中信银行
CHINA CITIC BANK

中 信 銀 行 股 份 有 限 公 司

# China CITIC Bank Corporation Limited

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

**(Stock Code: 998)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Board of Directors of China CITIC Bank Corporation Limited (the "Bank") is pleased to announce the unaudited consolidated results (the "Interim Results") of the Bank and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011 (the "Reporting Period"), which have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and in compliance with International Accounting Standards (the "IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. The Interim Results have been reviewed and confirmed by the Audit and Related Party Transactions Control Committee of the Bank's Board of Directors.

This results announcement is made in both English and Chinese. Should there be any discrepancy between the two versions, the Chinese version shall prevail.

## I. FINANCIAL HIGHLIGHTS

### Operating Performance

*Unit: RMB million*

| **Item** | **January to June 2011** | January to June 2010 | Growth rate *(%)* |
|---|---|---|---|
| Operating income | **35,335** | 25,567 | 38.21 |
| Total profit | **20,326** | 14,281 | 42.33 |
| **Net profit attributable to shareholders of the Bank** | **15,024** | 10,685 | 40.61 |
| Net operating cash flow | **7,491** | 11,529 | (35.02) |
| Per share | | | |
| Basic earnings per share *(RMB)* | **0.38** | 0.27 | 40.61 |
| Diluted earnings per share *(RMB)* | **0.38** | 0.27 | 40.61 |
| Net operating cash flow per share *(RMB)* | **0.19** | 0.30 | (35.02) |

**Profitability Indicators**

| Item | **January to June 2011** | January to June 2010 | Increase/ decrease |
|---|---|---|---|
| Return on average assets *(ROAA)* | **1.41%** | 1.17% | 0.24 |
| Return on average equity (*ROAE*, excluding minority interests) | **23.54%** | 20.09% | 3.45 |
| Cost-to-income ratio | **30.36%** | 30.46% | (0.10) |
| Credit cost | **0.29%** | 0.29% | — |
| Net interest spread | **2.76%** | 2.51% | 0.25 |
| Net interest margin | **2.89%** | 2.60% | 0.29 |

**Scale Indicators**

*Unit: RMB million*

| Item | **30 June 2011** | 31 December 2010 | Growth rate *(%)* |
|---|---|---|---|
| **Total assets** | **2,245,218** | 2,081,314 | 7.88 |
| Total loans and advances to customers | **1,354,819** | 1,264,245 | 7.16 |
| **Total liabilities** | **2,105,561** | 1,956,776 | 7.60 |
| Total deposits from customers | **1,873,227** | 1,730,816 | 8.23 |
| **Total equity attributable to shareholders of the Bank** | **135,116** | 120,175 | 12.43 |
| **Net asset value per share attributable to shareholders of the Bank *(RMB)*** | **3.46** | 3.08 | 12.43 |

**Asset Quality Indicators**

*Unit: RMB million*

| Item | **30 June 2011** | 31 December 2010 | Growth rate (%)/ increase/ decrease |
|---|---|---|---|
| Performing loans | **1,346,384** | 1,255,712 | 7.22 |
| Non-performing loans | **8,435** | 8,533 | (1.15) |
| Provisions for loan impairment | **20,095** | 18,219 | 10.30 |
| NPL ratio | **0.62%** | 0.67% | (0.05) |
| Provision coverage ratio | **238.23%** | 213.51% | 24.72 |
| Allowance for loan impairment losses to total loans ratio | **1.48%** | 1.44% | 0.04 |

*Note:* Performing loans include normal loans and special mention loans; non-performing loans include substandard loans, doubtful loans and loss loans.

**Capital Adequacy Indicators**

| Item | 30 June 2011 | 31 December 2010 | Increase/ decrease |
|---|---|---|---|
| Capital adequacy ratio | **11.40%** | 11.31% | 0.09 |
| Core capital adequacy ratio | **8.87%** | 8.45% | 0.42 |
| Total equity to total assets ratio | **6.22%** | 5.98% | 0.24 |

# II. REPORT OF THE BOARD OF DIRECTORS

## (I) Economic, financial and regulatory environment

In the first half of 2011, given the uncertainties in geographical politics, spreading European debt crisis, soaring bulk commodity prices and frequent occurrence of natural hazards in the world, developed economies such as the United States, Europe and Japan recovered slowly and the instabilities and uncertainties in economic development were on the rise. The global financial markets experienced even more significant fluctuation due to the large scale of cross-border capital flow of major emerging economies and developing countries and the rising risks from the overheated economy. Some countries have begun their tightening monetary policies to tame the increasingly intensive pressure of worldwide inflation.

