounts sold under repurchase agreements	33	**42,064**	33,439
Deposits from customers	34	**2,220,060**	1,897,178
Interest payable	35	**16,080**	10,369
Financial liabilities designated at fair value through profit or loss	21(e)(f)	**4,724**	1,353
Derivative financial liabilities	53(h)	**1,469**	1,821
Debts issued	36	**46,167**	36,285
Salaries and welfare payable	37(a)	**3,320**	3,220
Tax payable	38	**7,112**	4,972
Deferred tax liabilities	29	**864**	924
Other liabilities	39	**14,918**	30,356
Total liabilities		**2,629,961**	2,268,501

The notes on pages 195 to 346 form part of these financial statements.

	Note	**2011**	2010
Equity			
Share capital	40	**21,577**	21,577
Capital reserve	41	**37,508**	37,508
Investment revaluation reserve	42	**157**	(1,311)
Hedging reserve	43	**278**	3
Surplus reserve	44	**14,325**	8,418
Regulatory general reserve	45	**18,794**	16,812
Retained profits		**64,446**	42,806
Proposed profit appropriations	46(b)	**9,062**	8,719
Exchange reserve	47	**(1,150)**	(526)
Total equity attributable to shareholders of the Bank		**164,997**	134,006
Non-controlling interests	56	**13**	–
Total equity		**165,010**	134,006
Total equity and liabilities		**2,794,971**	2,402,507

Approved and authorised for issue by the board of directors on 28 March 2012.

Fu Yu Ning
Director

Ma Wei Hua
Director

Company Chop

The notes on pages 195 to 346 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2011	2010
Assets			
Cash		**10,186**	8,672
Balances with central bank	15	**394,119**	284,227
Balances with banks and other financial institutions	16	**59,657**	24,736
Placements with banks and other financial institutions	17	**109,387**	41,551
Amounts held under resale agreements	18	**73,975**	176,547
Loans and advances to customers	19	**1,493,913**	1,317,300
Interest receivable	20	**10,363**	7,304
Financial assets at fair value through profit or loss	21(a)	**11,067**	12,265
Derivative financial assets	53(h)	**1,664**	1,579
Available-for-sale investments	21(b)	**262,457**	259,079
Held-to-maturity debt securities	21(c)	**143,398**	92,865
Receivables	21(d)	**23,300**	8,497
Investments in subsidiaries	22	**32,565**	32,565
Interest in an associates	23	**191**	191
Fixed assets	25	**13,761**	12,661
Investment properties	26	**298**	275
Intangible assets	27	**1,466**	1,388
Deferred tax assets	29	**4,207**	3,594
Other assets	30	**3,950**	3,043
Total assets		**2,649,924**	2,288,339
Liabilities			
Deposits from banks and other financial institutions	31	**203,614**	200,611
Placements from banks and other financial institutions	32	**34,896**	23,784
Amounts sold under repurchase agreements	33	**39,064**	33,439
Deposits from customers	34	**2,126,937**	1,808,912
Interest payable	35	**15,422**	10,113
Financial liabilities at fair value through profit or loss	21(e)(f)	**3,558**	1,021
Derivative financial liabilities	53(h)	**1,310**	1,620
Debts issued	36	**35,535**	33,908
Salaries and welfare payable	37(a)	**3,085**	3,013
Tax payable	38	**6,849**	4,774
Other liabilities	39	**8,628**	26,135
Total liabilities		**2,478,898**	2,147,330

The notes on pages 195 to 346 form part of these financial statements.

	Note	**2011**	2010
Equity			
Share capital	40	**21,577**	21,577
Capital reserve	41	**46,666**	46,666
Investment revaluation reserve	42	**130**	(1,429)
Hedging reserve	43	**278**	3
Surplus reserve	44	**14,325**	8,418
Regulatory general reserve	45	**18,571**	16,700
Retained profits		**60,417**	40,355
Proposed profit appropriations	46(b)	**9,062**	8,719
Total equity		**171,026**	141,009
Total equity and liabilities		**2,649,924**	2,288,339

Approved and authorised for issue by the board of directors on 28 March 2012.

Fu Yu Ning
Director

Ma Wei Hua
Director

Company Chop

The notes on pages 195 to 346 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

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

The notes on pages 195 to 346 form part of these financial statements.

Consolidated Statement of Changes in Equity

		2010									
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
At 1 January 2010		19,119	18,399	(230)	–	6,653	14,976	27,592	6,296	(22)	92,783
Amounts increase/(decrease) for the year		2,458	19,109	(1,081)	3	1,765	1,836	15,214	2,423	(504)	41,223
(a) Profit for the year		–	–	–	–	–	–	25,769	–	–	25,769
(b) Other comprehensive income for the year	13	–	–	(1,081)	3	–	–	–	–	(504)	(1,582)
Total comprehensive income for the year		–	–	(1,081)	3	–	–	25,769	–	(504)	24,187
(c) Changes by the shareholder's equity											
(i) issuing shares	40	2,458	19,109	–	–	–	–	–	–	–	21,567
(d) Distribution of profits											
(i) Appropriations to statutory surplus reserve for the year 2010	44	–	–	–	–	–	–	(2,462)	2,462	–	–
(ii) Transfer of retained profits to regulatory general reserve	45	–	–	–	–	–	1,836	(1,836)	–	–	–
(iii) Dividends paid for the year 2009	46(a)	–	–	–	–	–	–	–	(4,531)	–	(4,531)
(iv) Proposed dividends for the year 2010	46(b)	–	–	–	–	–	–	(6,257)	6,257	–	–
(v) Appropriations to statutory surplus reserve for the year 2009		–	–	–	–	1,765	–	–	(1,765)	–	–
At 31 December 2010		21,577	37,508	(1,311)	3	8,418	16,812	42,806	8,719	(526)	134,006

The notes on pages 195 to 346 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

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

2010	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2010		19,119	27,557	(352)	–	6,653	15,000	26,135	6,296	100,408
Amounts increase/(decrease) for the year		2,458	19,109	(1,077)	3	1,765	1,700	14,220	2,423	40,601
(a) Profit for the year		–	–	–	–	–	–	24,639	–	24,639
(b) Other comprehensive income for the year	13	–	–	(1,077)	3	–	–	–	–	(1,074)
Total comprehensive income for the year		–	–	(1,077)	3	–	–	24,639	–	23,565
(c) Changes by the shareholder's equity										
(i) issuing shares	40	2,458	19,109	–	–	–	–	–	–	21,567
(d) Distribution of profits										
(i) Appropriations to statutory surplus reserve for the year 2010	44	–	–	–	–	–	–	(2,462)	2,462	–
(ii) Transfer of retained profits to regulatory general reserve	45	–	–	–	–	–	1,700	(1,700)	–	–
(iii) Dividends paid for the year 2009	46(a)	–	–	–	–	–	–	–	(4,531)	(4,531)
(iv) Proposed dividends for the year 2010	46(b)	–	–	–	–	–	–	(6,257)	6,257	–
(v) Appropriations to statutory surplus reserve for the year 2009		–	–	–	–	1,765	–	–	(1,765)	–
At 31 December 2010		21,577	46,666	(1,429)	3	8,418	16,700	40,355	8,719	141,009

The notes on pages 195 to 346 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2011	2010
Operating activities			
Profit before tax		**47,122**	33,343
Adjustments for:			
– Impairment losses charged on loans and advances		**8,199**	5,570
– Impairment losses charged on investments		**78**	(13)
– Impairment losses charged on other assets		**73**	(56)
– Unwind of interest income on impaired loans		**(136)**	(110)
– Depreciation		**2,612**	2,497
– Amortization of other assets		**334**	273
– Amortisation of discount and premium of debt investments		**(100)**	(199)
– Amortisation of discount and premium of issued debts		**53**	13
– Share of profits of associates		**(49)**	(48)
– Share of profits of jointly controlled entities		**(14)**	(16)
– Net gains on debt investments		**(1,519)**	(677)
– Net gains on disposal of fixed assets		**(1)**	(20)
– Interest income on debt investments		**(12,468)**	(8,984)
– Interest expense on issued debts		**1,816**	1,858
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(110,360)**	(79,485)
Decrease in balances and placements with banks and other financial institutions with original maturity over 3 months		**38,103**	12,322
Increase in loans and advances to customers		**(210,142)**	(244,347)
Increase in other assets		**(2,015)**	(2,134)
Increase in deposits from customers		**322,882**	289,032
Increase in deposits and placements from banks and other financial institutions		**33,224**	16,904
Decrease in other liabilities		**(5,911)**	(9,849)
Net cash inflow from operating activities		**111,781**	15,874
Income tax paid		**(10,485)**	(6,985)
Investing activities			
Payment for investments purchased		**(538,739)**	(2,070,605)
Proceeds from investments disposed		**470,066**	2,041,322
Interest received from debt investments		**13,288**	9,075
Payment for purchase of fixed assets and other assets		**(4,226)**	(5,465)
Proceeds from sale of fixed assets and other assets		**253**	144
Return of loan to jointly controlled entities		**5**	10
Net cash outflow from investing activities		**(59,353)**	(25,519)
Net cash inflow/(outflow) before financing activities		**41,943**	(16,630)

The notes on pages 195 to 346 form part of these financial statements.

Consolidated Cash Flow Statement

	Note	2011	2010
Financing activities			
Proceeds from issuance of share capital		–	21,744
Cost of issuing share, net of interest income		–	(177)
Cash received from minority shareholders		15	–
Proceeds from issuance of certificates of deposit		29,174	4,777
Repayment of certificates of deposit issued		(19,659)	(3,640)
Repayment of other debts		–	(5,000)
Dividends paid		(6,249)	(4,528)
Interest paid on issued debts		(1,821)	(1,875)
Net cash inflow from financing activities		**1,460**	11,301
Net increase/(decrease) in cash and cash equivalents		**43,403**	(5,329)
Cash and cash equivalents at 1 January		**177,220**	183,631
Effect of foreign exchange rate changes		**(1,472)**	(1,082)
Cash and cash equivalents at 31 December	48(a)	**219,151**	177,220
Cash flows from operating activities include:			
Interest received		106,534	74,533
Interest paid		37,395	23,478

The notes on pages 195 to 346 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

(Expressed in millions of Renminbi unless otherwise stated)

1 ORGANISATION, PRINCIPAL ACTIVITIES AND DETAILS OF SUBSIDIARIES

(a) Organisation

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

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

As at 31 December 2011, apart from the Head Office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi'an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Qingdao, Dongguan, Shaoxing, Yantai, Quanzhou, Changzhou, Taiyuan, Foshan, Changchun, Hohhot, Yangzhou, Nantong, Jinhua, Taizhou, Weifang, Nanning, Wuhu, Weihai, Ganzhou, Qujing, Yuling, Yichang, Dandong, Huangshi, Leshan, Yingkou, Zhenjiang, Huainan, Hengyang, Zibo, Linyi, Lijiang, Zhongshan, Huizhou, Anshan, Taizhou, Jining, Honghe, Luoyang, Jincheng, Guiyang, Yinchuan, Shijiazhuang, Hong Kong and New York. In addition, the Bank has four representative offices in Beijing, London, the United States of America and Taiwan.

(b) Principal activities

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of preparation

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

(b) Changes in accounting policies and accounting estimations

The Group has applied the revised IFRSs first effective for the current accounting period of the group, Besides, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of measurement

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

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

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

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

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

(d) Subsidiaries and non-controlling interests

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less allowances for impairment losses.

(e) Associates

Associates are entities in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any acquisition-date excess over cost, the consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see notes 2(g) and (n)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Bank's statement of financial position, its interests in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Jointly controlled entities

Jointly controlled entities are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated statement of comprehensive income includes the Group's share of the results of jointly controlled entities for the year and the consolidated statement of financial position includes the Group's share of the net assets of the jointly controlled entities.

In the Bank's statement of financial position, the interests in jointly controlled entities are stated at cost less allowance for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the Basis of dividends received and receivable.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see note 2(n)). Amortisation of intangible assets with finite useful lives is charged to the consolidated statement of comprehensive income on a straight-line basis over the assets' estimated useful lives (2 – 50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40 – 50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2011.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred.

Except for loans and advances to customers that is recognised using settlement date accounting, purchase or sale of financial assets is recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss. They are not allowed to reclassify into or out of this category which it is held or issued.

  All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

– Financial instruments are designated at fair value through profit or loss upon initial recognition when:

  – the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

  – the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivative from the financial instrument is not prohibited;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition (continued)

– held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity;

– loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale upon initial recognition;

– available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and

– financial liabilities, other than that at fair value through profit or loss and designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of comprehensive income when they arise.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated statement of comprehensive income.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of comprehensive income when the financial asset or liability is derecognised, impaired and amortised.

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models referenced to the fair value of another instrument that is substantially the same (without deduction for transaction costs) or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market rate at the valuation date for an instrument with similar terms and risk profile.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iii) Hedge accounting

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognized in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of comprehensive income within "Trading profits" of "Other net income".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity to the statement of comprehensive income in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the consolidated statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of comprehensive income.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iii) Hedge accounting (continued)

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the consolidated statement of comprehensive income. These gains and losses are reported in "Trading profits" of "Other net income", except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in "Net income on financial instruments designated at fair value through profit or loss".

(iv) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with and takings from banks and other financial institutions

Banks represent other banks approved by the PBOC and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as trading or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity debt securities, receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances

Loans and advances directly granted by the Group to customers or participation in syndicated loans are accounted for as loans and advances.

(v) Derivative financial instruments

The Group's derivative financial instruments include mainly spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(i)(i) above.

(vii) Securitisations

The Group securitises various corporate loans, which generally results in the sale of these assets to special purpose entity, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in "Other net income".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over the financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Fixed assets and depreciation

Fixed assets, including investment properties, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of fixed assets over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	the shorter of the unexpired term of lease and 5 years
Leasehold improvements (self-owned property)	the longer of 5 years and the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of comprehensive income. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a fixed asset is capitalised only when it is probable that future economic benefits associated with the fixed assets will flow to the Group. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the fixed assets and are accounted for in the consolidated statement of comprehensive income as they arise.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are measured at the lower of the carrying value of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n).

(iii) Operating leases

– ***Operating leases charges***

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease expense is charged to profit and loss when actually happened.

– ***Assets leased out under operating leases***

Fixed assets other than investment properties leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n). Income derived from operating leases is recognised in the statement of comprehensive income using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit and loss when actually happened.

(m) Resale and repurchase agreements

Securities sold under repurchase agreements are considered to be, in substance, secured loans borrowed. Therefore, the amounts received are included in "Amounts due to central bank" or "Placements from banks and other financial institutions", depending on the identity of the counterparty. Conversely securities or loans purchased subject to commitment to resell are considered as loans granted, and the amounts paid are accounted for as "Balances with central bank" or "Placements with banks and other financial institutions", depending on the identity of the counterparty.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Resale and repurchase agreements *(continued)*

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– disappearance of an active market for financial assets because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of comprehensive income.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances

The Group uses two methods of assessing impairment losses on loans and advances: those assessed individually and those assessed on a collective basis.

– *Individually assessed*

Loans and advances which are considered individually significant are assessed individually for impairment.

Impairment allowances are made on individually impaired significant loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

Impairment allowances of an individually impaired significant loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of the allowances for impairment losses.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

– no objective evidence of impairment exists for an individually assessed loans; and

– for homogeneous groups of loans that are not individually significant with similar credit risk characteristics.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed (continued)*

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;

– the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loan that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed (continued)*

Homogeneous groups of loans *(continued)*

When the Group determines that a loan has no reasonable prospect of recovery after the group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated statement of comprehensive income.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers. Upon the seizure of these assets, the carrying value of the related loan principal and interest receivable are initially transferred to "Repossessed assets", and the respective allowances for impairment losses are transferred to "impairment allowance for repossessed assets".

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated statement of comprehensive income even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of comprehensive income. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on available-for-sale financial assets *(continued)*

Impairment losses recognised in the consolidated statement of comprehensive income for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of comprehensive income. Any subsequent increase in the fair value of these assets is recognised directly in equity.

(ii) Other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– ***Recognition of impairment losses***

An impairment loss is recognised in the consolidated statement of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– ***Reversals of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statement of comprehensive income in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in the consolidated statement of comprehensive income over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of comprehensive income on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of comprehensive income when the corresponding service is provided.

(iii) Dividend income

– Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

– Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    – the same taxable entity; or

    – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Foreign currency translations *(continued)*

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the end of the reporting period. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "Exchange reserve" in equity.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonus and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of comprehensive income as incurred.

Annual contributions to the retirement benefit schemes with defined benefit arrangements are determined based on periodic valuations of the assets and liabilities of such schemes by qualified actuaries using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the 10% of the greater of these schemes' assets and the defined benefit obligations are recognised in the statement of comprehensive income over the average expected future working lifetime of the members of the schemes.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits *(continued)*

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H-share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the consolidated statement of comprehensive income for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the statement of financial position as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

Notes to the Financial Statements

3 INTEREST INCOME

	2011	2010
Loans and advances (note)		
– corporate loans	**55,997**	39,718
– retail loans	**32,142**	22,426
– discounted bills	**5,675**	4,693
Balances with central bank	**5,312**	3,546
Balances and placements with		
– banks	**2,921**	1,226
– other financial institutions	**910**	544
Amounts held under resale agreements	**5,697**	3,177
Debt securities investments (note)		
– listed	**11,743**	7,997
– unlisted	**825**	1,181
Others	**23**	5
Interest income on financial assets that are not at fair value through profit or loss	**121,245**	84,513

Note: Included in the above is interest income of RMB136 million accrued on impaired loans for the year ended 31 December 2011 (2010: RMB110 million) and non accrued on impaired debt securities investments for the year ended 31 December 2011 (2010: Nil).

4 INTEREST EXPENSE

	2011	2010
Deposits from customers	**32,111**	20,724
Deposits and placements from		
– banks	**5,349**	1,231
– other financial institutions	**4,626**	3,280
Amounts sold under repurchase agreements	**983**	331
Issued debts	**1,869**	1,871
Interest expense on financial liabilities that are not at fair value through profit or loss	**44,938**	27,437

5 FEE AND COMMISSION INCOME

	2011	2010
Bank cards fees	**4,359**	3,710
Remittance and settlement fees	**2,042**	1,386
Agency services fees	**3,400**	3,062
Commissions from credit commitment and loan business	**1,563**	1,114
Commissions on trust and fiduciary activities	**3,032**	1,793
Others	**2,528**	1,344
	16,924	12,409

Note: Included above is fee and commission income earned by the Group arising from financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB5,587 million (2010: RMB4,123 million).

6 OTHER NET INCOME

	2011	2010
Trading profits arising from		
– foreign exchange	**1,516**	1,356
– bonds, derivatives and other trading activities	**656**	591
Net gains/(losses) on financial instruments designated at fair value through profit or loss	**27**	(172)
Net (losses)/gains on disposal of available-for-sale financial assets	**(250)**	151
Distributions from investment in funds	**22**	15
Rental income	**281**	217
Gain on disposal of bills	**1,791**	593
Others	**251**	182
	4,294	2,933

7 OPERATING EXPENSES

	2011	2010
Staff costs		
– salaries, bonuses and staff welfare (note (i))	**16,736**	12,785
– retirement benefit costs	**1,808**	1,671
– housing allowances	**1,002**	843
– others	**770**	703
	20,316	16,002
Business tax and surcharges	**6,091**	4,153
Fixed assets and investment properties depreciation	**2,612**	2,497
Rental expenses	**2,193**	1,936
Other general and administrative expenses	**9,677**	8,046
	40,889	32,634

Notes:

(i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 37(d).

(ii) Auditors' remuneration amounted to RMB13 million for 2011 (2010: RMB10 million) and non-audit service fee paid to auditors was RMB2 million for 2011 (2010: RMB2 million).

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors and Supervisors during the year are as follows:

	2011				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 Note (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ma Wei Hua	–	4,200	–	1,154	5,354
Zhang Guang Hua	–	2,730	–	767	3,497
Li Hao	–	2,730	–	744	3,474
Non-executive directors					
Fu Yu Ning	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–
Li Yin Quan	–	–	–	–	–
Fu Gang Feng	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–
Independent non – executive directors and supervisors					
Yi Xi Qun	300	–	–	–	300
Huang Gui Lin	125	–	–	–	125
Yan Lan	300	–	–	–	300
Chow Kwong Fai, Edward	300	–	–	–	300
Pan Ying Li	50	–	–	–	50
Liu Hong Xia	300	–	–	–	300
Han Ming Zhi	–	2,520	–	711	3,231
Zhu Gen Lin	–	–	–	–	–
Hu Xu Peng	–	–	–	–	–
Wen Jian Guo	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–
Pan Ji	175	–	–	–	175
Peng Zhi Jian	–	–	–	–	–
Yang Zong Jian	–	1,092	702	585	2,379
Zhou Qi Zheng	–	1,067	695	582	2,344
	1,550	14,339	1,397	4,543	21,829

Notes:

(i) The aggregate remuneration before tax of the full-time executive directors and senior management members is subject to confirmation. Those sums of remunerations pending confirmation will be disclosed separately after the payments are confirmed.

(ii) Apart from the above emoluments, the Bank has also offered H-Share Appreciation Rights Scheme phase I, phase II, phase III and phase IV to its senior management ("the Scheme") on 30 October 2007, 7 November 2008, 16 November 2009 and 18 February 2011 respectively. In 2011, none of the granted share appreciation rights were exercised. Details of this Scheme are set out in note 37(e).

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

	2010						
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Subtotal RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors							
Ma Wei Hua	–	4,200	–	1,110	5,310	1,800	7,110
Zhang Guang Hua	–	2,730	–	737	3,467	1,170	4,637
Li Hao	–	2,730	–	714	3,444	1,170	4,614
Non-executive directors							
Fu Yu Ning	–	–	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–	–	–
Li Yin Quan	–	–	–	–	–	–	–
Fu Gang Feng	–	–	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–	–	–
Independent non – executive directors and supervisors							
Wu Jie Si	300	–	–	–	300	–	300
Yi Xi Qun	300	–	–	–	300	–	300
Yan Lan	300	–	–	–	300	–	300
Chow Kwong Fai, Edward	300	–	–	–	300	–	300
Liu Yong Zhang	300	–	–	–	300	–	300
Liu Hong Xia	300	–	–	–	300	–	300
Han Ming Zhi	–	1,050	–	285	1,335	375	1,710
Zhu Gen Lin	–	–	–	–	–	–	–
Hu Xu Peng	–	–	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–	–	–
Wen Jian Guo	–	–	–	–	–	–	–
Shao Rui Qing	300	–	–	–	300	–	300
Shi Shun Hua	–	1,382	858	608	2,848	–	2,848
Yang Zong Jian	–	1,363	333	517	2,213	–	2,213
Zhou Qi Zheng	–	1,294	315	499	2,108	–	2,108
	2,100	14,749	1,506	4,470	22,825	4,515	27,340

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

RMB	**2011**	2010 (Note)
Nil – 500,000	**20**	19
1,500,001 – 2,000,000	**–**	1
2,000,001 – 2,500,000	**2**	2
2,500,001 – 3,000,000	**–**	1
3,000,001 – 3,500,000	**3**	–
4,500,001 – 5,000,000	**1**	2
7,000,001 – 7,500,000	**–**	1
	26	26

None of the Directors and Supervisors received any inducements, compensation for loss of office or waived any emoluments during the year.

Note: On 2 September 2011, the Board of Directors approved the discretionary bonuses of the Bank's executive directors and senior management personnel for 2010. Disclosures in 2010 (note 8, 9 & 55(g)) had been adjusted correspondingly.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the year ended 31 December 2011, 3 (2010: 3) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	**15,583**	14,700
Discretionary bonuses (note 8(i))	**–**	6,298
Contributions to defined contribution retirement schemes	**3,722**	3,930
	19,305	24,928

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

RMB	**2011**	2010 (Note 8)
3,000,001 – 3,500,000	**3**	–
3,500,001 – 4,000,000	**1**	–
4,000,001 – 4,500,000	**–**	2
4,500,001 – 5,000,000	**–**	2
5,000,001 – 5,500,000	**1**	–
7,000,001 – 7,500,000	**–**	1

10 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

Loans to Directors, Supervisors and Officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2011	2010
Aggregate amount of relevant loans made by the Group outstanding at year end	**39**	36
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	**47**	54

11 IMPAIRMENT LOSSES

	2011	2010
Loans and advances (Note 19(c))	**8,199**	5,570
Placement with banks and other financial institution	**77**	–
Investments		
– available-for-sale investments	**68**	(13)
– held-to-maturity debt securities	**4**	–
– investment receivable	**6**	–
Other assets	**(4)**	(56)
	8,350	5,501

12 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2011	2010
Current tax		
– Mainland China	**11,895**	7,897
– Hong Kong	**318**	220
– Overseas	**19**	(3)
Subtotal	**12,232**	8,114
Deferred tax	**(1,237)**	(540)
Total	**10,995**	7,574

(b) A reconciliation of income tax expense in the consolidated statement of comprehensive income and that calculated at the applicable tax rate is as follows:

	2011	2010
Profit before tax	**47,122**	33,343
Notional tax on profit before tax, calculated at the statutory tax rate of 25% (2010: 25%)	**11,781**	8,336
Add/(less) the tax effect of the following items:		
– Non-deductible expenses	**278**	558
– Non-taxable income	**(625)**	(477)
– Different income tax rates in other areas	**(355)**	(686)
– Effect of change in tax rate on opening deferred tax balances	**(84)**	(157)
Actual income tax expense	**10,995**	7,574

Note:

(i) The income tax rates applicable to the Bank's operations in Shenzhen Special Economic Zone is 24% (2010: 22%) during the year.

(ii) The provision for Hong Kong profit tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits from Hong Kong operations for the year.

(iii) Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant countries.

13 OTHER COMPREHENSIVE INCOME

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

	2011			2010		
	Before-tax amount	**Tax benefit**	**Net-of-tax amount**	Before-tax amount	Tax expense/ (benefit)	Net-of-tax amount
Exchange differences	**(624)**	**–**	**(624)**	(504)	–	(504)
Available-for-sale financial assets:						
– net movement in fair value reserve	**1,957**	**(489)**	**1,468**	(1,448)	367	(1,081)
Cash flow hedge:						
– net movement in hedging reserve	**367**	**(92)**	**275**	4	(1)	3
Other comprehensive income	**1,700**	**(581)**	**1,119**	(1,948)	366	(1,582)

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

	2011	2010
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	**275**	3
Net movement in the hedging reserve during the period recognised in other comprehensive income	**275**	3
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**1,175**	(919)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains/(losses) on disposal	**293**	(162)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**1,468**	(1,081)

14 EARNINGS PER SHARE

Movements of the share capital are included in Note 40 of the financial statements.

(a) Basic earnings per share

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

	2011	2010
Net profit	**36,129**	25,769
Weighted average number of shares in issue (in million)	**21,577**	20,925
Basic earnings per share (in RMB)	**1.67**	1.23

(b) Diluted earnings per share

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

	2011	2010
Net profit	**36,129**	25,769
Diluted net profit	**36,129**	25,769
Weighted average number of shares in issue (in million)	**21,577**	20,925
Weighted average number of shares in issue after dilution (in million)	**21,577**	20,925
Diluted earnings per share (in RMB)	**1.67**	1.23

15 BALANCES WITH CENTRAL BANK

	Group		Bank	
	2011	2010	**2011**	2010
Statutory deposit reserve funds (note (i))	**360,890**	251,622	**359,692**	251,241
Surplus deposit reserve funds (note (ii))	**35,597**	31,579	**33,335**	30,482
Fiscal deposits	**1,092**	2,504	**1,092**	2,504
	397,579	285,705	**394,119**	284,227

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 19% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2011 (2010: 16.5% and 5% for eligible RMB deposits and foreign currency deposits). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

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

16 BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2011	2010	**2011**	2010
Balances with banks	**63,083**	28,895	**59,694**	24,670
Balances with other financial institutions	**55**	94	**55**	94
	63,138	28,989	**59,749**	24,764
Less: Impairment allowances				
– banks	**(88)**	(24)	**(88)**	(24)
– other financial institutions	**(4)**	(4)	**(4)**	(4)
	(92)	(28)	**(92)**	(28)
	63,046	28,961	**59,657**	24,736

16 BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(b) Balances with banks and other financial institutions (analysed by geographical location)

	Group		Bank	
	2011	2010	**2011**	2010
Balances with				
– banks in the Mainland	**39,299**	15,253	**36,823**	14,797
– other financial institutions in the Mainland	**55**	94	**55**	94
	39,354	15,347	**36,878**	14,891
Balances with				
– banks outside the Mainland	**23,784**	13,642	**22,871**	9,873
Less: Impairment allowances				
– banks	**(88)**	(24)	**(88)**	(24)
– other financial institutions	**(4)**	(4)	**(4)**	(4)
	(92)	(28)	**(92)**	(28)
	63,046	28,961	**59,657**	24,736

(c) Movements of allowances for impairment losses (note)

	Group and Bank	
	2011	2010
As at 1 January	**28**	28
Charge for the year	**66**	–
Recoveries of previously written off	**(2)**	–
As at 31 December	**92**	28
Impaired balances with banks and other financial institutions and impairment allowances		
Gross impaired balances with banks and other financial institutions	**92**	28
Impairment allowances	**(92)**	(28)
Net balances	**–**	–

16 BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(d) Impaired balances with banks and other financial institutions and allowances

	Group		Bank	
	2011	2010	**2011**	2010
Gross impaired balances with banks and other financial institutions as a percentage of total balances with banks and other financial institutions	**0.15%**	0.10%	**0.15%**	0.11%

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2011	2010	**2011**	2010
Money market placements				
– banks	**105,165**	35,361	**83,171**	17,826
– other financial institutions	**26,220**	23,556	**26,220**	23,725
	131,385	58,917	**109,391**	41,551
Less: Impairment allowances				
– banks	**(4)**	–	**(4)**	–
	131,381	58,917	**109,387**	41,551

(b) Analysed by remaining maturity

	Group		Bank	
	2011	2010	**2011**	2010
Maturing				
– within one month	**46,377**	28,647	**34,024**	15,369
– between one month and one year	**82,078**	29,939	**72,437**	25,851
– after one year	**2,926**	331	**2,926**	331
	131,381	58,917	**109,387**	41,551

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(c) Analysed by geographical location

	Group		Bank	
	2011	2010	**2011**	2010
Placements with				
– banks in the Mainland	**84,587**	18,389	**71,612**	7,283
– other financial institutions in the Mainland	**26,220**	23,556	**26,220**	23,725
	110,807	41,945	**97,832**	31,008
Placements with				
– banks outside the Mainland	**20,578**	16,972	**11,559**	10,543
	131,385	58,917	**109,391**	41,551
Less: Impairment allowances				
– banks	**(4)**	–	**(4)**	–
	131,381	58,917	**109,387**	41,551

18 AMOUNTS HELD UNDER RESALE AGREEMENTS

(a) Analysed by nature

	Group and Bank	
	2011	2010
Amounts held under resale agreements		
– banks	**69,550**	175,753
– other financial institutions	**4,425**	794
	73,975	176,547

(b) Analysed by remaining maturity

	Group and Bank	
	2011	2010
Maturing		
– within one months	**53,671**	81,083
– between one month and one year	**20,304**	95,464
	73,975	176,547

18 AMOUNTS HELD UNDER RESALE AGREEMENTS *(continued)*

(c) Analysed by geographical location

	Group and Bank	
	2011	2010
Amounts held under resale agreements		
– banks in the Mainland	**69,550**	175,753
– other financial institutions in the Mainland	**4,425**	794
	73,975	176,547

(d) Analysed by assets types

	Group and Bank	
	2011	2010
Bonds issued by		
– PRC government	**3,658**	3,303
– issued by the PBOC	**817**	950
– issued by policy banks	**11,639**	6,609
– others	**41,673**	51,448
	57,787	62,310
Loans	**2,700**	2,794
Bills	**13,488**	111,443
	73,975	176,547

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	Group		Bank	
	2011	2010	**2011**	2010
Corporate loans	**994,041**	870,515	**903,991**	802,327
Discounted bills	**75,826**	64,948	**68,966**	61,038
Retail loans	**571,208**	495,988	**556,935**	482,736
Gross loans and advances to customers	**1,641,075**	1,431,451	**1,529,892**	1,346,101
Less: impairment allowances				
– individually-assessed	**(5,125)**	(5,912)	**(5,018)**	(5,805)
– collectively-assessed	**(31,579)**	(23,379)	**(30,961)**	(22,996)
	(36,704)	(29,291)	**(35,979)**	(28,801)
Net loans and advances to customers	**1,604,371**	1,402,160	**1,493,913**	1,317,300

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	Group		Bank	
	2011	2010	**2011**	2010
Domestic enterprises:				
State-owned enterprises	**239,251**	240,574	**234,401**	237,482
Joint-stock enterprises	**95,914**	82,620	**88,484**	77,518
Other limited liability enterprises	**289,696**	225,835	**268,862**	220,151
Others	**151,463**	128,677	**150,700**	119,253
	776,324	677,706	**742,447**	654,404
Foreign-invested enterprises	**127,121**	130,055	**122,488**	128,676
Enterprises operating in the Mainland	**903,445**	807,761	**864,935**	783,080
Enterprises operating outside the Mainland	**90,596**	62,754	**39,056**	19,247
Corporate loans	**994,041**	870,515	**903,991**	802,327
Discounted bills	**75,826**	64,948	**68,966**	61,038
Retail loans	**571,208**	495,988	**556,935**	482,736
Gross loans and advances to customers	**1,641,075**	1,431,451	**1,529,892**	1,346,101

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by industry sector:

Operation in Mainland China

	Group		Bank	
	2011	2010	**2011**	2010
Manufacturing and processing	**299,734**	248,069	**285,600**	237,923
Wholesale and retail	**154,953**	106,654	**153,777**	105,999
Transportation, storage and postal services	**135,958**	128,401	**130,983**	125,166
Property development	**79,453**	80,856	**78,575**	80,092
Production and supply of electric power, gas and water	**64,470**	61,466	**56,587**	57,740
Construction	**43,273**	33,348	**41,184**	31,939
Leasing and commercial services	**37,328**	49,899	**36,013**	49,705
Mining	**35,481**	27,891	**31,156**	24,432
Water, environment and public utilities management	**33,752**	31,894	**33,208**	31,595
Telecommunications, computer services and software	**9,874**	7,119	**9,732**	7,049
Others	**24,110**	30,615	**23,123**	29,611
Corporate loans	**918,386**	806,212	**879,938**	781,251
Discounted bills	**75,826**	64,948	**68,966**	61,038
Credit cards	**72,964**	54,589	**72,964**	54,589
Retail housing mortgage loans	**315,760**	290,348	**315,696**	290,274
Retail operating loans	**89,174**	64,609	**86,446**	63,740
Others	**81,998**	74,486	**81,829**	74,133
Retail loans	**559,896**	484,032	**556,935**	482,736
Gross loans and advances to customers	**1,554,108**	1,355,192	**1,505,839**	1,325,025

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by industry sector: (continued)

Operation outside Mainland China

	Group		Bank	
	2011	2010	**2011**	2010
Property development	**33,365**	32,326	**7,156**	5,964
Wholesale and retail	**14,538**	9,414	**4,509**	5,632
Manufacturing	**8,238**	5,385	**3,667**	1,786
Financial concerns	**5,392**	6,239	**243**	502
Transportation and transportation equipment	**4,992**	3,154	**2,947**	2,204
Information technology	**852**	170	**613**	–
Recreational activities	**30**	229	**–**	–
Others	**8,248**	7,386	**4,918**	4,988
Corporate loans	**75,655**	64,303	**24,053**	21,076
Credit cards	**341**	327	**–**	–
Retail housing mortgage loans	**7,880**	8,649	**–**	–
Retail operating loans	**1,255**	–	**–**	–
Others	**1,836**	2,980	**–**	–
Retail loans	**11,312**	11,956	**–**	–
Gross loans and advances to customers	**86,967**	76,259	**24,053**	21,076

Notes: 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. At 31 December 2011, 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 2010).

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Group			
	2011			
	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	**22,026**	**1,353**	**5,912**	**29,291**
Charge for the year (Note 11)	**8,258**	**31**	**759**	**9,048**
Releases for the year (Note 11)	**(20)**	**(2)**	**(827)**	**(849)**
Unwinding of discount	**–**	**(1)**	**(135)**	**(136)**
Recoveries of loans and advances previously written off	**–**	**27**	**38**	**65**
Write-offs	**–**	**(19)**	**(564)**	**(583)**
Exchange difference	**(74)**	**–**	**(58)**	**(132)**
At 31 December	**30,190**	**1,389**	**5,125**	**36,704**

	Group			
	2010			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	16,638	1,398	5,969	24,005
Charge for the year (Note 11)	5,426	63	752	6,241
Releases for the year (Note 11)	(18)	(2)	(651)	(671)
Unwinding of discount	–	(2)	(108)	(110)
Recoveries of loans and advances previously written off	–	16	32	48
Write-offs	–	(120)	(32)	(152)
Transfers in	34	–	–	34
Exchange difference	(54)	–	(50)	(104)
At 31 December	22,026	1,353	5,912	29,291

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

	Bank 2011			
	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	**21,644**	**1,352**	**5,805**	**28,801**
Charge for the year	**7,996**	**25**	**701**	**8,722**
Releases for the year	**–**	**–**	**(819)**	**(819)**
Unwinding of discount	**–**	**–**	**(125)**	**(125)**
Recoveries of loans and advances previously written off	**–**	**26**	**35**	**61**
Write-offs	**–**	**(14)**	**(526)**	**(540)**
Exchange difference	**(68)**	**–**	**(53)**	**(121)**
At 31 December	**29,572**	**1,389**	**5,018**	**35,979**

	Bank 2010			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	16,439	1,395	5,873	23,707
Charge for the year	5,235	57	685	5,977
Releases for the year	–	–	(636)	(636)
Unwinding of discount	–	–	(101)	(101)
Recoveries of loans and advances previously written off	–	14	30	44
Write-offs	–	(114)	–	(114)
Transfers in	20	–	–	20
Exchange difference	(50)	–	(46)	(96)
At 31 December	21,644	1,352	5,805	28,801

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Group					
	2011					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances: For which impairment losses are collectively assessed (Note (ii))	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	19,637	–	6	19,643	0.03	–
– non-financial institution customers	1,612,303	1,713	7,416	1,621,432	0.56	1,521
	1,631,940	1,713	7,422	1,641,075	0.56	1,521
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(15)	–	(6)	(21)		
– non-financial institution customers	(30,175)	(1,389)	(5,119)	(36,683)		
	(30,190)	(1,389)	(5,125)	(36,704)		
Net loans and advances to						
– financial institutions	19,622	–	–	19,622		
– non-financial institution customers	1,582,128	324	2,297	1,584,749		
	1,601,750	324	2,297	1,604,371		

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Group					
	2010					
	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	17,945	–	7	17,952	0.04	–
– non-financial institution customers	1,403,872	1,587	8,040	1,413,499	0.68	1,503
	1,421,817	1,587	8,047	1,431,451	0.67	1,503
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(27)	–	(7)	(34)		
– non-financial institution customers	(21,999)	(1,353)	(5,905)	(29,257)		
	(22,026)	(1,353)	(5,912)	(29,291)		
Net loans and advances to						
– financial institutions	17,918	–	–	17,918		
– non-financial institution customers	1,381,873	234	2,135	1,384,242		
	1,399,791	234	2,135	1,402,160		

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Bank 2011					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances: 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	8,836	–	6	8,842	0.07	–
– non-financial institution customers	1,512,166	1,705	7,179	1,521,050	0.58	1,358
	1,521,002	1,705	7,185	1,529,892	0.58	1,358
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(8)	–	(6)	(14)		
– non-financial institution customers	(29,564)	(1,389)	(5,012)	(35,965)		
	(29,572)	(1,389)	(5,018)	(35,979)		
Net loans and advances to						
– financial institutions	8,828	–	–	8,828		
– non-financial institution customers	1,482,602	316	2,167	1,485,085		
	1,491,430	316	2,167	1,493,913		

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Bank					
	2010					
	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	8,338	–	7	8,345	0.08	–
– non-financial institution customers	1,328,433	1,576	7,747	1,337,756	0.70	1,320
	1,336,771	1,576	7,754	1,346,101	0.69	1,320
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(20)	–	(7)	(27)		
– non-financial institution customers	(21,624)	(1,352)	(5,798)	(28,774)		
	(21,644)	(1,352)	(5,805)	(28,801)		
Net loans and advances to						
– financial institutions	8,318	–	–	8,318		
– non-financial institution customers	1,306,809	224	1,949	1,308,982		
	1,315,127	224	1,949	1,317,300		

Notes:

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

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

– collectively: that is portfolios of homogeneous loans; or

– individually.