In the face of the complicated and volatile international situation and the new issues aroused in the domestic economy, the central government and the State Council insisted on implementing proactive fiscal policies and prudent monetary policies, continuously strengthened and improved the macro-economic control policy. In the first half of 2011, the overall economic operation in China was sound and developed as expected to implementing macro-economic control policies. In the first half of 2011, the gross domestic product (GDP) amounted to 20,445.9 billion, representing a year-on-year increase of 9.6%. The total social investment increased at a relatively fast pace and the fixed asset investment amounted to RMB12,456.7 billion, up by 25.6% as compared with the same period of the previous year. Market sales rose steadily and the aggregate social retail consumer goods was RMB8,583.3 billion, with a growth rate of 16.8% as compared with the same period of the previous year. The total foreign trade volume grew fast and hit USD1,703.67 billion, representing a year-on-year growth of 25.8%, while the trade surplus narrowed down to USD44.93 billion, representing a year-on-year decrease of 18.2%. The consumer price continued to surge, with food price rising by a large margin. In the first half of 2011, the consumer price index (CPI) increased by 5.4% year on year and the producer's price index (PPI) increased by 7% year on year.

China's financial industry continued to operate in a prudent manner. As at 30 June 2011, the supply of money in broad sense (M2) in China was RMB78.08 trillion, up by 15.9% year on year; and the supply of money in narrow sense (M1) was RMB27.47 trillion, up by 13.1% year on year; the total balance of RMB loans issued by financial institutions was RMB51.40 trillion, up by 16.9% year on year and the total balance of deposits was RMB78.64 trillion, up by 17.6% year on year. The exchange rate of RMB continued to appreciate. As at 30 June, the parity price of the exchange rate of RMB against USD was RMB6.4716, appreciating by 151 basis points as compared with the end of the previous year. The stock market tumbled down, with the Shanghai Composite Index closing at 2,762.08 as at 30 June, decreased by 46 points as compared with the end of the previous year. Benefiting from the steady growth in asset scale, the continuous optimization of business structure and the improved interest spreads and effective control on cost, the banking industry in China realized a fast growth in net profit and maintained a stable quality of loans.

In accordance with the requirements of the national industry policies and macro-economic control policy, the CBRC fully performed its role of guidance and leverage as regulatory instrument by enhancing industry guidance and risk warning and introducing post-event evaluation mechanism. Apart from supervising the implementation of "Three Measures and One Guideline" by the banking industry, the CBRC scientifically introduced new standards related to banking regulation reform proposed by the Basel Committee so as to further reform and improve the system of regulatory indicators. All abovementioned measures played a positive role in promoting the development and transformation of banking industry and accelerating the organic coordination of speed and structure, quality and profit in the development of domestic economy.

At present, the economic environment at home and abroad is still uneven and complicated, evidenced by the hiking CPI. However, as macro-economic control policies kick in and better balance has achieved among the stable and fast economic development, economic restructuring and the management of inflation, it is expected that the domestic economy will maintain its steady growth and the inflation will become stable in the second half of the year.

## (II) Analysis on Financial Statements

***Overview***

In the first half of 2011, the Group proactively tackled with the adjustment and changes in the macro-economic environment and regulatory policies. Adhering to the guiding principle of "transformation, upgrade and development", the Group's businesses maintained the healthy and coordinated development with its credit scale, loan-to-deposit ratio and capital adequacy ratio up to the regulatory requirements. The economic efficiency witnessed a significant increase, the business scale realized a steady expansion and the assets maintained good quality.

In the first half of 2011, the Group realized a net profit attributable to the Bank's shareholders of RMB15.024 billion, an increase of RMB4.339 billion or 40.61% year on year. The net interest income was RMB29.806 billion, an increase of RMB7.443 billion or 33.28% year on year. Net interest margin reached 2.89%, an increase of 0.29 percentage point year on year, of which the net interest margin of the Bank was 3.00%, an increase of 0.34 percentage point year on year. The net non-interest income was RMB5.529 billion, an increase of RMB2.325 billion or 72.57% year on year.