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

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Finance leases and hire purchase contracts

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

	Group			
	2011		2010	
	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	**15,251**	**16,950**	7,540	8,459
After 1 year but within 5 years	**19,034**	**21,104**	13,448	14,750
After 5 years	**1,236**	**1,453**	854	966
	35,521	**39,507**	21,842	24,175
Impairment allowances:				
– individually assessed	**(3)**	**(3)**	(7)	(7)
– collectively assessed	**(476)**	**(476)**	(258)	(258)
Unearned future income on finance lease	**–**	**(3,986)**	–	(2,333)
Net investment in finance leases and hire purchase contracts	**35,042**	**35,042**	21,577	21,577

20 INTEREST RECEIVABLE

	Group		Bank	
	2011	2010	**2011**	2010
Debt securities	**5,432**	4,424	**5,329**	4,340
Loans and advances to customers	**3,966**	2,720	**3,868**	2,645
Others	**1,454**	444	**1,166**	319
	10,852	7,588	**10,363**	7,304

21 INVESTMENTS

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Financial assets at fair value through profit or loss	21(a)	**15,530**	15,229	**11,067**	12,265
Derivative financial assets	53(h)	**1,887**	1,738	**1,664**	1,579
Available-for-sale investments	21(b)	**275,860**	272,370	**262,457**	259,079
Held-to-maturity debt securities	21(c)	**145,586**	97,614	**143,398**	92,865
Receivables	21(d)	**22,085**	7,225	**23,300**	8,497
		460,948	394,176	**441,886**	374,285

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

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Trading financial assets	(i)	**12,401**	12,079	**8,625**	10,377
Financial assets designated at fair value through profit or loss	(ii)	**3,129**	3,150	**2,442**	1,888
		15,530	15,229	**11,067**	12,265

21 INVESTMENTS *(continued)*

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

	Group		Bank	
	2011	2010	**2011**	2010
(i) Trading assets				
Listed				
In the Mainland				
– PRC government bonds	**1,111**	1,210	**1,111**	1,210
– bonds issued by the PBOC	**33**	54	**33**	54
– bonds issued by policy banks	**470**	20	**470**	20
– bonds issued by commercial banks and other financial institutions	**1,101**	1,109	**1,101**	1,109
– other debt securities	**5,274**	7,303	**5,274**	7,303
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**387**	581	**387**	581
– other debt securities	**374**	49	**188**	37
– equity investments	**21**	14	**–**	–
	8,771	10,340	**8,564**	10,314
Unlisted				
In the Mainland				
– PRC government bonds	**2**	15	**–**	–
– bonds issued by policy banks	**–**	34	**–**	–
– bonds issued by commercial banks and other financial institutions	**26**	52	**–**	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**157**	162	**61**	63
– other debt securities	**3,436**	1,476	**–**	–
– investment in funds	**9**	–	**–**	–
	12,401	12,079	**8,625**	10,377

21 INVESTMENTS *(continued)*

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

	Group		Bank	
	2011	2010	**2011**	2010
(ii) Financial assets designated at fair value through profit or loss				
Listed				
In the Mainland				
– PRC government bonds	**–**	242	**–**	242
– bonds issued by policy banks	**601**	303	**601**	303
– bonds issued by commercial banks and other financial institutions	**1,240**	503	**1,240**	503
– other debt securities	**46**	312	**46**	312
Outside the Mainland				
– bonds issued by policy banks	**68**	–	**–**	–
– bonds issued by commercial banks and other financial institutions	**325**	134	**–**	–
– other debt securities	**386**	1,029	**230**	46
	2,666	2,523	**2,117**	1,406
Unlisted				
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**138**	144	**–**	–
– other debt securities	**325**	483	**325**	482
	463	627	**325**	482
	3,129	3,150	**2,442**	1,888

	Group		Bank	
	2011	2010	**2011**	2010
Financial assets at fair value through profit or loss (excluding derivative financial instruments)				
Issued by:				
Sovereigns	**4,468**	3,040	**1,144**	1,541
Banks and other financial institutions	**4,892**	3,525	**4,248**	3,061
Public sector entities	**4**	4	**–**	–
Corporates	**6,166**	8,660	**5,675**	7,663
	15,530	15,229	**11,067**	12,265

21 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	Group		Bank	
	2011	2010	**2011**	2010
Listed				
In the Mainland				
– PRC government bonds	**24,434**	27,533	**24,434**	27,533
– bonds issued by the PBOC	**15,245**	18,970	**15,245**	18,970
– bonds issued by policy banks	**46,139**	43,483	**44,665**	43,483
– bonds issued by commercial banks and other financial institutions	**94,640**	89,358	**93,165**	89,358
– other debt securities	**74,252**	68,767	**74,043**	68,767
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**2,654**	3,349	**1,476**	1,656
– other debt securities	**2,090**	1,853	**871**	357
– equity investments	**539**	518	**206**	150
– investments in funds	**15**	24	**–**	–
	260,008	253,855	**254,105**	250,274
Unlisted				
In the Mainland				
– bonds issued by policy banks	**10**	10	**–**	–
– bonds issued by commercial banks and other financial institutions	**705**	955	**600**	733
– equity investments	**669**	669	**434**	434
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**8,380**	11,726	**1,371**	2,523
– other debt securities	**6,029**	5,107	**5,939**	5,107
– equity investments	**59**	48	**8**	8
	15,852	18,515	**8,352**	8,805
	275,860	272,370	**262,457**	259,079
Issued by:				
Sovereigns	**40,309**	46,717	**40,309**	46,717
Banks and other financial institutions	**159,136**	154,610	**147,523**	143,101
Corporates	**76,415**	71,043	**74,625**	69,261
	275,860	272,370	**262,457**	259,079

21 INVESTMENTS *(continued)*

(c) Held-to-maturity debt securities

	Group		Bank	
	2011	2010	**2011**	2010
Listed				
In the Mainland				
– PRC government bonds	**67,998**	45,069	**67,998**	45,069
– bonds issued by the PBOC	**15,359**	12,945	**15,359**	12,945
– bonds issued by policy banks	**10,345**	4,172	**10,345**	4,172
– bonds issued by commercial banks and other financial institutions	**47,715**	28,550	**47,715**	28,550
– other debt securities	**933**	1,355	**933**	1,355
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**1,446**	1,572	**565**	248
– other debt securities	**1,038**	963	**562**	66
	144,834	94,626	**143,477**	92,405
Less: Impairment allowances	**(80)**	(80)	**(80)**	(80)
	144,754	94,546	**143,397**	92,325
Unlisted				
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**713**	2,866	**1**	540
– other debt securities	**213**	302	**–**	–
	926	3,168	**1**	540
Less: Impairment allowances	**(94)**	**(100)**	–	–
	832	3,068	**1**	540
	145,586	97,614	**143,398**	92,865
Issued by:				
Sovereigns	**83,406**	58,063	**83,402**	58,061
Banks and other financial institutions	**60,063**	37,001	**58,563**	33,449
Public sector entities	**9**	9	**–**	–
Corporates	**2,108**	2,541	**1,433**	1,355
	145,586	97,614	**143,398**	92,865
Fair value of listed debt securities	**146,739**	93,429	**145,411**	91,221

21 INVESTMENTS *(continued)*

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

Movements of allowances for impairment losses

	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**180**	184	**80**	82
Charge for the year	**4**	–	**4**	–
Exchange difference	**(10)**	(4)	**(4)**	(2)
As at 31 December	**174**	180	**80**	80

(d) Receivables

	Group		Bank	
	2011	2010	**2011**	2010
Unlisted				
In the Mainland				
– PRC government bonds	**3,714**	5,291	**3,714**	5,291
– bonds issued by commercial banks and other financial institutions	**7,220**	1,420	**7,220**	1,420
– other debt securities	**11,152**	–	**11,152**	–
	22,086	6,711	**22,086**	6,711
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**62**	574	**1,277**	1,846
	22,148	7,285	**23,363**	8,557
Less: Impairment allowances	**(63)**	(60)	**(63)**	(60)
	22,085	7,225	**23,300**	8,497
Issued by:				
Sovereigns	**3,714**	5,292	**3,714**	5,292
Banks and other financial institutions	**7,220**	1,933	**8,435**	3,205
Corporates	**11,151**	–	**11,151**	–
	22,085	7,225	**23,300**	8,497

21 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

Movements of allowances for impairment losses

	Group and Bank	
	2011	2010
As at 1 January	**60**	62
Charge for the year	**6**	–
Exchange difference	**(3)**	(2)
As at 31 December	**63**	60

Receivables are unlisted bearer's national bonds issued by the PRC government and other debt investments.

(e) Trading liabilities

	Group		Bank	
	2011	2010	**2011**	2010
Short positions in exchange fund bill and notes at fair value:				
– listed	**12**	5	**–**	–
– unlisted	**348**	183	**–**	–
	360	188	**–**	–

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

	Group		Bank	
	2011	2010	**2011**	2010
Unlisted				
Outside the Mainland				
– certificates of deposit issued	**4,364**	1,165	**3,558**	1,021

As at the end of reporting period, the difference between the fair value of the Group's and the Bank's financial liabilities at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2011 and 2010.

21 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.

21 INVESTMENTS *(continued)*

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

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

	2011							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	3,736	8,635	–	12,371	182	8,443	–	8,625
– Positive fair values of derivatives	–	1,887	–	1,887	–	1,664	–	1,664
– Equity investments	21	–	–	21	–	–	–	–
– Investment in funds	9	–	–	9	–	–	–	–
	3,766	10,522	–	14,288	182	10,107	–	10,289
Financial assets designated at fair value through profit or loss								
– Debt securities	687	2,117	325	3,129	–	2,117	325	2,442
Available-for-sale financial assets								
– Debt securities	13,476	261,102	–	274,578	3,757	258,052	–	261,809
– Equity investments	357	223	–	580	–	206	–	206
– Investments in funds	15	–	–	15	–	–	–	–
	13,848	261,325	–	275,173	3,757	258,258	–	262,015
	18,301	273,964	325	292,590	3,939	270,482	325	274,746
Liabilities								
Trading liabilities								
– Treasury bills (including Exchange Fund Bills)	360	–	–	360	–	–	–	–
– Negative fair value of derivatives	–	1,459	10	1,469	–	1,310	–	1,310
	360	1,459	10	1,829	–	1,310	–	1,310
Financial liabilities designated at fair value through profit or loss								
– Structured certificates of deposit issued	–	806	3,558	4,364	–	–	3,558	3,558
	360	2,265	3,568	6,193	–	1,310	3,558	4,868

21 INVESTMENTS *(continued)*

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

	2010							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	1,808	10,257	–	12,065	120	10,257	–	10,377
– Positive fair values of derivatives	–	1,737	1	1,738	–	1,578	1	1,579
– Equity investments	14	–	–	14	–	–	–	–
	1,822	11,994	1	13,817	120	11,835	1	11,956
Financial assets designated at fair value through profit or loss								
– Debt securities	1,261	1,406	483	3,150	–	1,406	482	1,888
Available-for-sale financial assets								
– Debt securities	12,747	258,364	–	271,111	3,385	255,102	–	258,487
– Equity investments	385	163	–	548	–	150	–	150
– Investments in funds	24	–	–	24	–	–	–	–
	13,156	258,527	–	271,683	3,385	255,252	–	258,637
	16,239	271,927	484	288,650	3,505	268,493	483	272,481
Liabilities								
Trading liabilities								
– Treasury bills (including Exchange Fund Bills)	188	–	–	188	–	–	–	–
– Negative fair value of derivatives	–	1,675	146	1,821	–	1,619	1	1,620
	188	1,675	146	2,009	–	1,619	1	1,620
Financial liabilities designated at fair value through profit or loss								
– Structured certificates of deposit issued	–	144	1,021	1,165	–	–	1,021	1,021
	188	1,819	1,167	3,174	–	1,619	1,022	2,641

21 INVESTMENTS *(continued)*

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

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

(i) Valuation of financial instruments with significant unobservable inputs

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

	The Group		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – Debt securities**	**Total**
Assets			
At 1 January 2011	**1**	**483**	**484**
Purchases	**–**	**39**	**39**
Payment on maturity	**(1)**	**(212)**	**(213)**
Transfer out			
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net income from financial instruments designated at fair value through profit and loss	**–**	**28**	**28**
– Exchange difference	**–**	**(13)**	**(13)**
At 31 December 2011	**–**	**325**	**325**
Total gains or losses for the year included in the consolidated statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net trading income	**–**	**–**	**–**
– Net income from financial instruments designated at fair value through profit and loss	**–**	**7**	**7**

21 INVESTMENTS *(continued)*

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

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

	The Group		
	Trading liabilities – Negative value derivatives	**Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued**	**Total**
Liabilities			
At 1 January 2011	**146**	**1,021**	**1,167**
Issues	**–**	**3,183**	**3,183**
Payment on maturity	**(1)**	**(622)**	**(623)**
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	**(132)**	**(11)**	**(143)**
– Exchange difference	**(3)**	**(13)**	**(16)**
At 31 December 2011	**10**	**3,558**	**3,568**
Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	**17**	**(31)**	**(14)**

21 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – Debt securities**	**Total**
Assets			
At 1 January 2011	**1**	**482**	**483**
Payment on maturity	**(1)**	**(134)**	**(135)**
Transfer out			
Changes in fair value recognised in the statement of comprehensive income:			
– Net income from financial instruments designated at fair value through profit and loss	**–**	**(11)**	**(11)**
– Exchange difference	**–**	**(12)**	**(12)**
At 31 December 2011	**–**	**325**	**325**
Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net trading income	**–**	**–**	**–**
– Net income from financial instruments designated at fair value through profit and loss	**–**	**7**	**7**

21 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2011	**1**	**1,021**	**1,022**
Issues	**–**	**3,183**	**3,183**
Payment on maturity	**(1)**	**(622)**	**(623)**
Changes in fair value recognised in the statement of comprehensive income:			
– Net trading income	**–**	**(11)**	**(11)**
– Exchange difference	**–**	**(13)**	**(13)**
At 31 December 2011	**–**	**3,558**	**3,558**
Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	**–**	**(31)**	**(31)**

21 INVESTMENTS *(continued)*

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

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

	The Group		
	Trading assets – Positive fair value of derivatives	Financial assets designated at fair value through profit or loss – Debt securities	Total
Assets			
At 1 January 2010	57	701	758
Purchases	1	–	1
Payment on maturity	–	(195)	(195)
Transfer out	(21)	–	(21)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	(35)	–	(35)
– Net income from financial instruments designated at fair value through profit and loss	–	1	1
– Exchange difference	(1)	(24)	(25)
At 31 December 2010	1	483	484
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 trading income	(9)	–	(9)
– Net income from financial instruments designated at fair value through profit and loss	–	32	32

21 INVESTMENTS *(continued)*

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

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

	The Group		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2010	444	819	1,263
Issues	1	848	849
Payment on maturity	–	(619)	(619)
Transfer out	(18)	–	(18)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	(265)	3	(262)
– Exchange difference	(16)	(30)	(46)
At 31 December 2010	146	1,021	1,167
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	15	(5)	10

21 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading assets – Positive fair value of derivatives	Financial assets designated at fair value through profit or loss – Debt securities	Total
Assets			
At 1 January 2010	21	633	654
Purchases	1	–	1
Payment on maturity	–	(132)	(132)
Transfer out	(21)	–	(21)
Changes in fair value recognised in the statement of comprehensive income:			
– Net income from financial instruments designated at fair value through profit and loss	–	2	2
– Exchange difference	–	(21)	(21)
At 31 December 2010	1	482	483
Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net trading income	1	–	1
– Net income from financial instruments designated at fair value through profit and loss	–	31	31

21 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2010	18	819	837
Issues	1	848	849
Payment on maturity	–	(619)	(619)
Transfer out	(18)	–	(18)
Changes in fair value recognised in the statement of comprehensive income:			
– Net trading income	–	3	3
– Exchange difference	–	(30)	(30)
At 31 December 2010	1	1,021	1,022
Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	(1)	(5)	(6)

(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.

21 INVESTMENTS *(continued)*

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

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

	The Group		The Bank	
	2011		2011	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Trading assets				
– Positive fair value of derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss				
– Debt securities	33	(33)	33	(33)
	33	(33)	33	(33)
Trading liabilities				
– Negative fair value of derivatives	1	(1)	–	–
Financial liabilities designated at fair value through profit loss				
– Structured certificates of deposit issued	356	(356)	356	(356)
	357	(357)	356	(356)

21 INVESTMENTS *(continued)*

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

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

	The Group		The Bank	
	2010		2010	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Trading assets				
– Positive fair value of derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss				
– Debt securities	48	(48)	48	(48)
	48	(48)	48	(48)
Trading liabilities				
– Negative fair value of derivatives	15	(15)	–	–
Financial liabilities designated at fair value through profit loss				
– Structured certificates of deposit issued	102	(102)	102	(102)
	117	(117)	102	(102)

(h)

(i) CIGNA & CMC Life Insurance Company Limited

On 5 May 2008, the Bank entered into an equity transfer agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interests in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance"), for a total consideration of RMB141.9 million for a valid period of two years. On 4 May 2010, the Bank renewed the equity transfer agreement with identical terms with Dingzun. As at 31 December 2011, the acquisition was still awaiting approval from the regulatory authorities.

(ii) Trust & Investment Corporation of Tibet Autonomous Region

On 18 September 2008, the Bank entered into the framework agreement with the Tibet Autonomous Region Finance Bureau to acquire 60.5% equity interest in Trust & Investment Corporation of Tibet Autonomous Region ("Tibet Trust"). As at 31 December 2011, the acquisition was still awaiting approval from the regulatory authorities.

22 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2011	2010
Unlisted shares, at cost	**34,333**	34,333
Less: Impairment loss	**(1,768)**	(1,768)
	32,565	32,565

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	**Place of incorporation and operation**	**Particulars of the issued and paid up capital** (in millions)	**% of ownership held by the Bank**	**Principal activities**
CMB International Capital Corporation Limited (note (i))	Hong Kong	HK$250	100%	Financial advisory services
CMB Finance Lease Company Limited (note (ii))	Shanghai	RMB2,000	100%	Finance lease
Wing Lung Bank Limited (note (iii))	Hong Kong	HK$1,161	100%	Banking

(i) CMB International Capital Corporation Limited ("CMBICC"), formerly known as Jiangnan Finance Company Limited is the Bank's wholly-owned subsidiary approved by the People's Bank of China ("PBOC") through its Yin Fu [1998] No. 405, and was renamed as CMBICC on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008.

(iii) Wing Lung Bank, Limited ("Wing Lung Bank") is a wholly owned subsidiary of the Bank acquired in 2008 by way of agreement. The acquisition was completed on 15 January 2009. Wing Lung Bank had withdrawn from listing on the Hong Kong Stock Exchange as of 16 January 2009.

23 INTEREST IN ASSOCIATES

	Group		Bank	
	2011	2010	**2011**	2010
Unlisted shares, at cost	**–**	–	**191**	191
Share of net assets	**184**	172	**–**	–
Goodwill	**114**	114	**–**	–
	298	286	**191**	191
Less: Impairment allowance (Note 11)	**(1)**	(1)	**–**	–
	297	285	**191**	191

The following list contains only the particulars of associates as of 31 December 2011, which are unlisted corporate entities and principally affected the results or assets of the Group:

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

23 INTEREST IN ASSOCIATES *(continued)*

Summary financial information on associates (China Merchants Fund Management Company Limited)

	Assets	Liabilities	Equity	Revenues	Profit
2011					
100 per cent	**863**	**228**	**635**	**602**	**171**
Group's effective interest	**288**	**76**	**179**	**188**	**47**
2010					
100 per cent	770	203	567	566	163
Group's effective interest	257	68	166	180	46

Summary financial information on associates (Others)

	Assets	Liabilities	Equity	Revenues	Profit
2011					
100 per cent	**85**	**70**	**15**	**15**	**7**
Group's effective interest	**23**	**19**	**4**	**4**	**2**
2010					
100 per cent	90	74	16	15	7
Group's effective interest	25	19	6	4	2

24 INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group and Bank	
	2011	2010
Share of net assets	**128**	121
Loan to jointly controlled entities	**31**	37
	159	158

24 INTEREST IN JOINTLY CONTROLLED ENTITIES *(continued)*

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

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

Summary financial information on jointly controlled entitles:

	Assets	Liabilities	Equity	Revenues	Profit
2011					
100 per cent	**5,397**	**4,410**	**987**	**1,364**	**111**
Group's effective interest	**858**	**730**	**128**	**213**	**14**
2010					
100 per cent	4,728	3,813	915	1,359	111
Group's effective interest	749	628	121	216	16

Notes:

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

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

25 FIXED ASSETS

2011

	Group					
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:						
At 1 January 2011	9,291	3,798	5,947	3,426	3,301	25,763
Additions	120	1,632	718	763	561	3,794
Reclassification and transfers	1,467	(1,407)	(2,074)	17	2,074	77
Disposals/write-offs	(35)	–	(201)	(114)	(301)	(651)
Exchange difference	(139)	–	(2)	(11)	(5)	(157)
At 31 December 2011	10,704	4,023	4,388	4,081	5,630	28,826
Accumulated depreciation:						
At 1 January 2011	2,355	–	4,392	1,345	1,220	9,312
Depreciation	467	–	642	719	672	2,500
Reclassification and transfers	24	–	(1,641)	–	1,641	24
Written back on disposals/ write-offs	(14)	–	(200)	(10)	(251)	(475)
Exchange difference	(24)	–	(2)	(7)	(2)	(35)
At 31 December 2011	2,808	–	3,191	2,047	3,280	11,326
Net book value:						
At 31 December 2011	7,896	4,023	1,197	2,034	2,350	17,500
At 1 January 2011	6,936	3,798	1,555	2,081	2,081	16,451

25 FIXED ASSETS *(continued)*

2010

	Group					
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:						
At 1 January 2010	8,510	3,016	5,256	3,091	1,849	21,722
Additions	74	1,641	1,004	858	1,554	5,131
Reclassification and transfers	831	(859)	(2)	44	16	30
Disposals/write-offs	(9)	–	(307)	(568)	(116)	(1,000)
Exchange difference	(115)	–	(4)	1	(2)	(120)
At 31 December 2010	9,291	3,798	5,947	3,426	3,301	25,763
Accumulated depreciation:						
At 1 January 2010	1,936	–	3,669	1,252	1,028	7,885
Depreciation	468	–	1,023	565	306	2,362
Reclassification and transfers	6	–	(1)	2	1	8
Written back on disposals/ write-offs	(6)	–	(298)	(474)	(114)	(892)
Exchange difference	(49)	–	(1)	–	(1)	(51)
At 31 December 2010	2,355	–	4,392	1,345	1,220	9,312
Net book value:						
At 31 December 2010	6,936	3,798	1,555	2,081	2,081	16,451
At 1 January 2010	6,574	3,016	1,587	1,839	821	13,837

25 FIXED ASSETS *(continued)*

2011

	Bank					
	Land and buildings	**Construction in progress**	**Computer equipment**	**Leasehold improvements**	**Motor vehicles and others**	**Total**
Cost:						
At 1 January 2011	6,399	3,798	5,832	3,318	2,212	21,559
Additions	120	1,401	690	753	554	3,518
Reclassification and transfers (Note)	1,352	(1,407)	(2,074)	17	2,074	(38)
Disposals/write-offs	(34)	–	(198)	(107)	(247)	(586)
Exchange difference	(12)	–	2	(1)	(3)	(14)
At 31 December 2011	7,825	3,792	4,252	3,980	4,590	24,439
Accumulated depreciation:						
At 1 January 2011	2,037	–	4,356	1,302	1,203	8,898
Depreciation	324	–	608	704	611	2,247
Reclassification and transfers	6	–	(1,641)	–	1,641	6
Written back on disposals/ write-offs	(14)	–	(198)	(5)	(247)	(464)
Exchange difference	(8)	–	–	1	(2)	(9)
At 31 December 2011	2,345	–	3,125	2,002	3,206	10,678
Net book value:						
At 31 December 2011	5,480	3,792	1,127	1,978	1,384	13,761
At 1 January 2011	4,362	3,798	1,476	2,016	1,009	12,661

Note: The Bank reclassified the "ATM machine" from "computer equipment" to "Motor vehicles and others" in the beginning of the year 2011. As at 31 December 2011, the cost and accumulated depreciation of the equipment transferred from "computer equipment" is RMB2.07 billion and RMB1.64 billion.