As at the end of the reporting period, the Group's total assets reached RMB2,245.218 billion, up by RMB163.904 billion or 7.88% compared with the end of the previous year, of which the total loans and advances stood at RMB1,354.819 billion, up by RMB90.574 billion or 7.16% compared with the end of the previous year. Total liabilities amounted to RMB2,105.561 billion, up by RMB148.785 billion or 7.60% compared with the end of the previous year, of which the total deposits from customers amounted to RMB1,873.227 billion, up by RMB142.411 billion or 8.23% compared with the end of the previous year.

As at the end of the reporting period, the Group's balance of NPLs was RMB8.435 billion, a decrease of RMB98 million or 1.15% compared with the end of the previous year; the NPL ratio was 0.62%, a decrease of 0.05 percentage point compared with the end of the previous year; the provision coverage ratio was 238.23%, an increase of 24.72 percentage points compared with the end of the previous year.

***Income Statement Analysis***

*Unit: RMB million*

| | **January to June 2011** | January to June 2010 | Increase/ decrease | Growth rate *(%)* |
|---|---|---|---|---|
| Net interest income | **29,806** | 22,363 | 7,443 | 33.28 |
| Net non-interest income | **5,529** | 3,204 | 2,325 | 72.57 |
| Operating income | **35,335** | 25,567 | 9,768 | 38.21 |
| Operating expense | **(13,159)** | (9,483) | 3,676 | 38.76 |
| Asset impairment loss | **(1,929)** | (1,824) | 105 | 5.76 |
| Profit before taxation | **20,326** | 14,281 | 6,045 | 42.33 |
| Income tax | **(5,053)** | (3,442) | 1,611 | 46.80 |
| Net profit | **15,273** | 10,839 | 4,434 | 40.91 |
| Including: attributable to | | | | |
| shareholders of the Bank | **15,024** | 10,685 | 4,339 | 40.61 |
| minority interests | **249** | 154 | 95 | 61.69 |

***Net Interest Income***

The Group's net interest income was affected by the difference between the yield of interest-earning assets and the cost rate of interest-bearing liabilities, as well as the difference between the average balances of interest-earning assets and the interest-bearing liabilities. In the first half of 2011, the Group realized a net interest income of RMB29.806 billion, increased by RMB7.443 billion or 33.28% year on year. The increase in net interest income was mainly due to the continuous increase of net interest margin and the continuous expansion of interest-earning assets.

The table below shows the average balances and the average interest rates of the Group's interest-earning assets and interest-bearing liabilities:

*Unit: RMB million*

| | **January to June 2011** | | | January to June 2010 | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| Item | **Average balance** | **Interest** | **Average yield/ cost rate (%)** | Average balance | Interest | Average yield/ cost rate (%) | Average balance | Interest | Average yield/ cost rate (%) |
| **Interest-earning assets** | | | | | | | | | |
| Loans and advances to customers | **1,306,515** | **37,310** | **5.76** | 1,141,362 | 27,780 | 4.91 | 1,176,711 | 58,820 | 5.00 |
| Investment in debt securities | **241,537** | **3,510** | **2.93** | 209,415 | 2,770 | 2.67 | 224,614 | 6,016 | 2.68 |
| Deposits with Central Bank | **278,531** | **2,022** | **1.46** | 212,346 | 1,464 | 1.39 | 225,305 | 3,164 | 1.40 |
| Deposits and placements with banks and non-bank financial institutions | **133,625** | **2,064** | **3.11** | 76,679 | 411 | 1.08 | 100,653 | 1,609 | 1.60 |
| Amounts under resale agreements | **116,093** | **2,700** | **4.69** | 94,312 | 1,055 | 2.26 | 100,876 | 2,840 | 2.82 |
| Others [(1)] | **—** | **10** | **—** | 1,326 | 8 | 1.22 | 1,185 | 11 | 0.93 |
| **Sub-total** | **2,076,301** | **47,616** | **4.62** | 1,735,440 | 33,488 | 3.89 | 1,829,344 | 72,460 | 3.96 |
| **Interest-bearing liabilities** | | | | | | | | | |
| Deposits from customers | **1,708,604** | **13,992** | **1.65** | 1,422,946 | 9,190 | 1.30 | 1,515,841 | 20,143 | 1.33 |
| Deposits and placements from banks and non-bank financial institutions | **171,605** | **2,835** | **3.33** | 163,503 | 1,416 | 1.75 | 155,363 | 2,969 | 1.91 |
| Amounts under repurchase agreements | **5,840** | **127** | **4.39** | 2,924 | 14 | 0.97 | 2,809 | 46 | 1.64 |
| Others [(2)] | **46,127** | **856** | **3.74** | 29,465 | 505 | 3.46 | 36,011 | 1,167 | 3.24 |
| **Sub-total** | **1,932,176** | **17,810** | **1.86** | 1,618,838 | 11,125 | 1.38 | 1,710,024 | 24,325 | 1.42 |
| **Net interest income** | | **29,806** | | | 22,363 | | | 48,135 | |
| **Net interest spread** [(3)] | | | **2.76** | | | 2.51 | | | 2.54 |
| **Net interest margin** [(4)] | | | **2.89** | | | 2.60 | | | 2.63 |

*Notes:* (1) Mainly attributable to the recovered interests of loans written off by subsidiaries in the reporting period.

(2) Including debt securities payable and trading financial liabilities.

(3) Representing the difference between the average yield of total interest-earning assets and the average cost rate of total interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The changes in the Group's net interest income due to the alteration of the scale and interest rates are shown as follows. The changes caused by the combined influence of scale factor and interest rate factor is also reflected in the alteration of the interest rate.

*Unit: RMB million*

| | January to June 2011 compared with the same period of 2010 | | |
|---|---|---|---|
| | Scale factor | Interest rate factor | Total |
| **Assets** | | | |
| Loans and advances to customers | 4,021 | 5,509 | 9,530 |
| Investment in debt securities | 425 | 315 | 740 |
| Deposits with Central Bank | 456 | 102 | 558 |
| Deposits and placements with banks and non-bank financial institutions | 305 | 1,348 | 1,653 |
| Amounts under resale agreements | 244 | 1,401 | 1,645 |
| Others | (8) | 10 | 2 |
| **Changes in interest income** | 5,443 | 8,685 | 14,128 |
| **Liabilities** | | | |
| Deposits from customers | 1,842 | 2,960 | 4,802 |
| Deposits and placements from banks and non-bank financial institutions | 70 | 1,349 | 1,419 |
| Amounts under repurchase agreements | 14 | 99 | 113 |
| Others | 286 | 65 | 351 |
| **Changes in interest expense** | 2,212 | 4,473 | 6,685 |
| **Changes in net interest income** | 3,231 | 4,212 | 7,443 |

### *Net Interest Margin and Net Interest Spread*

In the first half of 2011, the Group's net interest margin was 2.89%, up by 0.29 percentage point year on year, while the net interest spread was 2.76%, up by 0.25 percentage point year on year. Apart from the influence of interest rate rise, the increase in net interest margin and net interest spread was also attributable to the Group's proactive adoption of the following measures: (1) devoting to enhancing interest rate pricing management, adopting measures such as actively guiding interest rate pricing by allocation of resources, giving more weights to the interest rate pricing evaluation, developing "target-oriented management" for loan pricing of main business lines, which enhanced the level of delicacy management of interest rate pricing; (2) adjusting business structure in a proactive manner and accelerating the expansion of high-profit businesses, including small business financing, supply chain financing, consumer credit and credit card, etc.

### *Interest Income*

In the first half of 2011, the Group realized an interest income of RMB47.616 billion, increased by RMB14.128 billion or 42.19% year on year. The growth of interest income was primarily due to the increase in the average yield of interest-earning assets and the scale expansion of interest-earning assets. The average yield of the Group's interest-earning assets increased to 4.62% in the first half of 2011 from 3.89% in the first half of 2010, up by 0.73 percentage point. The average balance of interest-earning assets increased to RMB2,076.301 billion in the first half of 2011 from RMB1,735.440 billion in the first half of 2010, up by RMB340.861 billion or 19.64%.