25 FIXED ASSETS *(continued)*

2010

	Bank					
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:						
At 1 January 2010	5,566	3,016	5,160	3,002	1,815	18,559
Additions	74	1,641	973	847	493	4,028
Transfers	775	(859)	(2)	31	16	(39)
Disposals/write-offs	(9)	–	(299)	(562)	(112)	(982)
Exchange difference	(7)	–	–	–	–	(7)
At 31 December 2010	6,399	3,798	5,832	3,318	2,212	21,559
Accumulated depreciation:						
At 1 January 2010	1,750	–	3,662	1,230	1,019	7,661
Depreciation	298	–	986	545	296	2,125
Transfers	1	–	–	–	(2)	(1)
Written back on disposals/write-offs	(6)	–	(292)	(473)	(110)	(881)
Exchange difference	(6)	–	–	–	–	(6)
At 31 December 2010	2,037	–	4,356	1,302	1,203	8,898
Net book value:						
At 31 December 2010	4,362	3,798	1,476	2,016	1,009	12,661
At 1 January 2010	3,816	3,016	1,498	1,772	796	10,898

25 FIXED ASSETS *(continued)*

(a) Analysed by remaining terms of leases

The net book value of land and buildings at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Held in Mainland China				
– long leases (over 50 years)	**318**	365	**316**	363
– medium-term leases (10 – 50 years)	**5,133**	3,974	**5,131**	3,962
	5,451	4,339	**5,447**	4,325
Held in Hong Kong				
– long leases (over 50 years)	**1,258**	1,313	**–**	–
– medium-term leases (10 – 50 years)	**1,164**	1,258	**33**	37
	2,422	2,571	**33**	37
Held in Overseas				
– freehold	**23**	26	**–**	–
	7,896	6,936	**5,480**	4,362

(b) As at 31 December 2011, the Board of Directors considered that there was no impairment loss on fixed assets (2010: nil).

(c) As at 31 December 2011, ownership documentation for the Group's properties with a net carrying value of RMB532 million (2010: RMB109 million) was being finalised.

(d) As at 31 December 2011, the Group has no significant unused fixed assets (2010: nil).

26 INVESTMENT PROPERTIES

	Group		Bank	
	2011	2010	**2011**	2010
Cost:				
At 1 January	**2,334**	2,474	**449**	452
Transfers	**(77)**	(24)	**38**	39
Disposals	**–**	(42)	**–**	(42)
Exchange difference	**(82)**	(74)	**–**	–
At 31 December	**2,175**	2,334	**487**	449
Accumulated depreciation				
At 1 January	**388**	303	**174**	175
Depreciation	**112**	135	**21**	21
Transfers	**(24)**	(3)	**(6)**	1
Disposals	**–**	(23)	**–**	(23)
Exchange difference	**(11)**	(24)	**–**	–
At 31 December	**465**	388	**189**	174
Net book value:				
At 31 December	**1,710**	1,946	**298**	275
At 1 January	**1,946**	2,171	**275**	277

26 INVESTMENT PROPERTIES *(continued)*

(a) Analysed by remaining terms of leases

The net book value of investment properties at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Held in Mainland China				
– long leases (over 50 years)	**–**	–	**–**	–
– medium-term leases (10 – 50 years)	**322**	301	**298**	275
	322	301	**298**	275
Held in Hong Kong				
– long leases (over 50 years)	**1**	82	**–**	–
– medium-term leases (10 – 50 years)	**1,387**	1,563	**–**	–
	1,388	1,645	**–**	–
	1,710	1,946	**298**	275

(b)

Investment properties of the Group mainly represent WLB leasing properties and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2011, fair value of these properties was RMB2.60 billion (2010: RMB2.44 billion). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	Group		Bank	
	2011	2010	**2011**	2010
1 year or less	**140**	131	**64**	49
5 years or less but over 1 year	**97**	106	**59**	46
Over 5 years	**1**	–	**1**	–
	238	237	**124**	95

27 INTANGIBLE ASSETS

2011

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

2010

	Group				
	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2010	1,110	521	10	1,156	2,797
Additions	–	334	–	–	334
Exchange difference	(10)	–	–	(42)	(52)
At 31 December 2010	1,100	855	10	1,114	3,079
Amortization:					
At 1 January 2010	135	129	6	50	320
Additions	22	76	4	40	142
Exchange difference	(1)	–	–	(2)	(3)
At 31 December 2010	156	205	10	88	459
Net book value:					
At 31 December 2010	944	650	–	1,026	2,620
At 1 January 2010	975	392	4	1,106	2,477

27 INTANGIBLE ASSETS *(continued)*

2011

	Bank		
	Land use right	**Software**	**Total**
Cost/Valuation:			
At 1 January 2011	**886**	**853**	**1,739**
Additions	**57**	**372**	**429**
Write-offs	**(139)**	**–**	**(139)**
At 31 December 2011	**804**	**1,225**	**2,029**
Amortization:			
At 1 January 2011	**147**	**204**	**351**
Additions	**18**	**257**	**275**
Write-offs	**(56)**	**(7)**	**(63)**
At 31 December 2011	**109**	**454**	**563**
Net book value:			
At 31 December 2011	**695**	**771**	**1,466**
At 1 January 2011	**739**	**649**	**1,388**

2010

	Bank		
	Land use right	Software	Total
Cost/Valuation:			
At 1 January 2010	886	520	1,406
Additions	–	333	333
At 31 December 2010	886	853	1,739
Amortization:			
At 1 January 2010	129	128	257
Additions	18	76	94
At 31 December 2010	147	204	351
Net book value:			
At 31 December 2010	739	649	1,388
At 1 January 2010	757	392	1,149

28 GOODWILL

	Group	
	2011	2010
Cost	**10,177**	10,177
Less: Impairment loss	**(579)**	(579)
	9,598	9,598

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

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), Wing Lung Bank which was acquired on 30 September 2008.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of Wing Lung Bank. A pre-tax discount rate of 12% (2010: 12%) was used.

29 DEFERRED TAX ASSETS/LIABILITIES

	Group		Bank	
	2011	2010	**2011**	2010
Deferred tax assets	**4,337**	3,706	**4,207**	3,594
Deferred tax liabilities	**(864)**	(924)	**–**	–
Total	**3,473**	2,782	**4,207**	3,594

(a) Nature of deferred tax assets and liabilities

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

	Group			
	2011		2010	
	Deductible/ (taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Impairment losses on loans and advance to customers and other assets	**16,348**	**3,984**	11,918	2,902
Investment revaluation reserve	**(107)**	**(26)**	1,901	463
Deductible salary expenses	**2,294**	**559**	1,261	307
Others	**(4,284)**	**(1,044)**	(3,655)	(890)
Total	**14,251**	**3,473**	11,425	2,782

29 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(a) Nature of deferred tax assets and liabilities *(continued)*

	Bank			
	2011		2010	
	Deductible/ (taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Impairment losses on loans and advance to customers and other assets	**16,040**	**3,909**	11,688	2,846
Investment revaluation reserve	**(144)**	**(35)**	1,889	460
Deductible salary expenses	**2,290**	**558**	1,261	307
Others	**(923)**	**(225)**	(78)	(19)
Total	**17,263**	**4,207**	14,760	3,594

(b) Movements of deferred tax

	Group				
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2011	**2,902**	**463**	**307**	**(890)**	**2,782**
Recognised in the consolidated statement of comprehensive income	**1,084**	**–**	**252**	**(99)**	**1,237**
– due to timing differences	**1,008**	**–**	**244**	**(99)**	**1,153**
– due to income tax rate change	**76**	**–**	**8**	**–**	**84**
Recognised in reserves	**–**	**(489)**	**–**	**(92)**	**(581)**
– due to timing differences	**–**	**(501)**	**–**	**(92)**	**(593)**
– due to income tax rate change	**–**	**12**	**–**	**–**	**12**
Due to exchange difference	**(2)**	**–**	**–**	**37**	**35**
At 31 December 2011	**3,984**	**(26)**	**559**	**(1,044)**	**3,473**
At 1 January 2010	2,199	96	454	(904)	1,845
Recognised in the consolidated statement of comprehensive income	705	–	(147)	(18)	540
– due to timing differences	575	–	(174)	(18)	383
– due to income tax rate change	130	–	27	–	157
Recognised in reserves	–	367	–	(1)	366
– due to timing differences	–	361	–	(1)	360
– due to income tax rate change	–	6	–	–	6
Due to exchange difference	(2)	–	–	33	31
At 31 December 2010	2,902	463	307	(890)	2,782

29 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

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

	Bank				
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2011	**2,846**	**460**	**307**	**(19)**	**3,594**
Recognised in the consolidated statement of comprehensive income	**1,063**	**–**	**251**	**(114)**	**1,200**
– due to timing differences	**987**	**–**	**243**	**(114)**	**1,116**
– due to income tax rate change	**76**	**–**	**8**	**–**	**84**
Recognised in reserves	**–**	**(495)**	**–**	**(92)**	**(587)**
– due to timing differences	**–**	**(507)**	**–**	**(92)**	**(599)**
– due to income tax rate change	**–**	**12**	**–**	**–**	**12**
At 31 December 2011	**3,909**	**(35)**	**558**	**(225)**	**4,207**
At 1 January 2010	2,179	105	454	(28)	2,710
Recognised in the consolidated statement of comprehensive income	667	–	(147)	10	530
– due to timing differences	537	–	(174)	10	373
– due to income tax rate change	130	–	27	–	157
Recognised in reserves	–	355	–	(1)	354
– due to timing differences	–	349	–	(1)	348
– due to income tax rate change	–	6	–	–	6
At 31 December 2010	2,846	460	307	(19)	3,594

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. As a result of New Tax Law, the income tax rate applicable to the Bank's business in areas other than Shenzhen is 25%, the income tax rate for the Bank's business in Shenzhen will gradually increase to the standard rate of 25% (being 22% in 2010, 24% in 2011 and 25% in 2012).

30 OTHER ASSETS

	Group		Bank	
	2011	2010	**2011**	2010
Amounts pending for settlement	**818**	623	**68**	158
Repossessed assets (note (a))	**41**	63	**41**	63
Prepaid lease payments	**534**	440	**526**	435
Deposits	**150**	189	**138**	183
Prepayment for lease improvement and other miscellaneous items	**232**	215	**168**	200
Continuing involvement assets	**–**	70	**–**	70
Premium receivables	**155**	128	**–**	–
Recoverable from reinsurers	**223**	196	**–**	–
Retirement benefit scheme (note 37(b)(ii))	**168**	172	**–**	–
Income tax receivables	**–**	12	**–**	–
Others	**3,831**	2,638	**3,246**	2,191
Subtotal	**6,152**	4,746	**4,187**	3,300
Less: Impairment allowances	**(264)**	(307)	**(237)**	(257)
Total	**5,888**	4,439	**3,950**	3,043

(a) Repossessed assets

	Group and Bank	
	2011	2010
Residential properties	**646**	778
Others	**268**	272
Total	**914**	1,050
Less: Impairment allowances	**(873)**	(987)
Net repossessed assets	**41**	63

Note:

(i) In 2011, the Group has disposed repossessed assets with total cost of RMB125 million (2010: RMB115 million).

(ii) The Group plan to dispose the repossessed assets by auction, bid and transfer.

31 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2011	2010	**2011**	2010
Deposits from banks				
– In the Mainland	**79,937**	57,969	**77,121**	56,158
– Outside Mainland	**4,220**	4,389	**4,952**	3,801
Deposits from other financial institutions				
– In the Mainland	**121,542**	140,653	**121,541**	140,652
	205,699	203,011	**203,614**	200,611

32 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2011	2010	**2011**	2010
Banks in the Mainland	**53,265**	35,347	**26,034**	18,332
Banks outside the Mainland	**14,219**	10,226	**8,862**	5,452
	67,484	45,573	**34,896**	23,784

33 AMOUNTS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by geographical location

	Group		Bank	
	2011	2010	**2011**	2010
Balances under repurchase				
– banks in agreement the Mainland	**31,153**	26,308	**31,153**	26,308
– other financial institution in the Mainland	**6,674**	3,924	**3,674**	3,924
	37,827	30,232	**34,827**	30,232
Rediscounted bills				
– banks in the Mainland	**4,237**	3,207	**4,237**	3,207
	42,064	33,439	**39,064**	33,439

33 AMOUNTS SOLD UNDER REPURCHASE AGREEMENTS *(continued)*

(b) Analysed by assets type

	Group		Bank	
	2011	2010	**2011**	2010
Securities				
– PRC government bonds	**–**	4,034	**–**	4,034
– Bonds issued by the PBOC	**1,797**	11,949	**1,797**	11,949
– Bonds issued by policy banks	**32,715**	14,249	**32,715**	14,249
– Other debt securities	**315**	–	**315**	–
	34,827	30,232	**34,827**	30,232
Discounted bills	**4,237**	3,207	**4,237**	3,207
Loans	**3,000**	–	**–**	–
	42,064	33,439	**39,064**	33,439

34 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2011	2010	**2011**	2010
Corporate customers				
– Demand deposits	**754,904**	664,947	**746,275**	655,329
– Time deposits	**661,866**	528,632	**629,368**	503,214
	1,416,770	1,193,579	**1,375,643**	1,158,543
Retail customers				
– Demand deposits	**456,688**	413,888	**437,954**	391,441
– Time deposits	**346,602**	289,711	**313,340**	258,928
	803,290	703,599	**751,294**	650,369
	2,220,060	1,897,178	**2,126,937**	1,808,912

34 DEPOSITS FROM CUSTOMERS *(continued)*

(a) Guarantee deposits and margins received

Customers' deposits include deposit of guarantee as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Guarantee for acceptance bills	**104,997**	90,367	**104,875**	90,366
Guarantee for loans	**18,548**	9,521	**15,088**	9,521
Guarantee for issuing letters of credit	**19,557**	11,336	**19,553**	11,320
Deposit for letters of guarantee	**19,152**	17,207	**18,801**	16,963
Others	**21,654**	19,739	**21,654**	19,717
	183,908	148,170	**179,971**	147,887

35 INTEREST PAYABLE

	Group			
	2011			
	Beginning balance	**Provision in this year**	**Payment in the year**	**Ending balance**
Issued debt securities	**548**	**1,858**	**(1,821)**	**585**
Customer deposit and others	**9,821**	**43,069**	**(37,395)**	**15,495**
	10,369	**44,927**	**(39,216)**	**16,080**

	Group			
	2010			
	Beginning balance	Provision in this year	Payment in the year	Ending balance
Issued debt securities	565	1,858	(1,875)	548
Customer deposit and others	7,733	25,566	(23,478)	9,821
	8,298	27,424	(25,353)	10,369

35 INTEREST PAYABLE *(continued)*

	Bank			
	2011			
	Beginning balance	**Provision in this year**	**Payment in the year**	**Ending balance**
Issued debt securities	**547**	**1,707**	**(1,670)**	**584**
Customer deposit and others	**9,566**	**40,709**	**(35,437)**	**14,838**
	10,113	**42,416**	**(37,107)**	**15,422**

	Bank			
	2010			
	Beginning balance	Provision in this year	Payment in the year	Ending balance
Issued debt securities	564	1,777	(1,794)	547
Customer deposit and others	7,643	24,500	(22,577)	9,566
	8,207	26,277	(24,371)	10,113

36 DEBT ISSUED

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Certificates of deposit issued		**14,980**	5,053	**5,564**	3,948
Subordinated notes issued	36(a)	**31,187**	31,232	**29,971**	29,960
		46,167	36,285	**35,535**	33,908

36 DEBT ISSUED *(continued)*

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Particulars	Terms	Date of issue	Annual fixed interest rate	Nominal value	Carrying amount 2011	Carrying amount 2010
			(%)	(in RMB million)		
Fixed rate notes (note (i))	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from 6 year onwards, if the notes are not called by the Bank)	19,000	**18,985**	18,977
Fixed rate notes (note (i))	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	**6,989**	6,988
Floating rate notes (note (i))	120 months	4 September 2008	R*+1.53% (for the first 5 years); R*+4.53% (from 6 years onwards, if the notes are not called by the Bank)	4,000	**3,997**	3,995
					29,971	29,960

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

Particulars	Terms	Date of issue	Annual fixed interest rate	Nominal value	Carrying amount 2011	Carrying amount 2010
			(%)	(in HK$ million)		
Fixed rate notes	144 months	28 December 2009	5.70	1,500	**1,216**	1,272
					31,187	31,232

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

Note:

(i) The CBRC and PBOC approved the Bank's issuance of RMB30 billion subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26 billion fixed rate notes and RMB4 billion floating rate notes on 4 September 2008 to institutional investors on the China Interbank Bond Market. The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

37 STAFF WELFARE SCHEME

(a) Salaries and welfare payable

	Group			
	2011			
	Beginning balance	**Change in the year**	**Payment/ transfers in the year**	**Ending balance**
Salary, bonus and allowance	**1,873**	**13,730**	**(13,414)**	**2,189**
welfare expense	**39**	**27**	**(28)**	**38**
social insurance	**702**	**2,529**	**(2,974)**	**257**
Including				
– medical insurance	**295**	**845**	**(1,045)**	**95**
– endowment insurance	**26**	**714**	**(719)**	**21**
– annuity insurance	**377**	**867**	**(1,108)**	**136**
– unemployment insurance	**4**	**61**	**(60)**	**5**
– Industrial injury insurance	**–**	**18**	**(18)**	**–**
– Maternity insurance	**–**	**24**	**(24)**	**–**
Housing reserve	**50**	**1,002**	**(979)**	**73**
Trade union and employee education expenses	**538**	**593**	**(387)**	**744**
others	**18**	**4**	**(3)**	**19**
Including: Cash settled share-based transactions	**17**	**1**	**–**	**18**
	3,220	**17,885**	**(17,785)**	**3,320**

	Group			
	2010			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Salary, bonus and allowance	2,305	10,737	(11,169)	1,873
welfare expense	47	23	(31)	39
social insurance	454	2,277	(2,029)	702
Including				
– medical insurance	148	725	(578)	295
– endowment insurance	27	584	(585)	26
– annuity insurance	274	898	(795)	377
– unemployment insurance	5	42	(43)	4
– Industrial injury insurance	–	11	(11)	–
– Maternity insurance	–	17	(17)	–
Housing reserve	38	843	(831)	50
Trade union and employee education expenses	428	458	(348)	538
others	18	–	–	18
Including: Cash settled share-based transactions	17	–	–	17
	3,290	14,338	(14,408)	3,220

37 STAFF WELFARE SCHEME *(continued)*

(a) Salaries and welfare payable *(continued)*

	Bank			
	2011			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Salary, bonus and allowance	1,670	13,107	(12,817)	1,960
welfare expense	39	–	(1)	38
social insurance	701	2,512	(2,958)	255
Including				
– medical insurance	292	840	(1,040)	92
– endowment insurance	27	704	(709)	22
– annuity insurance	377	866	(1,108)	135
– unemployment insurance	4	61	(61)	4
– Industrial injury insurance	1	17	(17)	1
– Maternity insurance	–	24	(23)	1
Housing reserve	50	999	(976)	73
Trade union and employee education expenses	535	591	(386)	740
others	18	4	(3)	19
Including: Cash settled share-based transactions	17	1	–	18
	3,013	17,213	(17,141)	3,085

	Bank			
	2010			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Salary, bonus and allowance	2,171	10,114	(10,615)	1,670
welfare expense	46	–	(7)	39
social insurance	454	2,271	(2,024)	701
Including				
– medical insurance	147	722	(577)	292
– endowment insurance	27	581	(581)	27
– annuity insurance	274	898	(795)	377
– unemployment insurance	5	42	(43)	4
– Industrial injury insurance	1	11	(11)	1
– Maternity insurance	–	17	(17)	–
Housing reserve	38	840	(828)	50
Trade union and employee education expenses	427	456	(348)	535
others	18	–	–	18
Including: Cash settled share-based transactions	17	–	–	17
	3,154	13,681	(13,822)	3,013

37 STAFF WELFARE SCHEME *(continued)*

(b) Retirement benefits

(i) Defined contribution schemes

In accordance with the regulations in the PRC, the Group participates in statutory retirement schemes organised by the municipal and provincial governments for its employees (endowment insurance). The Group's contributions to the schemes are determined by local governments and vary at a range of 8% to 35% (2010: 8% to 35%) of the staff salaries.

In addition to the above statutory retirement schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance). The Group's annual contributions to this plan are determined based on 8.33% of the staff salaries since 1 January 2004. The Group's total contributions during the year are disclosed in Note 7.

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(ii) Defined benefit schemes

The Group operates a retirement benefit scheme and a pension scheme (collectively known as "Defined benefit scheme") for the staff of a subsidiary of the Bank. The contributions of the Defined benefit scheme are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Defined benefit scheme. The Defined benefit scheme provides benefits based on members' final salary.

The latest actuarial valuation of the Defined befit scheme was performed in accordance with IAS 19 issued by the IASB as at 31 December 2011 by professional actuarial firm Watson Wyatt Hong Kong Limited. The present values of the defined benefit obligation and current service cost of the Defined benefit scheme are calculated based on the projected unit credit method.

The amounts recognised in the statement of financial position as at 31 December 2011 are analysed as follows:

	The Group	
	2011	2010
Fair value of Defined benefit scheme assets	**397**	474
Present value of the funded defined benefit obligation	**(382)**	(332)
Unrecognised actuarial losses	**153**	30
Net asset recognised in the statement of financial position	**168**	172

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Defined benefit scheme is expected to pay in 2012.

37 STAFF WELFARE SCHEME *(continued)*

(b) Retirement benefits *(continued)*

(ii) Defined benefit schemes (continued)

The amounts recognised in the statement of comprehensive income are as follows:

	The Group	
	2011	2010
Current service cost	**(13)**	(14)
Interest cost	**(9)**	(8)
Expected return on Defined benefit scheme assets	**26**	26
Net income for the year included in retirement benefit costs	**4**	4

The actual gains on Defined benefit scheme assets for the year ended 31 December 2011 was RMB36 million (2010: actual losses RMB33 million).

The movements in the defined benefit obligation during the year are as follows:

	The Group	
	2011	2010
Present value of obligation at 1 January	**318**	323
Current service cost	**13**	14
Interest cost	**9**	8
Actual benefits paid	**(21)**	(9)
Actuarial losses/(gains)	**63**	(4)
Actual obligation at 31 December	**382**	332

37 STAFF WELFARE SCHEME *(continued)*

(b) Retirement benefits *(continued)*

(ii) Defined benefit schemes (continued)

The movements in the fair value of the Defined benefit scheme assets during the year are as follows:

	The Group	
	2011	2010
Fair value of Defined benefit scheme assets at 1 January	**455**	451
Expected return on Defined benefit scheme assets	**26**	26
Actual benefits paid	**(21)**	(9)
Actuarial (losses)/gains	**(63)**	7
Fair value of Defined benefit scheme assets at 31 December	**397**	475

The major categories of the Defined benefit scheme assets are as follows:

	The Group			
	2011		2010	
		%		%
Equities	**247**	**62.2**	262	55.2
Bonds	**79**	**19.9**	75	15.8
Cash	**71**	**17.9**	138	29.0
Total	**397**	**100**	475	100

No deposit with the Bank was included in the amount of Defined benefit scheme assets (2010: Nil).

37 STAFF WELFARE SCHEME *(continued)*

(b) Retirement benefits *(continued)*

(ii) Defined benefit schemes (continued)

The principal actuarial assumptions adopted in the valuation are as follows:

	The Group	
	2011	2010
	%	%
Discount rate		
– Retirement benefit scheme	**1.5**	3.0
– Pension scheme	**0.5**	1.4
Long-term average return on Defined benefit scheme assets		
– Retirement benefit scheme	**6.5**	6.0
– Pension scheme	**1.5**	1.5
Long-term average rate of salary increase for the defined benefit scheme of the Scheme	**5.0**	5.0
Pension increase rate for the defined benefit pension scheme	**3.0**	2.5

There was no curtailment or settlement impact for the year ended 31 December 2011 (2010: Nil).

(iii) Supplementary retirement scheme

Supplementary retirement scheme was an annuity contract purchased from independent life insurance company by the Bank to provide supplementary defined contribution retirement benefits to its full time employees. It was a voluntary payment and the Bank has no further obligations to make future contributions. In 2011, the Bank purchased annuity contracts of RMB2,500 million (2010: RMB900 million).

The Group has no other material obligations for the payment of other post retirement benefits other than the contributions described above.

(c) Staff quarters

The Bank purchased quarters by using the public welfare fund, and leases to the existing staff at market price on short term basis. Rental income is recognised in the consolidated statement of comprehensive income as other net income.

(d) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the growth in net profit for the year as approved by the board of directors.

37 STAFF WELFARE SCHEME *(continued)*

(e) Cash settled share-based transactions

The Bank has H-share Appreciation Rights Scheme phase I, phase II, phase III and phase IV for the Senior Management ("the Scheme") which was adopted on 30 October 2007, 7 November 2008 16 November 2009 and 18 February 2011 respectively whereby the directors of the Bank are authorized, at their discretion, to invite the Senior Management of the Bank to take up options at nil consideration to subscribe for shares of the Group. The options vest after 2 years or 3 years from the date of grant and are then exercisable within a period of 8 years. Each of the share appreciation right is linked to one H-share.

(i) All share appreciation rights shall be paid in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised options at the end of 2010 (in millions) Note (i)	**Exercise conditions**	**Contract period of options**
Options granted on 30 October 2007	1.337	2 years after date of grant	10 years
Options granted on 7 November 2008	1.368	2 years after date of grant	10 years
Options granted on 16 November 2009	1.690	2 years after date of grant	10 years
Options granted on 18 February 2011	1.890	3 years after date of grant	10 years

Note (i): In 2009, the Bank paid dividends for 2008, 3 bonus shares for every 10 shares. As a result, the number of H-share appreciation rights for phase I granted in 2007 increased from 1.29 million to 1.68 million; and the number of H-share appreciation rights for phase II granted in 2008 increased from 1.32 million to 1.72 million.

At the third meeting of the eighth board of directors of the Bank in 2010, it was agreed that the senior management, on their own initiative, would waive 25% of the H-share appreciation rights for both phases I and II to be effective in 2010, and these appreciation rights would be cancelled. The number of H-share appreciation rights for phase I granted by the Bank in 2007 thus decreased from 1.68 million to 1.26 million; and that for phase II granted in 2008 decreased from 1.72 million to 1.29 million.

Note (ii): The Bank placed 1.3 H-shares for every 10 H-shares in 2010. As a result, the number of the Bank's H-share appreciation rights granted in 2007 was adjusted from 1.26 million to 1.34 million; that for 2008 was adjusted from 1.29 million to 1.37 million; and that for 2009 was adjusted from 1.59 million to 1.69 million.

37 STAFF WELFARE SCHEME *(continued)*

(e) Cash settled share-based transactions *(continued)*

(ii) The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price (HK$)	**Number of options (in million)**	Weighted average exercise price (HK$)	Number of options (in million)
Outstanding as at the beginning of the year	**19.10**	**4.40**	20.42	4.98
Granted during the year	**19.24**	**1.89**	–	–
Decrease during the year	**–**	**–**	–	(0.58)
Outstanding at the end of the year	**19.14**	**6.29**	19.10	4.40
Exercisable at the end of the year	**19.10**	**0.45**	27.88	0.45

The options outstanding at 31 December 2011 had an weighted average exercise price of HK$19.14 (2010: HK$19.10) and a weighted average remaining contractual life of 7.59 years (2010: 7.93 years).

Pursuant to the requirements set out in the Scheme, if any dividends were distributed, capital reserve was converted into shares, share split or dilution, an adjustment to the exercise price is applied. Due to the share placement of 1.3 H-shares for every 10 H-shares held in 2010, the offering price of the first batch of H-share appreciation rights granted to senior management personnel in 2007 was adjusted downward from HK$29.90 at the beginning of the year to HK$27.88, from HK$9.73 to HK$8.91 for the second batch in 2008, and from HK$21.95 to HK$20.41 for the third batch in 2009.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2011				2010		
	Phase I	**Phase II**	**Phase III**	**Phase IV**	Phase I	Phase II	Phase III
Fair value at measurement date (in RMB)	**3.99**	**8.51**	**5.91**	**6.50**	4.39	11.34	6.93
Share price (in HK$)	**15.70**	**15.70**	**15.70**	**15.70**	19.62	19.62	19.62
Exercise price (in HK$)	**28.12**	**9.15**	**20.65**	**19.24**	27.88	8.91	20.41
Expected volatility	**47%**	**47%**	**47%**	**47%**	32%	32%	32%
Option life (year)	**5.83**	**6.83**	**7.83**	**9.17**	6.83	7.83	8.88
Expected dividends rate	**2.02%**	**2.02%**	**2.02%**	**2.02%**	1.25%	1.25%	1.25%
Risk-free interest rate	**3.33%**	**3.33%**	**3.33%**	**3.33%**	2.61%	2.61%	2.61%

37 STAFF WELFARE SCHEME *(continued)*

(e) Cash settled share-based transactions *(continued)*

(iii) Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(iv) The number of share appreciation rights granted to members of senior management:

	2011					
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	Phase IV No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	311	311	320	300	–	1,242
Zhang Guang Hua	155	155	159	195	–	664
Li Hao	155	155	159	195	–	664
Tang Zhi Hong	155	155	159	180	–	649
Yin Feng Lan	155	155	159	180	–	649
Ding Wei	124	155	159	180	–	618
Tang Xiao Qing	–	–	159	150	–	309
Wang Qing Bin	–	–	128	150	–	278
Xu Lian Feng	93	93	96	120	–	402
Fan Peng	93	93	96	120	–	402
Lan Qi	93	93	96	120	–	402
Total	1,334	1,365	1,690	1,890	–	6,279

37 STAFF WELFARE SCHEME *(continued)*

(e) Cash settled share-based transactions *(continued)*

(iv) The number of share appreciation rights granted to members of senior management: (continued)

	2010				
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	311	311	320	–	942
Zhang Guang Hua	155	155	159	–	469
Li Hao	155	155	159	–	469
Tang Zhi Hong	155	155	159	–	469
Yin Feng Lan	155	155	159	–	469
Ding Wei	124	155	159	–	438
Tang Xiao Qing	–	–	159	–	159
Wang Qing Bin	–	–	128	–	128
Xu Lian Feng	93	93	96	–	282
Fan Peng	93	93	96	–	282
Lan Qi	93	93	96	–	282
Total	1,334	1,365	1,690	–	4,389

Note: In 2011, no members of senior management had exercised any share appreciation rights (2010: Nil).

38 TAX PAYABLE

	Group		Bank	
	2011	2010	**2011**	2010
Income tax	**4,090**	2,288	**3,845**	2,111
Business tax and surcharges payable	**1,974**	1,347	**1,962**	1,339
Individual income tax	**1,021**	1,304	**1,020**	1,304
Stamp tax	**10**	13	**6**	6
Housing property tax	**5**	8	**5**	8
Others	**12**	12	**11**	6
	7,112	4,972	**6,849**	4,774

39 OTHER LIABILITIES

	Group		Bank	
	2011	2010	**2011**	2010
Salary risk allowances (Note)	**1,800**	1,403	**1,800**	1,403
Clearing and settlement accounts	**812**	3,343	**812**	3,343
Cheques and remittances returned	**10**	464	**10**	464
Payment and collection account	**851**	588	**850**	586
Insurance liabilities	**1,408**	1,299	**–**	–
Continuing involvement liability	**–**	70	**–**	70
Securitization principal and interest	**–**	51	**–**	51
Debt securities acquisition payable	**195**	14,561	**195**	14,559
Others	**9,842**	8,577	**4,961**	5,659
	14,918	30,356	**8,628**	26,135

Note: According to CBRC Yin Jian Ban Fa [2009] No.15, the Bank has established salary risk allowances. Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances. As at 31 December 2011, these allowances amounted to RMB1.8 billion (2010: RMB1.403 billion) and were included in "Other liabilities".

40 SHARE CAPITAL

By type of share:

	Registered capital	
	2011	2010
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 2011 and at 31 December 2011	**21,577**	**21,577**
At 1 January 2010	19,119	19,119
Shares issued	2,458	2,458
At 31 December 2010	21,577	21,577

On 24 February 2006, bonus shares were issued at a ratio of 0.8589 bonus shares for every 10 A-Shares of the Bank by capitalisation of an amount of RMB971 million from the capital reserve. In addition, the Bank issued 938 million A-Shares upon conversion of the convertible bonds of RMB5,169 million during the year ended 31 December 2006, resulting in the increase in share capital and capital reserve of RMB938 million and RMB4,327 million respectively.

On 22 September 2006, a total of 2,200 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as part of the Initial Public Offering.

On 27 September 2006, a total of 220 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as a result of the exercise of the over-allotment option.

As a result of the Initial Public Offering and the exercise of the over-allotment option, a total of 242 million A-Shares, representing 10% of the number of H-Shares issued by the Bank were converted into H-Shares of equivalent value and transferred to Social Security Fund from state-owned shareholders of the Bank at no consideration. These H-Shares were eligible for trading since 5 October 2006.

As a result of the above events in 2006, the Bank's registered and issued capital increased from RMB10,374 million to RMB14,703 million.

40 SHARE CAPITAL *(continued)*

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB10 million during the year ended 31 December 2007, resulting in the increase in share capital and capital reserve of RMB2 million and RMB9 million respectively. The Bank's registered and issued capital increased from RMB14,703 million to RMB14,705 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB13 million during the year ended 31 December 2008, resulting in the increase in share capital and capital reserve of RMB2 million and RMB11 million respectively. As a result, the Bank's registered and issued capital increased from RMB14,705 million to RMB14,707 million.

The Bank issued 0.144 million A-Shares upon conversion of the convertible bonds of RMB0.663 million during the year ended 31 December 2009, resulting in the increase in share capital and capital reserve of RMB0.144 million and RMB0.519 million respectively. On 3 July 2009, the Bank transferred its retained profits totalling RMB4,412 million to its share capital, thus increasing its registered capital to RMB19.119 billion, for which KPMG Huazhen issued a capital verification report (KPMG-D (2009) CR No.0001) on 9 July 2009.

For the year ended 31 December 2010, the Bank had placed 2,007,240,869 A-Shares and 449,878,000 H-Shares on the basis of 1.3 shares for every 10 shares held to its shareholders, resulting in an enlarged total share capital of RMB21.577 billion, for which KPMG Huazhen issued a capital verification report KPMG-D (2010) CR No.0001 and KPMG-D (2010) CR No.0002 on 20 April 2010.

41 CAPITAL RESERVE

The capital reserve primarily represents share premium and equity component of the convertible bonds issued by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

	Group		Bank	
	2011	2010	**2011**	2010
At 1 January	**37,508**	18,399	**46,666**	27,557
Share issued	**–**	19,109	**–**	19,109
At 31 December	**37,508**	37,508	**46,666**	46,666

42 INVESTMENT REVALUATION RESERVE

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movement of investment revaluation reserve:

	Group		Bank	
	2011	2010	**2011**	2010
At 1 January	**(1,311)**	(230)	**(1,429)**	(352)
Realised gain/(loss) on disposal of available-for-sale financial assets, net of deferred tax	**293**	(162)	**284**	(143)
Changes in fair value of available-for-sale financial assets, net of deferred tax	**1,175**	(919)	**1,275**	(934)
At 31 December	**157**	(1,311)	**130**	(1,429)

43 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i)(iii).

44 SURPLUS RESERVE

Surplus reserve includes statutory surplus reserve and statutory public welfare fund.

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF and is provided at 10% of the audited profit after tax. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

The purpose of statutory public welfare fund is to provide staff facilities and other staff benefits. It is not distributable other than in liquidation.

	The Group and Bank	
	2011	2010
At 1 January	**10,880**	8,418
Statutory surplus reserve	**3,445**	–
At 31 December	**14,325**	8,418

45 REGULATORY GENERAL RESERVE

Pursuant to notices, the "Measures for Administering the Withdrawal of Reserves for Non performing Debts by Financial Enterprises" (Cai Jin [2005] No. 49) issued by the MOF on 17 May 2005 and the "Application Guidance of Financing Measures for Financial Institutions" (Cai Jin [2007] No. 23) issued by the MOF on 30 March 2007, banks and certain non-bank financial institutions in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The provision ratio for the general reserve is determined by financial institutions, with reference to the confronted risk factors. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

	The Group		The Bank	
	2011	2010	**2011**	2010
At 1 January	**16,812**	14,976	**16,700**	15,000
Statutory general reserve	**1,982**	1,836	**1,871**	1,700
At 31 December	**18,794**	16,812	**18,571**	16,700

46 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	2011	2010
Dividends in respect of the previous year, approved, declared and paid during the year of RMB2.90 per every 10 shares (2010: RMB2.1 per every 10 shares)	**6,257**	4,531

(b) Proposed profit appropriations

	2011	2010
Statutory surplus reserve	**–**	2,462
Dividends		
– cash dividend: RMB4.20 (2010: RMB2.90) per every 10 shares	**9,062**	6,257
Total	**9,062**	8,719

2011 profit appropriation is proposed in accordance with the resolution passed at the meeting of the board of directors held on 28 March 2012 and will be submitted to the 2011 annual general meeting for approval.

47 EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

48 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

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

	2011	2010
Cash and balance with central bank	**46,322**	43,333
– Balance with banks and other financial institutions	**58,220**	26,555
– Placements with banks and other financial institutions	**49,101**	28,455
– Amounts held under rescale agreement	**57,369**	67,523
– Debt security investments	**8,139**	11,354
	219,151	177,220

(b) Significant non-cash transactions

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

49 OPERATING SEGMENTS

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

The group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

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

– Wholesale banking

The provision of financial services to corporations and institutions includes lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice, treasury business operating in the regional market (such as fund transfers between its branches and other banking institutions, and discounted bill business in the regional market) and other investment service.

– Retail banking

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

– Treasury business

It covers interbank and capital market activities and proprietary trading.

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purposes of operating segment analysis, external net interest income/expense represents the net interest income earned or expenses incurred on banking business originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the reportable segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective reportable segments and apportionment of management overheads. The allocation of capital operation profit is based on assumptions and estimates. The management amended these assumptions and estimates according to the actual situation.