*Interest Income from Loans and Advances to Customers*

The income from loans and advances to customers was always the biggest part of the interest income of the Group. In the first half of 2011 and the first half of 2010, the income from loans and advances to customers accounted for 78.36% and 82.96% of the Group's total interest income respectively.

The following table shows the average balance, interest income and average yield of each component of the Group's loans and advances to customers during the reporting period.

**Table 1: Classification by Term Structure**

*Unit: RMB million*

| | **January to June 2011** | | |
|---|---|---|---|
| | **Average balance** | **Interest income** | **Average yield** *(%)* |
| The Bank: | | | |
| Short-term loans | 629,539 | 19,522 | 6.25 |
| Including: Discounted bills | 40,287 | 1,319 | 6.60 |
| Long and medium-term loans | 591,816 | 16,566 | 5.64 |
| Loans overdue | 6,141 | 201 | 6.60 |
| **Sub-total** | 1,227,496 | 36,289 | 5.96 |
| Overseas businesses | 79,019 | 1,021 | 2.61 |
| **Total** | 1,306,515 | 37,310 | 5.76 |

**Table 2: Classification by Business Category**

*Unit: RMB million*

| | **January to June 2011** | | | January to June 2010 | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Average balance** | **Interest income** | **Average yield** **(%)** | Average balance | Interest income | Average yield *(%)* | Average balance | Interest income | Average yield *(%)* |
| The Bank | | | | | | | | | |
| Corporate loans | **975,346** | **29,184** | **6.03** | 858,471 | 22,112 | 5.19 | 879,963 | 46,466 | 5.28 |
| Discounted bills | **40,287** | **1,319** | **6.60** | 59,156 | 880 | 3.00 | 54,886 | 1,965 | 3.58 |
| Personal loans | **211,863** | **5,786** | **5.51** | 155,209 | 3,815 | 4.96 | 170,291 | 8,420 | 4.94 |
| **Sub-total** | **1,227,496** | **36,289** | **5.96** | 1,072,836 | 26,807 | 5.04 | 1,105,140 | 56,851 | 5.14 |
| Overseas businesses | **79,019** | **1,021** | **2.61** | 68,526 | 973 | 2.86 | 71,571 | 1,969 | 2.75 |
| **Total loans to customers** | **1,306,515** | **37,310** | **5.76** | 1,141,362 | 27,780 | 4.91 | 1,176,711 | 58,820 | 5.00 |

In the first half of 2011, the Group's interest income from loans and advances to customers reached RMB37.310 billion, up by RMB9.530 billion or 34.31% year on year.

The Bank's interest income from loans and advances to customers amounted to RMB36.289 billion, up by RMB9.482 billion or 35.37% year on year, which was mainly due to the increase in the average yield of loans by 0.92 percentage point and the increase in the average balance by RMB154.660 billion as well. The increase in average yield of loan was primarily due to the following reasons: (1) the Bank made a proper judgment on the market trend of interest rate, guided the whole bank to shorten the cycle for loan repricing in an active and timely manner through FTP and increased the lending rate right after the resumption of interest rate rise by the Central Bank in October 2010; (2) the Bank optimized the loan structure in a proactive manner and gradually expanded the scale of high-yield loans.

The interest income from loans and advances to customers contributed by the Bank's overseas subsidiaries was RMB1.021 billion, up by RMB48 million or 4.93% year on year.

***Interest Income from Investment in Debt Securities***

In the first half of 2011, the Group's interest income from investment in debt securities reached RMB3.510 billion, up by RMB740 million or 26.71% year on year, which was primarily due to the increase in the average balance by RMB32.122 billion and the growth in the yield of investment in debt securities by 0.26 percentage point. The increase in the average balance is due to the Group's more flexible operation of the non-credit assets and the scale expansion of investment in debt securities amid the operating environment where the loan growth in banking industry was slowed down. The growth in the yield of investment in debt securities is mainly due to the growth of market yield thanks to the tightening macro-economic control policies.

***Interest Income from Deposits with Central Bank***

In the first half of 2011, the Group's interest income from deposits with Central Bank amounted to RMB2.022 billion, representing an increase of RMB558 million or 38.11% year on year. This was primarily due to the increase of deposits from customers and six rounds of increase of deposit reserve ratio by the Central Bank in the first half of 2011, which resulted in the significant increase of statutory deposit reserve and the increase in the average balance of deposits with Central Bank by RMB66.185 billion or 31.17% year on year. Meanwhile, the decrease in the proportion of the average balance of surplus reserve resulted in the increase of average yield of deposits with the Central Bank from 1.39% in the first half of 2010 to 1.46% in the first half of 2011.