49 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities

	The Group									
	Corporate banking		Retail banking		Treasury business		Others		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
External net interest income	**39,300**	30,031	**21,491**	14,688	**14,962**	12,131	**554**	226	**76,307**	57,076
Internal net interest income/(expense)	**11,595**	5,725	**5,926**	4,483	**(16,675)**	(9,874)	**(846)**	(334)	**–**	–
Net interest income	**50,895**	35,756	**27,417**	19,171	**(1,713)**	2,257	**(292)**	(108)	**76,307**	57,076
Net fee and commission income	**6,031**	4,276	**8,888**	6,410	**461**	395	**248**	249	**15,628**	11,330
Other net income/(expense)	**4,735**	2,538	**637**	847	**(989)**	39	**(89)**	(491)	**4,294**	2,933
Insurance operating income	**–**	–	**11**	19	**–**	–	**363**	334	**374**	353
Operating income/(expense)	**61,661**	42,570	**36,953**	26,447	**(2,241)**	2,691	**230**	(16)	**96,603**	71,692
Operating expenses										
– depreciation	**(1,113)**	(925)	**(1,567)**	(1,499)	**(28)**	(28)	**(223)**	(235)	**(2,931)**	(2,687)
– others	**(16,559)**	(12,467)	**(20,628)**	(16,816)	**(435)**	(366)	**(336)**	(298)	**(37,958)**	(29,947)
Charge for insurance claims	**–**	–	**–**	–	**–**	–	**(305)**	(278)	**(305)**	(278)
	(17,672)	(13,392)	**(22,195)**	(18,315)	**(463)**	(394)	**(864)**	(811)	**(41,194)**	(32,912)
Reportable segment profit before impairment losses	**43,989**	29,178	**14,758**	8,132	**(2,704)**	2,297	**(634)**	(827)	**55,409**	38,780
Impairment losses	**(7,482)**	(3,787)	**(670)**	(1,732)	**(138)**	53	**(60)**	(35)	**(8,350)**	(5,501)
Share of profit of associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**63**	64	**63**	64
Reportable segment profit/(loss) before tax	**36,507**	25,391	**14,088**	6,400	**(2,842)**	2,350	**(631)**	(798)	**47,122**	33,343
Capital expenditure (note)	**1,853**	1,576	**2,304**	3,777	**37**	64	**32**	39	**4,226**	5,456
Reportable segment assets	**1,400,446**	1,307,794	**726,250**	616,722	**624,272**	450,209	**24,050**	4,663	**2,775,018**	2,379,388
Reportable segment liabilities	**1,629,388**	1,427,901	**847,357**	743,364	**124,683**	76,343	**13,333**	2,155	**2,614,761**	2,249,763
Interest in associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**456**	443	**456**	443

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

49 OPERATING SEGMENTS *(continued)*

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

	The Group	
	2011	2010
Revenues		
Total revenues for reportable segments	**96,603**	71,692
Other revenues	**–**	–
Consolidated revenue	**96,603**	71,692
Profit		
Total profit or loss for reportable segments	**47,122**	33,343
Other profit	**–**	–
Consolidated profit before income tax	**47,122**	33,343
Assets		
Total assets for reportable segments	**2,775,018**	2,379,388
Goodwill	**9,598**	9,598
Intangible assets	**942**	1,026
Deferred tax assets	**4,337**	3,706
Other unallocated assets	**5,076**	8,789
Consolidated total assets	**2,794,971**	2,402,507
Liabilities		
Total liabilities for reportable segments	**2,614,761**	2,249,763
Current taxation	**4,090**	2,288
Deferred tax liabilities	**864**	924
Other unallocated liabilities	**10,246**	15,526
Consolidated total liabilities	**2,629,961**	2,268,501

49 OPERATING SEGMENTS *(continued)*

(c) Geographical segments

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

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

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

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

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

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

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

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

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

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

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

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

49 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

	The Group									
	Total asset		Total liabilities		Revenues		Net income		Non-current assets	
Geographical information	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Headquarter	**1,059,543**	824,306	**951,393**	729,245	**(6,743)**	2,288	**10,052**	11,681	**16,005**	15,522
Yangtze River Delta region	**393,691**	385,049	**383,458**	378,714	**13,643**	8,463	**21,401**	15,554	**2,446**	1,946
Bohai Rim region	**274,620**	258,605	**266,715**	254,138	**10,545**	5,995	**16,015**	10,777	**1,572**	1,428
Pearl River Delta and West Coast region	**322,628**	275,887	**314,040**	270,893	**11,372**	6,496	**17,930**	12,049	**1,726**	1,626
Northeast region	**108,851**	97,547	**106,714**	96,285	**2,849**	1,691	**4,898**	3,435	**712**	750
Central region	**190,155**	180,027	**185,660**	177,673	**5,997**	3,149	**10,065**	6,909	**1,286**	1,240
Western region	**223,127**	204,364	**217,964**	201,647	**6,887**	3,670	**11,315**	7,581	**1,642**	1,657
Overseas	**53,225**	38,793	**52,954**	38,736	**456**	199	**683**	506	**24**	34
Subsidiaries	**169,131**	137,929	**151,063**	121,170	**2,116**	1,392	**4,244**	3,200	**6,456**	6,855
Total	**2,794,971**	2,402,507	**2,629,961**	2,268,501	**47,122**	33,343	**96,603**	71,692	**31,869**	31,058

50 ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	Group		Bank	
	2011	2010	**2011**	2010
Secured liabilities	**42,064**	33,439	**39,064**	33,439
Assets pledged				
– Available-for-sale financial assets	**13,716**	16,113	**13,716**	16,113
– Held-to-maturity debt securities	**20,974**	14,119	**20,974**	14,119
– Trading assets	**511**	–	**511**	–
– Other assets	**7,237**	3,207	**4,237**	3,207
	42,438	33,439	**39,438**	33,439

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

51 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit commitments

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

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

	Group		Bank	
	2011	2010	**2011**	2010
Contractual amount				
Irrevocable guarantees	**112,147**	106,912	**111,506**	106,287
Irrevocable letters of credit	**81,063**	59,221	**80,899**	58,926
Bills of acceptances	**251,656**	212,363	**251,255**	211,917
Transferred discounted bills (note)	**263,287**	113,282	**263,287**	113,282
Irrevocable loan commitments				
– with an original maturity of under one year	**1,685**	3,992	**930**	1,308
– with an original maturity of one year or over	**33,036**	41,271	**26,686**	34,413
Credit card commitments	**131,479**	121,201	**125,089**	114,865
Shipping guarantees	**19**	23	**16**	19
Others	**4,790**	1,705	**4,790**	1,705
	879,162	659,970	**864,458**	642,722

Note: Discounted bills under outright sale include banker's drafts and trade bills which have been matured for 15 days or less.

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 RMB1,708,561 million at 31 December 2011 (2010: RMB1,215,285 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.

51 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(a) Credit commitments *(continued)*

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

	Group		Bank	
	2011	2010	**2011**	2010
Credit risk weighted amounts of contingent liabilities and commitments				
Contingent liabilities and commitments	**250,446**	179,426	**247,714**	175,694

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

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

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

(b) Capital commitments

Authorised capital commitments were as follows:

	Group		Bank	
	2011	2010	**2011**	2010
For purchase of fixed assets:				
– Contracted for	**1,048**	1,135	**962**	1,115
– Authorised but not contracted for	**117**	194	**100**	194
	1,165	1,329	**1,062**	1,309

51 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(c) Operating lease commitments

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

	Group		Bank	
	2011	2010	**2011**	2010
Within 1 year	**1,598**	1,052	**1,558**	1,023
After 1 year but within 5 years	**6,250**	5,428	**6,186**	5,372
After 5 years	**2,490**	2,528	**2,478**	2,514
	10,338	9,008	**10,222**	8,909

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

(d) Outstanding litigations

At 31 December 2011, the Group was a defendant in certain pending litigations with gross claims of RMB508 million (2010: RMB484 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(e) Redemption obligations

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

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

	Group and Bank	
	2011	2010
Redemption obligations	**11,472**	11,117

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

52 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

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

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

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

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

	Group and Bank	
	2011	2010
Entrusted loans	**123,116**	104,013
Entrusted funds	**123,116**	104,013

(b) Wealth management services

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

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

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

	Group and Bank	
	2011	2010
Funds received from customers under wealth management services	**221,008**	179,753

53 RISK MANAGEMENT

(a) Credit risk

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

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

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

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

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

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

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

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements monitoring.

53 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group formulated the quota limit management policy to analyse the loan portfolio.

Analyses of loans and advances by industry, customer type and nature are stated in Note 19.

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

(i) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held, irrevocable loan commitments or other credit enhancements is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Financial guarantees and other credit related contingent liabilities	**712,962**	493,506	**711,753**	492,136
Loan commitments and other credit related commitments	**1,874,761**	1,381,749	**1,852,394**	1,362,560
	2,587,723	1,875,255	**2,564,147**	1,854,696

The carrying amount of financial instruments best represent the maximum exposure to credit risk on balance sheet.

53 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Impaired loans and advances to customers				
For which impairment losses are individually assessed				
Gross amount	**7,422**	8,047	**7,185**	7,754
Less: impairment allowances	**(5,125)**	(5,912)	**(5,018)**	(5,805)
Carrying amount	**2,297**	2,135	**2,167**	1,949
For which impairment losses are collectively assessed				
Gross amount	**1,713**	1,587	**1,705**	1,576
Less: impairment allowances	**(1,389)**	(1,353)	**(1,389)**	(1,352)
Carrying amount	**324**	234	**316**	224
Overdue but not impaired				
Within which				
– Less than 3 months	**5,759**	4,052	**5,093**	3,414
– 6 months or less but over 3 months	**4**	7	**–**	–
– 1 year or less but over 6 months	**1**	2	**–**	–
– Over 1 year	**6**	1	**–**	–
Gross amount	**5,770**	4,062	**5,093**	3,414
Less: impairment allowances – collectively assessed	**(395)**	(342)	**(393)**	(340)
Carrying amount	**5,375**	3,720	**4,700**	3,074
Neither past due nor impaired				
Normal	**1,613,561**	1,406,263	**1,504,215**	1,322,434
Mention	**12,588**	11,461	**11,694**	10,923
Substandard	**5**	14	**–**	–
Doubtful	**16**	17	**–**	–
Gross amount	**1,626,170**	1,417,755	**1,515,909**	1,333,357
Less: impairment allowances – collectively assessed	**(29,795)**	(21,684)	**(29,179)**	(21,304)
Carrying amount	**1,596,375**	1,396,071	**1,486,730**	1,312,053
Total carrying amount	**1,604,371**	1,402,160	**1,493,913**	1,317,300

53 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows: (continued)

Loans and advances that would be past due or impaired had the terms been renegotiated amounted to RMB1,298 million as at 31 December 2011 (2010: RMB1,531 million).

(iii) Credit quality of debt investments

At the end of the reporting period, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poor's, is as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Individually assessed and impaired gross amount	**279**	293	**185**	194
Allowance for impairment carrying amount	**(238)**	(240)	**(143)**	(140)
Sub-total	**41**	53	**42**	54
Neither overdue nor impaired				
AAA	**7,942**	7,972	**1,045**	1,452
AA- to AA+ (note)	**333,070**	283,090	**326,593**	276,769
A- to A+	**6,455**	9,104	**2,509**	3,500
Lower than A-	**2,594**	3,362	**1,859**	1,924
	350,061	303,528	**332,006**	283,645
Unrated	**107,647**	87,584	**107,526**	88,415
Total	**457,749**	391,165	**439,574**	372,114

Note: Included bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB159,540 million (2010: RMB159,351 million (credit quality: AA-)).

(iv) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	**9,202**	9,574	**7,420**	7,915

53 RISK MANAGEMENT *(continued)*

(b) Market risk

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

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Board of Directors is ultimately responsible for monitoring market risk management. The Executive office of the President is authorised by the Board of Directors to make market risk management decisions. The Planning and Finance Department, tasked with the market risk management function, centrally manages the Group's market risk. As an independent model verification department, the Office for the Implementation of Basel II Capital Accord continues to verify market risk measurement models while the Audit Department regularly conducts market risk management audit.

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

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

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

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 2011, the Group optimised the methods and processes of its market risk measurement to further improve its market risk management policy system. It achieved milestones in its consolidated management of market risk, with the consolidated market risk management system covering the entire group.

53 RISK MANAGEMENT *(continued)*

(b) Market risk *(continued)*

In 2011, the financial markets for Renminbi and foreign currencies were volatile. In China, the tight monetary policy remained in place until a turning point was seen in the macro-economic policy at the end of the year. The tight monetary policy resulted in tight Renminbi liquidity for the entire year. Remarkable changes were seen in the yield curves which generally trend steeply downward amid interest rate fluctuations in the money market. Abroad, the European debt crisis is spreading. As the European debt crisis spills-over, the Group is closely monitoring the risk arising from the European and American markets. At present, the prospect of the European markets remains uncertain.

The Group carefully studied the year's macroeconomy, monetary policies, market liquidity and CPI movements at home and abroad and formulated its investment strategies accordingly. The Group's investment portfolios mainly comprised debt securities issued by the PRC government, PBOC and PRC Policy Banks, as well as large Chinese enterprises and commercial banks with high credit ratings, various indicators of market risk are sound.

As at 31 December 2011, China Merchants Bank did not hold any sovereign, institution or corporate bonds of PIIGS. The original financial institution bonds of PIIGS held by Wing Lung Bank had expired, and no new investments in sovereign, institution or corporate bonds of PIIGS were made. The Group keeps a close eye on its overseas bond investment, and promptly adjusts its portfolios in light of the market conditions. It also adopts measures including strengthened monitoring and offloading at an opportune time to prevent the impact of spillovers from the European debt crisis. Overall, the quality of the Group's foreign currency bond investment is good with controllable risk.

(c) Currency risk

The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities, and manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps) in the management of its own foreign currency asset and liability portfolios. The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group mainly uses the foreign exchange exposure analysis, scenario simulation analysis, stress testing and VaR methods to measure and analyse foreign currency risk. Based on the trend of foreign exchange movements, the Group adjusts its foreign exchange exposure to mitigate foreign currency risk.

In 2011, the Group refined the methods and tools for measuring exchange rate risk and strengthened its control over foreign exchange exposure and its adjustment of the structure of assets and liabilities denominated in foreign currencies. The Group achieved milestones in consolidated financial statement management of its exchange rate risk, with the consolidated interest rate risk management system covering the entire group.

In 2011, the central parity of Renminbi (RMB) against the US dollar rose 5% approximately. The Group used various measures to control exchange losses within an acceptable range.

53 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

The Group monitors daily foreign currency transactions and positions closely. The following tables show the Group's assets and liabilities by major currencies as at each end of the reporting period.

Assets and liabilities by original currency are shown as follows:

	Group				
	2011				
		Equivalent in RMB million			
	RMB	**US dollar**	**HKD**	**Others**	**Total**
Assets					
Cash and balances with central bank	**401,018**	**2,045**	**1,854**	**3,387**	**408,304**
Amounts due from banks and other financial institutions	**212,531**	**15,535**	**9,922**	**30,414**	**268,402**
Loans and advances to customers	**1,446,998**	**27,949**	**62,987**	**66,437**	**1,604,371**
Investments	**428,197**	**8,088**	**12,628**	**12,035**	**460,948**
Other assets	**33,943**	**2,047**	**16,076**	**880**	**52,946**
	2,522,687	**55,664**	**103,467**	**113,153**	**2,794,971**
Liabilities					
Amounts due to banks and other financial institutions	**302,525**	**6,982**	**981**	**4,759**	**315,247**
Deposits from customers	**2,012,624**	**28,363**	**82,403**	**96,670**	**2,220,060**
Financial liabilities at fair value through profit or loss	**915**	**531**	**3,428**	**1,319**	**6,193**
Debts issued	**34,330**	**4,823**	**6,966**	**48**	**46,167**
Other liabilities	**37,397**	**163**	**3,816**	**918**	**42,294**
	2,387,791	**40,862**	**97,594**	**103,714**	**2,629,961**
Net on-balance sheet position	**134,896**	**14,802**	**5,873**	**9,439**	**165,010**
Off-balance sheet position:					
Credit commitments (note)	**595,694**	**96,064**	**16,926**	**5,114**	**713,798**
Derivatives:					
– forward purchase	**125,440**	**77,167**	**13,631**	**12,077**	**228,315**
– forward sales	**(114,542)**	**(93,880)**	**(893)**	**(5,220)**	**(214,535)**
– net option position	**–**	**(53)**	**(7)**	**60**	**–**
	10,898	**(16,766)**	**12,731**	**6,917**	**13,780**

53 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Group				
	2010				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	287,868	3,839	2,723	525	294,955
Amounts due from banks and other financial institutions	216,929	34,227	8,134	5,135	264,425
Loans and advances to customers	1,267,500	73,584	57,329	3,747	1,402,160
Investments	351,595	19,647	12,518	10,416	394,176
Other assets	24,228	5,506	16,809	248	46,791
	2,148,120	136,803	97,513	20,071	2,402,507
Liabilities					
Amounts due to banks and other financial institutions	268,752	10,407	1,666	1,198	282,023
Deposits from customers	1,704,871	90,087	75,244	26,976	1,897,178
Financial liabilities at fair value through profit or loss	828	346	1,963	37	3,174
Debts issued	29,960	2,110	4,215	–	36,285
Other liabilities	44,506	1,376	3,813	146	49,841
	2,048,917	104,326	86,901	28,357	2,268,501
Net on-balance sheet position	99,203	32,477	10,612	(8,286)	134,006
Off-balance sheet position:					
Credit commitments (note)	408,184	86,951	18,008	8,178	521,321
Derivatives:					
– forward purchase	112,869	66,107	14,351	15,397	208,724
– forward sales	(108,649)	(83,554)	(1,054)	(5,447)	(198,704)
– net option position	–	(162)	(2)	164	–
	4,220	(17,609)	13,295	10,114	10,020

53 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Bank				
	2011				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	397,613	1,995	1,544	3,153	404,305
Amounts due from banks and other financial institutions	208,518	2,382	6,917	25,202	243,019
Loans and advances to customers	1,403,072	12,448	12,350	66,043	1,493,913
Investments	423,278	1,557	9,254	7,797	441,886
Other assets	33,645	30	32,543	583	66,801
	2,466,126	18,412	62,608	102,778	2,649,924
Liabilities					
Amounts due to banks and other financial institutions	271,413	845	871	4,445	277,574
Deposits from customers	1,998,525	14,324	31,147	82,941	2,126,937
Financial liabilities at fair value through profit or loss	829	302	2,426	1,311	4,868
Debts issued	30,972	165	4,350	48	35,535
Other liabilities	32,671	81	373	859	33,984
	2,334,410	15,717	39,167	89,604	2,478,898
Net on-balance sheet position	131,716	2,695	23,441	13,174	171,026
Off-balance sheet position:					
Credit commitments (note)	594,736	94,293	5,557	4,989	699,575
Derivatives:					
– forward purchase	120,185	72,038	8,875	7,776	208,874
– forward sales	(109,203)	(80,668)	(329)	(5,007)	(195,207)
– net option position	–	(54)	–	54	–
	10,982	(8,684)	8,546	2,823	13,667

53 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Bank				
	2010				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	287,437	3,811	1,364	287	292,899
Amounts due from banks and other financial institutions	213,836	22,556	2,137	4,305	242,834
Loans and advances to customers	1,241,077	61,608	11,439	3,176	1,317,300
Investments	352,931	11,466	6,398	3,490	374,285
Other assets	22,941	5,294	32,754	32	61,021
	2,118,222	104,735	54,092	11,290	2,288,339
Liabilities					
Amounts due to banks and other financial institutions	248,574	6,793	1,597	870	257,834
Deposits from customers	1,698,144	76,032	21,698	13,038	1,808,912
Financial liabilities at fair value through profit or loss	824	280	1,505	32	2,641
Debts issued	29,960	1,550	2,398	–	33,908
Other liabilities	42,444	1,280	233	78	44,035
	2,019,946	85,935	27,431	14,018	2,147,330
Net on-balance sheet position	98,276	18,800	26,661	(2,728)	141,009
Off-balance sheet position:					
Credit commitments (note)	407,524	83,590	5,272	7,969	504,355
Derivatives:					
– forward purchase	111,282	64,176	8,628	9,157	193,243
– forward sales	(107,062)	(70,235)	(925)	(5,126)	(183,348)
– net option position	–	(169)	–	169	–
	4,220	(6,228)	7,703	4,200	9,895

Note: Credit commitments generally expire before they are drawn; therefore the above net position (net of pledged deposits) does not represent the future cash flows need.

53 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2011 and 31 December 2010, the results of the Group's currency risk sensitivity analysis on the assets and liabilities at the same date.

	2011		2010	
	Change in foreign currency exchange rate (in basis point)		Change in foreign currency exchange rate (in basis point)	
	(100)	**100**	(100)	100
Increase/(decrease) in annualised net profit	**49**	**(49)**	76	(76)

This sensitivity analysis is based on a static foreign currency exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and

(iii) the foreign exchange exposures calculated include spot foreign exchange exposures, forward foreign exchange exposures and options.

Based on the assumption above, actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(d) Interest rate risk

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

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

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

53 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

In 2011, the Group continued to manage its interest rate risk proactively by adopting a forward-looking approach. It improved the interest rate risk limits, as well as specified and implemented management strategies including the adjustment of durations of loan and debt investment on the balance sheet and the hedging of risk off the balance sheet. On the balance sheet, a synergetic integration of interest rate risk management with FTP and product pricing was achieved, and the business structure and interest rate risk characteristics of assets were also adjusted. Off the balance sheet, it further hedged risks on a larger scale.

In 2011, the Group achieved milestones in its consolidated management of interest rate risk, with the consolidated interest rate risk management system covering the entire group.

In 2011, PBOC thrice raised the benchmark interest rates for deposits and loans in Renminbi, increasing the benchmark interest rate of one-year fixed-term deposits by 75 bps in total. In light of the characteristics of the Group's interest rate risk, higher benchmark interest rates for deposits and loans may have a greater positive impact on the net interest income of the Group. With a view towards long-term development, the Group will further enhance its interest rate risk management and achieve stable growth in both net interest income and economic value.

The following table indicates the effective interest rates and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the end of the reporting period.

	Group						
	2011						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.52%	408,304	397,579	–	–	–	10,725
Amounts due from banks and other financial institutions	4.00%	268,402	192,672	71,262	3,285	–	1,183
Loans and advances to customers (note)	6.09%	1,604,371	1,216,053	357,105	15,650	15,478	85
Investments	3.45%	460,948	86,804	108,651	183,964	78,357	3,172
Other assets	–	52,946	–	–	–	–	52,946
Total assets		2,794,971	1,893,108	537,018	202,899	93,835	68,111
Liabilities							
Amounts due to banks and other financial institutions	3.30%	315,247	261,265	51,777	500	401	1,304
Deposits from customers	1.64%	2,220,060	1,745,883	341,612	115,924	11,577	5,064
Financial liabilities at fair value through profit or loss	1.57%	6,193	1,927	157	2,604	36	1,469
Debts issued	4.73%	46,167	8,155	9,322	20,485	8,205	–
Other liabilities	–	42,294	97	15	37	50	42,095
Total liabilities		2,629,961	2,017,327	402,883	139,550	20,269	49,932
Asset-liability gap		165,010	(124,219)	134,135	63,349	73,566	18,179

Notes to the Financial Statements

53 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Group						
	2010						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.43%	294,955	283,469	–	–	–	11,486
Amounts due from banks and other financial institutions	1.85%	264,425	210,185	53,261	–	–	979
Loans and advances to customers (note)	5.04%	1,402,160	1,004,742	344,445	35,783	17,147	43
Investments	2.84%	394,176	78,048	98,960	161,371	52,784	3,013
Other assets	–	46,791	33	–	–	–	46,758
Total assets		2,402,507	1,576,477	496,666	197,154	69,931	62,279
Liabilities							
Amounts due to banks and other financial institutions	1.63%	282,023	259,176	21,371	3	400	1,073
Deposits from customers	1.24%	1,897,178	1,502,074	312,960	54,083	21,656	6,405
Financial liabilities at fair value through profit or loss	0.91%	3,174	353	466	499	36	1,820
Debts issued	4.75%	36,285	3,768	5,280	18,977	8,260	–
Other liabilities	–	49,841	65	60	–	–	49,716
Total liabilities		2,268,501	1,765,436	340,137	73,562	30,352	59,014
Asset-liability gap		134,006	(188,959)	156,529	123,592	39,579	3,265

53 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2011						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.52%	404,305	394,119	–	–	–	10,186
Amounts due from banks and other financial institutions	4.26%	243,019	169,364	69,566	3,285	–	804
Loans and advances to customers (note)	6.23%	1,493,913	1,137,463	326,336	15,132	14,982	–
Investments	3.51%	441,886	71,323	107,904	182,009	78,338	2,312
Other assets	–	66,801	–	–	–	–	66,801
Total assets		2,649,924	1,772,269	503,806	200,426	93,320	80,103
Liabilities							
Amounts due to banks and other financial institutions	3.25%	277,574	245,295	31,378	500	401	–
Deposits from customers	1.66%	2,126,937	1,669,689	331,797	113,529	11,577	345
Financial liabilities at fair value through profit or loss	1.57%	4,868	1,224	157	2,141	36	1,310
Debts issued	5.73%	35,535	3,475	5,086	19,985	6,989	–
Other liabilities	–	33,984	–	–	–	–	33,984
Total liabilities		2,478,898	1,919,683	368,418	136,155	19,003	35,639
Asset-liability gap		171,026	(147,414)	135,388	64,271	74,317	44,464

53 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2010						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.44%	292,899	283,065	–	–	–	9,834
Amounts due from banks and other financial institutions	1.94%	242,834	189,285	52,804	–	–	745
Loans and advances to customers (note)	5.15%	1,317,300	938,224	339,661	23,211	16,204	–
Investments	2.91%	374,285	62,581	97,028	159,741	52,764	2,171
Other assets	–	61,021	–	–	–	–	61,021
Total assets		2,288,339	1,473,155	489,493	182,952	68,968	73,771
Liabilities							
Amounts due to banks and other financial institutions	1.58%	257,834	251,267	6,564	3	–	–
Deposits from customers	1.26%	1,808,912	1,426,621	306,784	53,233	21,656	618
Financial liabilities at fair value through profit or loss	1.02%	2,641	170	466	349	36	1,620
Debts issued	4.52%	33,908	3,124	4,819	18,977	6,988	–
Other liabilities	–	44,035	–	–	–	–	44,035
Total liabilities		2,147,330	1,681,182	318,633	72,562	28,680	46,273
Asset-liability gap		141,009	(208,027)	170,860	110,390	40,288	27,498

Notes: For loans and advances to customers, the above "3 months or less" category includes overdue amounts as at 31 December 2011 and 31 December 2010 (net of allowances for impairment losses). Overdue amounts represent loans of which the whole or part of the principals was overdue.

53 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

The Group uses scenario simulation analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2011 and 31 December 2010, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

	2011		2010	
	Change in interest rates (in basis point)		Change in interest rates (in basis point)	
	25	**(25)**	25	(25)
(Decrease)/increase in annualised net profit	**(224)**	**224**	(372)	372

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

(i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;

(ii) there is a parallel shift in the yield curve and in interest rates; and

(iii) there are no other changes to the portfolio.

Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(e) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the Planning and Finance Department. The Planning and Finance Department is responsible for managing liquidity on a prudent basis to meet regulatory requirement.

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

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

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

In 2011, the Group refined its risk limits to strengthen its liquidity risk management system. This laid a solid basis for further improving its management standards in this regard.

In 2011, the Group achieved milestones in consolidated financial statement management of its liquidity risk, with the consolidated interest rate risk management system covering the entire group.

In 2011, China's tightened monetary policies resulted in increasingly squeezed liquidity in the market. Accordingly, the Group adopted a series of measures to actively manage liquidity risk and ensure RMB and foreign currency liquidity. Specifically, the measures include in-depth analyses of policy and market trends, control of asset size, active assumption of managed liabilities, and the optimisation of asset and liability allocation. The measures strengthened real-time control over liquidity for an accurate understanding of market trends, enhanced financing strength, and improved scenarios and methods of stress tests to strengthen the Group's ability in coping with extreme liquidity crunch.

In 2011, PBOC raised the statutory deposit reserve ratio six times and lowered the ratio once. As at the end of December 2011, 19% (2010: 16.5%) and 5% (2010: 5%) of eligible RMB and foreign currency deposits respectively were deposited with PBOC as required.

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

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

	2011							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	46,322	–	–	–	–	–	361,982	408,304
Amounts due from banks and other financial institutions	29,820	121,446	42,538	71,314	3,284	–	–	268,402
Loans and advances to customers (note (ii))	1,005	69,730	221,977	584,024	328,130	399,304	201	1,604,371
Investments (note (iii))	29	13,629	14,029	69,775	247,825	112,490	3,171	460,948
– at fair value through profit or loss	29	934	3,773	4,074	5,388	1,331	1,888	17,417
– available-for-sale	–	12,517	8,874	51,455	170,390	31,341	1,283	275,860
– held-to-maturity	–	175	567	9,435	60,527	74,882	–	145,586
– receivables	–	3	815	4,811	11,520	4,936	–	22,085
Other assets	5,182	2,281	2,445	4,776	392	1,096	36,774	52,946
Total assets	82,358	207,086	280,989	729,889	579,631	512,890	402,128	2,794,971
Amounts due to banks and other financial institutions	87,827	66,134	108,051	51,431	513	1,291	–	315,247
Deposits from customers (note (iv))	1,216,417	257,267	282,925	339,227	123,762	462	–	2,220,060
Financial liabilities at fair value through profit or loss	–	1,385	330	369	2,604	36	1,469	6,193
Debt issued	–	2,092	3,879	6,117	2,892	31,187	–	46,167
Other liabilities	14,981	12,192	3,688	5,546	2,564	2,394	929	42,294
Total liabilities	1,319,225	339,070	398,873	402,690	132,335	35,370	2,398	2,629,961
(Short)/long position	(1,236,867)	(131,984)	(117,884)	327,199	447,296	477,520	399,730	165,010

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

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

	2010							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	40,829	–	–	–	–	–	254,126	294,955
Amounts due from banks and other financial institutions	17,004	118,597	76,062	52,431	331	–	–	264,425
Loans and advances to customers (note (ii))	4,542	57,078	171,276	459,743	347,666	355,713	6,142	1,402,160
Investments (note (iii))	–	15,822	21,525	49,736	217,372	86,710	3,011	394,176
– at fair value through profit or loss	–	962	1,720	6,549	5,389	595	1,752	16,967
– available-for-sale	–	14,418	12,403	34,065	168,298	41,927	1,259	272,370
– held-to-maturity	–	442	6,288	7,536	41,854	41,494	–	97,614
– receivables	–	–	1,114	1,586	1,831	2,694	–	7,225
Other assets	4,316	1,651	2,026	3,717	332	921	33,828	46,791
Total assets	66,691	193,148	270,889	565,627	565,701	443,344	297,107	2,402,507
Amounts due to banks and other financial institutions	129,913	82,246	47,689	20,763	1,012	400	–	282,023
Deposits from customers (note (iv))	1,079,065	248,560	193,508	314,421	60,049	1,575	–	1,897,178
Financial liabilities at fair value through profit or loss	–	85	268	466	498	36	1,821	3,174
Debt issued	–	85	725	3,100	1,143	31,232	–	36,285
Other liabilities	21,691	18,312	2,464	3,632	1,475	777	1,490	49,841
Total liabilities	1,230,669	349,288	244,654	342,382	64,177	34,020	3,311	2,268,501
(Short)/long position	(1,163,978)	(156,140)	26,235	223,245	501,524	409,324	293,796	134,006

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

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

	2011							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	43,521	–	–	–	–	–	360,784	404,305
Amounts due from banks and other financial institutions	28,883	109,318	31,966	69,568	3,284	–	–	243,019
Loans and advances to customers (note (ii))	83	64,630	207,360	557,410	281,301	383,036	93	1,493,913
Investments (note (iii))	–	12,320	8,608	64,216	241,990	112,441	2,311	441,886
– at fair value through profit or loss	–	335	1,134	3,724	4,544	1,331	1,663	12,731
– available-for-sale	–	11,851	6,459	47,470	164,687	31,342	648	262,457
– held-to-maturity	–	131	200	8,210	60,025	74,832	–	143,398
– receivables	–	3	815	4,812	12,734	4,936	–	23,300
Other assets	4,852	1,445	2,110	4,364	127	35	53,868	66,801
Total assets	77,339	187,713	250,044	695,558	526,702	495,512	417,056	2,649,924
Amounts due to banks and other financial institutions	87,814	62,403	95,065	31,378	513	401	–	277,574
Deposits from customers (note (iv))	1,188,774	230,073	256,849	329,412	121,367	462	–	2,126,937
Financial liabilities at fair value through profit or loss	–	1,037	186	157	2,142	36	1,310	4,868
Debt issued	–	185	1,256	1,761	2,362	29,971	–	35,535
Other liabilities	14,895	11,248	3,138	3,796	809	64	34	33,984
Total liabilities	1,291,483	304,946	356,494	366,504	127,193	30,934	1,344	2,478,898
(Short)/long position	(1,214,144)	(117,233)	(106,450)	329,054	399,509	464,578	415,712	171,026

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows: *(continued)*

	2010							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	39,154	–	–	–	–	–	253,745	292,899
Amounts due from banks and other financial institutions	13,999	105,279	70,655	52,570	331	–	–	242,834
Loans and advances to customers (note (ii))	3,672	53,958	164,408	444,869	307,955	339,879	2,559	1,317,300
Investments (note (iii))	–	14,259	19,647	42,635	208,963	86,610	2,171	374,285
– at fair value through profit or loss	–	399	781	5,664	4,825	596	1,579	13,844
– available-for-sale	–	13,855	11,641	29,869	161,195	41,927	592	259,079
– held-to-maturity	–	5	6,111	5,516	39,840	41,393	–	92,865
– receivables	–	–	1,114	1,586	3,103	2,694	–	8,497
Other assets	3,770	1,192	1,565	3,371	55	25	51,043	61,021
Total assets	60,595	174,688	256,275	543,445	517,304	426,514	309,518	2,288,339
Amounts due to banks and other financial institutions	129,846	77,634	42,778	6,564	1,012	–	–	257,834
Deposits from customers (note (iv))	1,046,770	214,917	178,208	308,244	59,198	1,575	–	1,808,912
Financial liabilities at fair value through profit or loss	–	–	170	466	349	36	1,620	2,641
Debts issued	–	–	725	2,080	1,143	29,960	–	33,908
Other liabilities	21,601	17,556	1,498	2,777	574	29	–	44,035
Total liabilities	1,198,217	310,107	223,379	320,131	62,276	31,600	1,620	2,147,330
(Short)/long position	(1,137,622)	(135,419)	32,896	223,314	455,028	394,914	307,898	141,009

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.

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis.

	2011								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	**408,304**	**408,304**	**46,322**	**–**	**–**	**–**	**–**	**–**	**361,982**
Amounts due from banks and other financial institutions	**268,402**	**274,507**	**29,922**	**122,093**	**44,002**	**74,503**	**3,825**	**–**	**162**
Loans and advances to customers									
Investments	**1,604,371**	**1,982,810**	**1,852**	**74,993**	**236,933**	**625,731**	**445,121**	**590,842**	**7,338**
– at fair value through profit or loss	**15,530**	**16,650**	**29**	**965**	**3,862**	**4,180**	**5,917**	**1,696**	**1**
– available-for-sale	**275,860**	**321,524**	**–**	**12,863**	**9,493**	**55,305**	**202,514**	**40,064**	**1,285**
– held-to-maturity	**145,586**	**197,652**	**–**	**298**	**1,035**	**10,688**	**70,189**	**115,441**	**1**
– receivables	**22,085**	**25,035**	**–**	**6**	**842**	**5,023**	**11,951**	**7,213**	**–**
Other assets	**4,827**	**4,827**	**2,948**	**663**	**73**	**297**	**65**	**196**	**585**
	2,744,965	**3,231,309**	**81,073**	**211,881**	**296,240**	**775,727**	**739,582**	**755,452**	**371,354**
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	**315,247**	**321,376**	**87,967**	**67,107**	**111,184**	**53,254**	**565**	**1,299**	**–**
Deposits from customers	**2,220,060**	**2,272,274**	**1,222,883**	**259,620**	**289,041**	**351,860**	**148,285**	**585**	**–**
Financial liabilities at fair value through profit or loss	**4,724**	**4,766**	**–**	**1,385**	**372**	**369**	**2,604**	**36**	**–**
Debts issued	**46,167**	**52,777**	**–**	**2,103**	**3,928**	**6,858**	**6,372**	**33,516**	**–**
Other liabilities	**25,350**	**25,350**	**7,927**	**13,732**	**45**	**798**	**980**	**1,285**	**583**
	2,611,548	**2,676,543**	**1,318,777**	**343,947**	**404,570**	**413,139**	**158,806**	**36,721**	**583**
Gross loan commitments		**166,200**	**166,200**	**–**	**–**	**–**	**–**	**–**	**–**

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis. *(continued)*

	2010								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	294,955	294,955	40,829	–	–	–	–	–	254,126
Amounts due from banks and other financial institutions	264,425	267,991	17,140	119,106	77,344	54,023	365	–	13
Loans and advances to customers									
Investments	1,402,160	1,677,663	5,156	61,349	183,113	494,149	440,382	487,019	6,495
– at fair value through profit or loss	15,229	15,855	–	1,282	1,768	6,386	5,664	741	14
– available-for-sale	272,370	315,017	–	14,720	12,920	36,569	194,592	54,957	1,259
– held-to-maturity	97,614	125,325	–	493	6,623	8,342	47,872	61,995	–
– receivables	7,225	8,907	–	75	1,255	1,760	2,106	3,711	–
Other assets	4,882	4,882	3,215	364	283	268	80	11	661
	2,358,860	2,710,595	66,340	197,389	283,306	601,497	691,061	608,434	262,568
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	282,023	284,630	130,067	83,062	48,370	21,616	1,285	230	–
Deposits from customers	1,897,178	1,926,628	1,082,764	250,452	196,992	325,133	69,430	1,857	–
Financial liabilities at fair value through profit or loss	1,353	1,477	–	86	276	535	544	36	–
Debts issued	36,285	45,331	–	107	1,298	3,452	5,800	34,674	–
Other liabilities	38,548	38,548	26,231	8,457	946	910	861	3	1,140
	2,255,387	2,296,614	1,239,062	342,164	247,882	351,646	77,920	36,800	1,140
Gross loan commitments		166,464	166,464	–	–	–	–	–	–

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis.

	2011								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	404,305	404,305	43,521	–	–	–	–	–	360,784
Amounts due from banks and other financial institutions	243,019	249,035	28,953	109,932	33,195	72,970	3,824	–	161
Loans and advances to customers									
Investments	1,493,913	1,862,292	915	70,097	222,681	600,684	394,413	572,194	1,308
– at fair value through profit or loss	11,068	12,068	–	363	1,204	3,798	5,007	1,696	–
– available-for-sale	262,457	307,102	–	12,159	7,003	51,089	196,199	40,002	650
– held-to-maturity	143,398	195,369	–	249	656	9,427	69,649	115,387	1
– receivables	23,300	26,250	–	6	842	5,023	13,166	7,213	–
Other assets	35,452	35,452	2,697	–	–	–	–	–	32,755
	2,616,912	3,091,873	76,086	192,806	265,581	742,991	682,258	736,492	395,659
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	277,574	283,590	87,955	63,354	98,122	33,185	565	409	–
Deposits from customers	2,126,937	2,178,506	1,195,235	232,345	262,798	341,863	145,680	585	–
Financial liabilities at fair value through profit or loss	3,558	3,600	–	1,037	228	157	2,142	36	–
Debts issued	35,535	41,144	–	190	1,276	2,360	6,657	30,661	–
Other liabilities	18,561	18,561	8,328	10,233	–	–	–	–	–
	2,462,165	2,525,401	1,291,518	307,159	362,424	377,565	155,044	31,691	–
Gross loan commitments		152,705	152,705	–	–	–	–	–	–

53 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis. *(continued)*

	2010								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	292,899	292,899	39,154	–	–	–	–	–	253,745
Amounts due from banks and other financial institutions	242,834	246,389	14,135	105,787	71,929	54,160	365	–	13
Loans and advances to customers									
Investments	1,317,300	1,585,196	4,265	58,140	175,799	477,622	396,902	469,556	2,912
– at fair value through profit or loss	12,265	12,863	–	419	821	5,756	5,125	742	–
– available-for-sale	259,079	301,288	–	14,138	12,090	32,129	187,383	54,956	592
– held-to-maturity	92,865	120,393	–	47	6,428	6,236	45,794	61,888	–
– receivables	8,497	10,178	–	75	1,254	1,759	3,378	3,712	–
Other assets	35,799	35,799	3,043	–	–	–	–	–	32,756
	2,261,538	2,605,005	60,597	178,606	268,321	577,662	638,947	590,854	290,018
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	257,834	259,579	130,000	78,047	43,563	6,889	1,080	–	–
Deposits from customers	1,808,912	1,838,101	1,050,466	216,746	181,617	318,880	68,535	1,857	–
Financial liabilities at fair value through profit or loss	1,021	1,143	–	1	178	534	394	36	–
Debts issued	33,908	41,051	–	5	1,273	2,152	5,319	32,302	–
Other liabilities	33,922	33,922	26,134	7,788	–	–	–	–	–
	2,135,597	2,173,796	1,206,600	302,587	226,631	328,455	75,328	34,195	–
Gross loan commitments		150,586	150,586	–	–	–	–	–	–

53 RISK MANAGEMENT *(continued)*

(f) Operational risk

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

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

(g) Capital management

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

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

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

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

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

53 RISK MANAGEMENT *(continued)*

(h) Use of derivatives

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

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

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

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

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

53 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Group						
	2011						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	6,204	3,051	12,241	180	21,676	83	(84)
Currency derivatives							
Spot	8,421	–	–	–	8,421	26	(17)
Forwards	49,733	41,612	8,747	–	100,092	788	(748)
Foreign exchange swaps	57,281	54,714	950	–	112,945	490	(425)
Options purchased	3,860	34	–	–	3,894	82	–
Options written	3,972	34	–	–	4,006	–	(84)
	123,267	96,394	9,697	–	229,358	1,386	(1,274)
Other derivatives							
Equity swaps	–	12	–	–	12	–	(1)
Credit default swaps	–	126	1,762	–	1,888	6	(10)
Equity options purchased	45	–	–	–	45	–	–
Equity options written	45	–	–	–	45	–	–
	90	138	1,762	–	1,990	6	(11)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	–	7,930	15,500	–	23,430	390	(19)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	1,499	558	1,585	–	3,642	22	(79)
Currency derivatives							
Foreign exchanges swaps	–	86	–	–	86	–	–
Other derivatives							
Equity options	–	25	23	–	48	–	(2)
	1,499	669	1,608	–	3,776	22	(81)
Total						1,887	(1,469)
						(Note 21(a))	

Notes to the Financial Statements

53 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Group						
	2010						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,214	2,596	8,981	55	20,846	81	(129)
Currency derivatives							
Spot	12,151	–	–	–	12,151	47	(98)
Forwards	47,641	49,499	6,882	–	104,022	911	(901)
Foreign exchange swaps	52,358	26,808	4,208	–	83,374	645	(425)
Options purchased	2,515	1	–	–	2,516	35	–
Options written	3,473	55	–	–	3,528	–	(42)
	118,138	76,363	11,090	–	205,591	1,638	(1,466)
Other derivatives							
Equity swaps	–	–	93	–	93	–	(1)
Credit default swaps	132	198	1,977	–	2,307	11	(2)
Equity options purchased	151	29	–	–	180	2	–
Equity options written	151	29	–	–	180	–	(2)
	434	256	2,070	–	2,760	13	(5)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,845	1,483	–	–	3,328	4	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	322	1,181	1,983	36	3,522	2	(176)
Currency derivatives							
Foreign exchanges swaps	–	–	54	–	54	–	–
Other derivatives							
Equity options	–	517	132	–	649	–	(45)
	322	1,698	2,169	36	4,225	2	(221)
Total						1,738	(1,821)
						(Note 21(a))	

53 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2011						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	3,473	2,649	10,991	63	17,176	80	(73)
Currency derivatives							
Spot	8,421	–	–	–	8,421	26	(17)
Forwards	41,875	38,957	8,427	–	89,259	683	(661)
Foreign exchange swaps	48,951	54,522	950	–	104,423	392	(401)
Options purchased	3,343	34	–	–	3,377	79	–
Options written	3,445	34	–	–	3,479	–	(81)
	106,035	93,547	9,377	–	208,959	1,180	(1,160)
Other derivatives							
Equity swaps	–	12	–	–	12	–	(1)
Credit default swaps	–	126	1,762	–	1,888	6	(10)
	–	138	1,762	–	1,900	6	(11)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	–	7,930	15,500	–	23,430	390	(19)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	1,223	407	648	–	2,278	8	(47)
Total						1,664	(1,310)
						(Note 21(a))	

53 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2010						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,214	2,557	7,963	–	19,734	78	(123)
Currency derivatives							
Spot	12,151	–	–	–	12,151	47	(98)
Forwards	46,099	47,775	6,810	–	100,684	898	(891)
Foreign exchange swaps	41,123	25,901	4,207	–	71,231	507	(399)
Options purchased	2,090	–	–	–	2,090	33	–
Options written	3,043	53	–	–	3,096	–	(41)
	104,506	73,729	11,017	–	189,252	1,485	(1,429)
Other derivatives							
Equity swaps	–	–	93	–	93	–	(1)
Credit default swaps	132	198	1,977	–	2,307	11	(2)
	132	198	2,070	–	2,400	11	(3)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,845	1,483	–	–	3,328	4	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	170	597	1,464	36	2,267	1	(65)
Currency derivatives							
Foreign exchange swaps	–	–	54	–	54	–	–
	170	597	1,518	36	2,321	1	(65)
Total						1,579	(1,620)
						(Note 21(a))	

53 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

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

Credit risk weighted amounts

	2011	2010
Interest rate derivatives	**575**	171
Currency derivatives	**3,350**	3,663
Other derivatives	**264**	301
	4,189	4,135

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

(i) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, deposits and placements with the central banks, banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets mature within 1 year or are already stated at fair value, and therefore their carrying values approximate their fair values.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). The interest rate of loans and advances will be adjusted in accordance with the PBOC rates, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying values of loans and advances are close to the fair values.