***Interest Income from Deposits and Placements with Banks and Non-Bank Financial Institutions***

In the first half of 2011, the Group's interest income from deposits and placements with banks and non-bank financial institutions was RMB2.064 billion, up by RMB1.653 billion or 402.19% year on year, which was mainly due to the reason that the average yield of deposits and placements with banks and non-bank financial institutions grew by 2.03 percentage points and the average balance increased by RMB56.946 billion. In the first half of 2011, leveraging on the opportunity of the inter-bank offered rate hikes, with the prerequisite of ensuring liquidity, the Bank improved the operating efficiency of its working capital, and promoted the growth of the average yield by a large margin with the increase of average balance.

***Interest Income from Amounts under Resale Agreements***

In the first half of 2011, the Group's interest income from amounts under resale agreements was RMB2.7 billion, increasing by RMB1.645 billion or up by 155.92% year on year. The main reason is that the average yield of amounts under resale agreements raised from 2.26% in the first half of 2010 to 4.69% in the first half of 2011, or an increase of 2.43 percentage points, and the average balance increased by RMB21.781 billion.

***Interest Expense***

In the first half of 2011, the Group's interest expense was RMB17.810 billion, up by RMB6.685 billion or 60.09% year on year. The increase in interest expense was primarily due to the increased average cost rate of interest-bearing liabilities and the further scale expansion of interest-bearing liabilities resulted from the Group's measures to intensify the development of liability business.

The average cost rate of the Group's interest-bearing liabilities increased to 1.86% in the first half of 2011 from 1.38% in the first half of 2010, up by 0.48 percentage point. The average balance of interest-bearing liabilities increased to RMB1,932.176 billion in the first half of 2011 from RMB1,618.838 billion in the first half of 2010, up by RMB313.338 billion or 19.36%.

***Interest Expense on Deposits from Customers***

Deposits from customers have always been the primary funding source of the Group. In the first half of 2011 and the first half of 2010, the interest expense on deposits from customers accounted for 78.56% and 82.61% of the Group's total interest expense respectively.

The table below shows the average balances, interest expenses and average cost rates of corporate deposits and personal deposits of the Group classified by product type during the reporting period.

*Unit: RMB million*

| | **January to June 2011** | | | January to June 2010 | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Average balance** | **Interest expense** | **Average cost rate (%)** | Average balance | Interest expense | Average cost rate (%) | Average balance | Interest expense | Average cost rate (%) |
| **The Bank** | | | | | | | | | |
| **Corporate deposits** | | | | | | | | | |
| Time deposits | **684,949** | **9,024** | **2.66** | 545,057 | 5,585 | 2.07 | 583,987 | 12,209 | 2.09 |
| Demand deposits | **684,668** | **2,455** | **0.72** | 589,180 | 1,841 | 0.63 | 625,533 | 4,054 | 0.65 |
| **Sub-total** | **1,369,617** | **11,479** | **1.69** | 1,134,237 | 7,426 | 1.32 | 1,209,520 | 16,263 | 1.34 |
| **Personal deposits** | | | | | | | | | |
| Time deposits | **181,122** | **2,009** | **2.24** | 153,404 | 1,474 | 1.94 | 161,129 | 3,129 | 1.94 |
| Demand deposits | **62,330** | **135** | **0.44** | 48,614 | 87 | 0.36 | 52,206 | 190 | 0.36 |
| **Sub-total** | **243,452** | **2,144** | **1.78** | 202,018 | 1,561 | 1.56 | 213,335 | 3,319 | 1.56 |
| **Total for the Bank** | **1,613,069** | **13,623** | **1.70** | 1,336,255 | 8,987 | 1.36 | 1,422,855 | 19,582 | 1.38 |
| **Overseas businesses** | **95,535** | **369** | **0.78** | 86,691 | 203 | 0.47 | 92,986 | 561 | 0.60 |
| **Total deposits from customers** | **1,708,604** | **13,992** | **1.65** | 1,422,946 | 9,190 | 1.30 | 1,515,841 | 20,143 | 1.33 |

In the first half of 2011, the Group's interest expense on deposits from customers reached RMB13.992 billion, up by RMB4.802 billion or 52.25% year on year.

The Bank's interest expense on deposits from customers reached RMB13.623 billion, up by RMB4.636 billion or 51.59% year on year, which was mainly due to the increase of 0.34 percentage point in average cost rate of deposits from customers and the increase in average balance of deposits from customers by RMB276.814 billion. The increase in average cost rate of deposits from customers was primarily due to the following reasons: (1) the Central Bank had raised the benchmark interest rate for deposits from customers for four consecutive times since October in 2010. With the customer deposit interest rate repricing adjustment completed gradually, the effect of the interest rate hikes by the Central Bank became prominent; (2) the consecutive interest rate hikes by the Central Bank resulted in the increase in the time deposit in deposits from customers. The proportion of average balance of time deposits increased from 52.27% in the first half of 2010 to 53.69% in the first half of 2011.

The interest expense on deposits from overseas subsidiaries amounted to RMB369 million, up by RMB166 million or 81.77% year on year.

***Interest Expense on Deposits and Placements from Banks and Non-Bank Financial Institutions***

In the first half of 2011, the Group's interest expense on deposits and placements from banks and non-bank financial institutions was RMB2.835 billion, up by RMB1.419 billion or 100.21% compared with the same period of the previous year, which was largely due to the rise in average cost rate of deposits and placements from banks and non-bank financial institutions from 1.75% to 3.33%, up by 1.58 percentage points, and the increase of RMB8.102 billion in the average balance. The rise of the average cost rate was primarily attributable to the tightening monetary policies and the ascending inter-bank offered rate.

### *Interest Expense on Other Borrowed Funds*

In the first half of 2011, the Group's interest expense on other borrowed funds reached RMB856 million, up by RMB351 million or 69.50% compared with the same period of the previous year, which was largely due to the increase in the scale of debt securities issued by the Group.

### *Net Non-Interest Income*

In the first half of 2011, the Group continued to improve the development of the intermediary business management system, reinforce the work of the Bank's Intermediary Business Development Committee and Sales and Marketing Committee, promote the establishment of 7 specialized marketing platforms, including international business, treasury and capital market business, investment banking business, custody business, credit card business, wealth management business and private banking business. The Bank implemented the evaluation for incentives on the income from intermediary business for main business lines and also provided dedicated funding, which resulted in the sustainable and rapid growth of net non-interest income.

In the first half of 2011, the Group realized a net non-interest income of RMB5.529 billion, up by RMB2.325 billion or 72.57% year on year. The proportion of the Group's net non-interest income to its operating income increased to 15.65%, up by 3.12 percentage points year on year.

*Unit: RMB million*

| | **January to June 2011** | January to June 2010 | Increase/ decrease | Growth rate *(%)* |
|---|---|---|---|---|
| Net fee and commission income | **3,898** | 2,529 | 1,369 | 54.13 |
| Net gain from trading | **1,029** | 430 | 599 | 139.30 |
| Net gain from investment securities | **110** | 71 | 39 | 54.93 |
| Net (loss) from arbitrage | **(1)** | (1) | — | — |
| Income from other businesses | **493** | 175 | 318 | 181.71 |
| **Total net non-interest income** | **5,529** | 3,204 | 2,325 | 72.57 |

### *Net Fee and Commission Income*

In the first half of 2011, the Group realized a net fee and commission income of RMB3.898 billion, representing an increase of RMB1.369 billion or 54.13% year on year, of which the fee and commission income amounted to RMB4.212 billion, registering a growth of 50.37% year on year. This growth was primarily due to the Group's vigorous development of intermediary business and the faster growth in items such as consulting and advisory fees, bank card fees, settlement fees, guarantee fees, agency fees and custody and other trusted service commissions.