Held-to-maturity debt securities investments are stated at amortised costs less impairment, and the fair values are disclosed in Note 21(c).

53 RISK MANAGEMENT *(continued)*

(i) Fair value information *(continued)*

(ii) Financial liabilities

Financial liabilities mainly include customer deposits, deposits and placements from banks and other financial institutions, and debts issued by the Bank. The carrying values of financial liabilities approximate their fair values at the end of the reporting period of the year presented, except the financial liabilities set out below:

Carrying value

	2011	2010
Subordinated notes issued	**31,187**	31,232

Fair value

	2011	2010
Subordinated notes issued	**30,031**	31,714

54 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(n). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

54 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Defined benefit scheme

Actuarial assumptions are made in valuing future pension obligations as set out in note 37(b). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

54 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the end of the reporting period. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(h) Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

55 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB6,300 million	18.63% (note (i))	–	Transportation, shipping agency, ware housing and storage, leasing, manufacturing building and facility, repair and contracting, sales, operating management service	Largest shareholder's parent company	Limited company	Fu Yu Ning
China Merchants Steam Navigation Company Limited (CMSNCL)	Beijing	RMB200 million	12.40% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services	Largest shareholder	Joint stock limited company	Fu Yu Ning
CMB International Capital Corporation Limited (CMBICCL)	Hong Kong	HKD250 million	–	100%	Financial advisory and services	Subsidiary	Limited company	Zhu Qi
CMB Financial Leasing Corporation Limited (CMBFLCL)	Shanghai	RMB2,000 million	–	100%	Financial leasing and advisory	Subsidiary	Limited company	Wang Qingbin
Wing Lung Bank Limited (WLB)	Hong Kong	HKD1,161 million	–	100%	Banking	Subsidiary	Limited company	Ma Weihua

Note:

(i) CMG holds 18.63% of the Bank (2010: 18.58%) through its subsidiaries.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 12.40% of the Bank (2010: 12.40%).

The registered capital of each company

Connected person	2011	2010
CMG	**RMB6,300,000,000**	RMB6,300,000,000
CMSNCL	**RMB200,000,000**	RMB200,000,000
CMBICCL	**HKD250,000,000**	HKD250,000,000
CMBFLCL	**RMB2,000,000,000**	RMB2,000,000,000
WLB	**HKD1,160,950,575**	HKD1,160,950,575

55 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(a) Material connected person information *(continued)*

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	CMSNCL		CMBICCL		CMBFLCL		WLB	
	RMB	%	HKD	%	RMB	%	HKD	%
At 1 January 2011	2,675,612,600	12.40	250,000,000	100.00	2,000,000,000	100.00	1,160,950,575	100.00
Change	–	–	–	–	–	–	–	–
At 31 December 2011	2,675,612,600	12.40	250,000,000	100.00	2,000,000,000	100.00	1,160,950,575	100.00

(b) Transaction terms and conditions

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

	2011	2010
Short-term loans	**5.35% to 6.56% p.a.**	4.86% to 5.81% p.a.
Medium to long-term loans	**5.85% to 7.05% p.a.**	5.40% to 6.40% p.a.
Saving deposits	**0.36% to 0.50% p.a.**	0.36% p.a.
Time deposits	**2.25% to 5.50% p.a.**	1.71% to 4.55% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

55 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 18.63% (2010: 18.58%) shares of the Bank as at 31 December 2011 (among them 12.40% shares is held by CMSNCL (2010: 12.40%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	Group		Bank	
	2011	2010	**2011**	2010
On-balance sheet:				
– Loans and advances	**5,218**	3,819	**4,724**	3,600
– Investments	**877**	848	**876**	847
– Deposits from customers	**20,763**	29,275	**20,585**	28,906
Off-balance sheet:				
– Irrevocable guarantee	**444**	440	**444**	440
– Irrevocable letters of credit	**16**	60	**16**	60
– Bills of acceptances	**76**	355	**76**	355
Average balance of loans and advances	**1,195**	1,524	**843**	1,054
Interest income	**224**	170	**220**	168
Interest expense	**363**	461	**360**	461
Net fees and commission	**329**	174	**323**	173

55 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(d) Companies controlled by directors and supervisors other than those under Note 55(b) above

	Group		Bank	
	2011	2010	**2011**	2010
On-balance sheet:				
– Loans and advances	**3,428**	2,786	**2,699**	2,786
– Investments	**4,415**	5,729	**4,415**	5,729
– Deposits from customers	**16,336**	21,875	**16,320**	21,875
Off-balance sheet:				
– Irrevocable guarantee	**1,275**	2,371	**1,275**	2,371
– Irrevocable letters of credit	**81**	18	**81**	18
– Bill of acceptances	**652**	1,061	**652**	1,061
Average balance of loans and advances	**1,519**	1,472	**920**	1,472
Interest income	**186**	171	**178**	171
Interest expense	**169**	214	**163**	214
Net fees and commission	**110**	59	**85**	59

(e) Investment in associate and jointly controlled entities other than those under Note 55(b) above

	Group		Bank	
	2011	2010	**2011**	2010
On-balance sheet:				
– Loans and advances	**14**	16	**–**	16
– Deposits from customers	**375**	1,313	**186**	1,313
Average balance of loans and advances	**15**	17	**–**	17
Interest expense	**10**	8	**7**	8
Net fees and commission	**122**	111	**102**	111

55 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(f) Subsidiaries

	2011	2010
On-balance sheet		
– Loans and advance	**–**	170
– Investments	**1,215**	1,272
– Deposits from customers	**354**	251
– Deposits with other banks	**1,952**	1,513
– Placement with other banks	**880**	399
– Deposits from other banks	**2**	171
– Placement from other banks	**447**	–
Interest income	**68**	21
Interest expense	**25**	2
Net fees and commission	**8**	1

(g) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

	2011 **RMB'000**	2010 RMB'000
Salaries and other emoluments	**33,598**	35,598
Discretionary bonuses (note 8)	**1,397**	13,218
Share-based payment	**1,428**	218
Contributions to defined contribution retirement schemes	**9,336**	9,496
	45,759	58,530

The above share-based payments represent the estimated fair value of the share appreciation rights granted (note 37(e)) to senior management under the Bank's H-Share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in note 2(u)(iii); and the amounts have been charged to the consolidated statement of comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

56 NON-CONTROLLING INTERESTS

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

57 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 12, Income tax	1 January 2012
IFRS 9, Financial instruments	1 January 2015
IFRS 13, Fair value measurement	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. Other than IFRS 9 – *Financial Instruments*, which could affect the Group's results and financial position as a result of changes to its categorisation and measurement of financial instruments, and amendments to IAS 12 – *Income Taxes*, which could affect the Group's results and financial position as a result of changes to its measurement of deferred income tax liabilities of investment properties, so far the Group has concluded that the adoption of these amendments is unlikely to have a significant impact on the Group's results of operations and financial position.

58 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In accordance with the Reply of China Banking Regulatory Commission on Issuance of Financial Bond by China Merchants Bank (Yin Jian Fu [2011] No. 557) and the Decision of Approval of Administrative License of People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2012] No. 2), the Bank has issued financial bonds at the amount of RMB20 billion in the interbank bond market. All proceeds raised will be deployed as loans for small micro-enterprises.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

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

The capital adequacy ratios and related components of the Group and Bank as at 31 December 2011 and 2010 calculated based on PRC GAAP, were as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Core capital adequacy ratio	**8.22%**	8.04%	**8.74%**	8.70%
Capital adequacy ratio	**11.53%**	11.47%	**11.28%**	11.21%
Components of capital base				
Core capital:				
– Paid up ordinary share capital	**21,577**	21,577	**21,577**	21,577
– Reserves	**134,771**	106,402	**140,156**	113,261
Total core capital	**156,348**	127,979	**161,733**	134,838
Supplementary capital:				
– General provisions for doubtful debts	**29,251**	21,180	**28,641**	20,799
– Term subordinated bonds	**30,000**	30,000	**30,000**	30,000
– Other supplementary capital	**255**	–	**272**	–
Total supplementary capital	**59,506**	51,180	**58,913**	50,799
Total capital base before deductions	**215,854**	179,159	**220,646**	185,637
Deductions:				
– Goodwill	**9,598**	9,598	**–**	–
– Investments in unconsolidated subsidiary and others	**1,589**	1,661	**33,212**	33,301
– Investment in commercial real estate	**1,710**	1,946	**298**	275
Total capital base after deductions	**202,957**	165,954	**187,136**	152,061
Risk weighted assets	**1,760,884**	1,446,883	**1,659,348**	1,356,797

(B) LIQUIDITY RATIOS

	2011	2010
Liquidity ratios		
RMB current assets to RMB current liabilities	**39.5%**	36.4%
Foreign currency current assets to foreign currency current liabilities	**78.4%**	71.9%

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

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB

	2011			
	US Dollars	**HK Dollars (in millions of RMB)**	**Others**	**Total**
Non-structural position				
Spot assets	**139,645**	**67,848**	**22,388**	**229,881**
Spot liabilities	**(112,789)**	**(73,580)**	**(28,980)**	**(215,349)**
Forward purchases	**78,072**	**15,761**	**13,320**	**107,153**
Forward sales	**(96,135)**	**(1,729)**	**(6,503)**	**(104,367)**
Net option position	**(54)**	**(2)**	**56**	**–**
Net long position	**8,739**	**8,298**	**281**	**17,318**
Net structural position	**75**	**43,336**	**95**	**43,506**

	2010			
	US Dollars	HK Dollars (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	114,640	74,243	20,026	208,909
Spot liabilities	(87,943)	(82,687)	(29,578)	(200,208)
Forward purchases	67,686	15,117	18,105	100,908
Forward sales	(85,191)	(2,007)	(8,131)	(95,329)
Net option position	(153)	(17)	170	–
Net long position	9,039	4,649	592	14,280
Net structural position	46	49,748	11	49,805

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB *(continued)*

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

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

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(D) CROSS-BORDER CLAIMS

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

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

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

	2011			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**29,668**	**4,516**	**90,614**	**124,798**
– of which attributed to Hong Kong	**26,040**	**3,820**	**82,816**	**112,676**
Europe	**10,350**	**58**	**423**	**10,831**
North and South America	**10,908**	**731**	**9,682**	**21,321**
	50,926	**5,305**	**100,719**	**156,950**

	2010			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	29,862	2,724	82,281	114,867
– of which attributed to Hong Kong	21,251	2,567	71,836	95,654
Europe	15,209	15	872	16,096
North and South America	10,577	337	9,302	20,216
	55,648	3,076	92,455	151,179

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR

Operation in Mainland China

	Group			
	2011		2010	
	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	**299,734**	**29**	248,069	26
Wholesale and retail	**154,953**	**43**	106,654	41
Transportation, storage and postal services	**135,958**	**29**	128,401	26
Property development	**79,453**	**70**	80,856	65
Production and supply of electric power, gas and water	**64,470**	**24**	61,466	16
Construction	**43,273**	**30**	33,348	28
Leasing and commercial services	**37,328**	**36**	49,899	31
Mining	**35,481**	**28**	27,891	22
Water, environment and public utilities management	**33,752**	**36**	31,894	35
Telecommunications, computer services and software	**9,874**	**46**	7,119	30
Others	**24,110**	**29**	30,615	22
Corporate loans	**918,386**	**35**	806,212	32
Discounted bills	**75,826**	**100**	64,948	100
Credit cards	**72,964**	**–**	54,589	–
Retail housing mortgage loans	**315,760**	**99**	290,348	100
Retail operating loans	**89,174**	**94**	64,609	100
Others	**81,998**	**91**	74,486	100
Retail loans	**559,896**	**84**	484,032	60
Gross loans and advances to customers	**1,554,108**	**56**	1,355,192	45

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation in Mainland China *(continued)*

	Bank			
	2011		2010	
	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	**285,600**	**26**	237,923	23
Wholesale and retail	**153,777**	**43**	105,999	41
Transportation, storage and postal services	**130,983**	**27**	125,166	24
Property development	**78,575**	**70**	80,092	65
Production and supply of electric power, gas and water	**56,587**	**13**	57,740	11
Construction	**41,184**	**26**	31,939	24
Leasing and commercial services	**36,013**	**35**	49,705	30
Mining	**31,156**	**18**	24,432	11
Water environment and public utilities management	**33,208**	**34**	31,595	34
Telecommunication, computer services and software	**9,732**	**45**	7,049	29
Others	**23,123**	**27**	29,611	20
Corporate loans	**879,938**	**33**	781,251	30
Discounted bills	**68,966**	**100**	61,038	100
Credit cards	**72,964**	**–**	54,589	–
Retail housing mortgage loans	**315,696**	**99**	290,274	100
Retail operating loans	**86,446**	**94**	63,740	100
Others	**81,829**	**91**	74,133	100
Retail loans	**556,935**	**84**	482,736	89
Gross loans and advances to customers	**1,505,839**	**55**	1,325,025	55

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation outside Mainland China

	Group			
	2011		2010	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Property development	**33,365**	**60**	32,326	59
Wholesale and retail	**14,538**	**90**	9,414	44
Manufacturing and processing	**8,238**	**60**	5,385	29
Financial concerns	**5,392**	**20**	6,239	13
Transportation, storage and postal services	**4,992**	**64**	3,154	48
Information technology	**852**	**72**	170	1
Recreational activities	**30**	**31**	229	5
Others	**8,248**	**23**	7,386	14
Corporate loans	**75,655**	**59**	64,303	44
Credit cards	**341**	**–**	327	–
Retail housing mortgage loans	**7,880**	**100**	8,649	100
Retail operating loans	**1,255**	**100**	–	–
Others	**1,836**	**97**	2,980	98
Retail loans	**11,312**	**96**	11,956	97
Gross loans and advances to customers	**86,967**	**64**	76,259	52

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation outside Mainland China *(continued)*

	Bank			
	2011		2010	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Property development	**7,156**	**32**	5,964	13
Wholesale and retail	**4,509**	**100**	5,632	27
Manufacturing and processing	**3,667**	**74**	1,786	17
Financial concerns	**243**	**–**	502	3
Transportation, storage and postal services	**2,947**	**86**	2,204	56
Information technology	**613**	**100**	–	–
Others	**4,918**	**14**	4,988	6
Corporate loans	**24,053**	**56**	21,076	20
Gross loans and advances to customers	**24,053**	**56**	21,076	20

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to consolidated statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	Group					
	2011					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to consolidated statement of comprehensive income during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**2,570**	**2,682**	**1,804**	**6,117**	**1,375**	**80**
Wholesale and retail	**1,439**	**1,710**	**1,151**	**3,257**	**1,137**	**74**
Retail housing mortgage loans	**2,972**	**387**	**–**	**2,797**	**236**	**–**

	Group					
	2010					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,524	2,680	1,915	5,010	1,401	3
Wholesale and retail	1,402	1,707	1,356	2,227	820	–
Retail housing mortgage loans	2,425	415	–	2,566	179	–

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are: *(continued)*

	Bank					
	2011					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to consolidated statement of comprehensive income during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**2,535**	**2,677**	**1,800**	**5,943**	**1,304**	**74**
Wholesale and retail	**1,397**	**1,707**	**1,151**	**3,231**	**1,130**	**74**
Retail housing mortgage loans	**2,625**	**383**	**–**	**2,789**	**231**	**–**

	Bank					
	2010					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,503	2,669	1,906	4,895	1,384	–
Wholesale and retail	1,369	1,703	1,355	2,214	813	–
Retail housing mortgage loans	2,028	409	–	2,557	177	–

(F) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

(i) By geographical segments

	2011	2010
Headquarter	**1,863**	2,114
Yangtze River Delta region	**1,610**	1,496
Bohai Rim region	**656**	746
Pearl River Delta and West Coast region	**1,038**	1,203
Northeast region	**252**	356
Central region	**946**	734
Western region	**779**	1,039
Subsidiaries	**21**	76
Total	**7,165**	7,764

(ii) By overdue period

	2011	2010
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	**589**	482
– between 6 and 12 months	**416**	465
– over 12 months	**6,160**	6,817
Total	**7,165**	7,764
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.04%**	0.03%
– between 6 and 12 months	**0.02%**	0.03%
– over 12 months	**0.38%**	0.48%
Total	**0.44%**	0.54%

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

(iii) Collateral information

	2011	2010
Secured portion of overdue loans and advances	**1,192**	942
Unsecured portion of overdue loans and advances	**5,973**	6,822
Value of collaterals held against overdue loans and advances	**1,208**	957
Provision of overdue loans and advances for which impairment losses are individually assessed	**4,264**	5,148

(G) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(i) By geographical segments

	2011	2010
Yangtze River Delta region	**2**	3
Pearl River Delta and West Coast region	**4**	4
	6	7

(ii) By overdue period

	2011	2010
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	**6**	7
Total	**6**	7
As a percentage of total gross loans and advances		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**–**	–
Total	**–**	–

(G) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(continued)

(iii) Collateral information

	2011	2010
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**6**	7
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**6**	7

Note:

The above analysis, (F) and (G), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

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

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

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

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

(H) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	2011		2010	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**1,298**	**0.08%**	1,531	0.11%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**662**	**0.04%**	892	0.06%
Rescheduled loans and advances overdue less than 90 days	**636**	**0.04%**	639	0.05%

The Group has RMB1.44 million (2010: RMB2.83 million) rescheduled loans and advances to financial institutions as at 31 December 2011.

(I) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2011 and 31 December 2010, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) CORPORATE GOVERNANCE

Board committees

The board of directors has established six committees including the Strategy Committee, Audit committee, Related-party Transaction Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Executive Committee are:

- to propose operation objective and long term development plan;
- to regularly review and monitor the execution status of annual operating plan and investment plan;
- to examine and monitor the status of carrying out the decision of board; and
- to propose the suggestion and scheme of significant issues which should be discussed and determined by board.

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation;
- to coordinate communication between internal auditors and external auditors;
- to review the financial information of the Bank and its disclosure;
- to examine the internal control system of the Bank; and
- other matters that authorized by board.

(J) CORPORATE GOVERNANCE *(continued)*

Board committees *(continued)*

(iii) Related-Party Transaction Control Committee

Main authorities and duties of the Related-Party Transaction Control Committee are:

– to identify the related parties of the Bank according to the laws and regulations;
– to inspect, monitor and review material related parties transactions and continuing related parties transactions and control the risks associated with related transactions;
– to review the rules governing related parties transaction and relevant system of controls; and
– to review the disclosure of related parties transaction of the Bank.

(iv) Risk and Capital Management committee

Main authorities and duties of the Risk and Capital management Committee are:

– to monitor the risk control of the Bank's exposures to credit, market and operational, etc. by senior management;
– to conduct regular assessment of the risk position of the Bank and evaluate the working procedures and results of internal audit departments;
– to put forward proposals on the improvement of the risk management and internal control of the Bank; and
– Other matters that authorized by board.

(v) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

– to study and propose standards for appraising directors and senior management, conduct appraisals and provide advices based on the actual situation of the Bank;
– to study and review the remuneration policy and plans for directors and senior management; and
– Other matters that authorized by board.

(vi) Nomination Committees

Main authorities and duties of the Nomination Committee are:

– to put forward proposals to the board on the size and composition of the board according to the business operations, asset scale and shareholding structure of the Bank;
– to study the standards and procedures for the election of directors and senior management, and propose suggestion to the board;
– to conduct extensive searches for qualified candidates as directors and senior management;
– to make preliminary examination on the qualifications of the candidates for directors and senior management and put forward proposals; and
– Other matters that authorized by board.

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