*Unit: RMB million*

| | **January to June 2011** | January to June 2010 | Year-on-year increase/ decrease | Year-on-year growth rate *(%)* |
|---|---|---|---|---|
| Consulting and advisory fees | **1,324** | 963 | 361 | 37.49 |
| Bank card fees | **942** | 649 | 293 | 45.15 |
| Settlement fees | **819** | 486 | 333 | 68.52 |
| Guarantee fees | **392** | 170 | 222 | 130.59 |
| Agency fees | **319** | 211 | 108 | 51.18 |
| Wealth management fees | **262** | 232 | 30 | 12.93 |
| Custody and other trusted service commissions | **150** | 78 | 72 | 92.31 |
| Others | **4** | 12 | (8) | (66.67) |
| **Sub-total** | **4,212** | 2,801 | 1,411 | 50.37 |
| Fees and commission expenses | **(314)** | (272) | 42 | 15.44 |
| **Net fee and commission income** | **3,898** | 2,529 | 1,369 | 54.13 |

***Net Gain from Trading***

The Group's net gain from trading in the first half of 2011 was RMB1.029 billion, a year-on-year increase of RMB599 million, or 139.30%, which was mainly due to the increase in the trade volume of foreign currency exchange settlement and sale during the reporting period.

*Unit: RMB million*

| | **January to June 2011** | January to June 2010 | Increase/ decrease | Growth rate *(%)* |
|---|---|---|---|---|
| Net gain from foreign exchange trading | **909** | 269 | 640 | 237.92 |
| Debt securities | **2** | 51 | (49) | (96.08) |
| Derivatives | **115** | 156 | (41) | (26.28) |
| Investment fund | **1** | (24) | 25 | — |
| Financial liabilities measured at fair value through profit or loss | **2** | (22) | 24 | — |
| **Net gain from trading** | **1,029** | 430 | 599 | 139.30 |

### *Loss on Asset Impairment*

*Unit: RMB million*

| | **January to June 2011** | January to June 2010 | Year-on-year increase/ decrease | Year-on-year growth rate *(%)* |
|---|---|---|---|---|
| Loans and advances to customers | **1,916** | 1,671 | 245 | 14.66 |
| Off-balance sheet credit assets | **51** | 83 | (32) | (38.55) |
| Others *(Note)* | **(38)** | 70 | (108) | — |
| **Total asset impairment losses** | **1,929** | 1,824 | 105 | 5.76 |

*Note:* Including the impairment losses of debt assets and other assets.

In the first half of 2011, the Group's asset impairment losses were RMB1.929 billion, up by RMB105 million year on year, of which the impairment losses of loans and advances to customers amounted to RMB1.916 billion, up by RMB245 million year on year.

### *Operating Expense*

*Unit: RMB million*

| | **January to June 2011** | January to June 2010 | Year-on-year increase/ decrease | Year-on-year growth rate *(%)* |
|---|---|---|---|---|
| Staff cost | **6,036** | 3,960 | 2,076 | 52.42 |
| Property and equipment expenses and amortization | **1,886** | 1,489 | 397 | 26.66 |
| General and administrative expense | **2,805** | 2,338 | 467 | 19.97 |
| **Subtotal** | **10,727** | 7,787 | 2,940 | 37.76 |
| Operating tax and surcharges | **2,432** | 1,696 | 736 | 43.40 |
| **Total operating expense** | **13,159** | 9,483 | 3,676 | 38.76 |
| Cost-to-income ratio | **37.24%** | 37.09% | Up by 0.15 percentage point | |
| Cost-to-income ratio (deducting operating tax and surcharges) | **30.36%** | 30.46% | Down by 0.10 percentage point | |

In the first half of 2011, the Group's operating expense reached RMB13.159 billion, up by RMB3.676 billion or 38.76% year on year, which was mainly because (1) staff cost, property and equipment expenses and amortization rose due to the expansion of branch outlets; and (2) the Group's business expenses increased due to the increase in its dedicated funding support to accelerate its structural adjustment.

In the first half of 2011, the Group's cost-to-income ratio was 30.36%, down by 0.10 percentage point year on year, which sustained a relatively high input-output efficiency.

***Income Tax Analysis***

In the first half of 2011, the Group's income tax expense was RMB5.053 billion, up by RMB1.611 billion or 46.80% compared with the same period of the previous year. The Group's effective tax rate was 24.86%, up by 0.76 percentage point compared with the 24.10% in the first half of 2010.

***Balance Sheet Analysis***

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Total loans and advances to customers | **1,354,819** | **—** | 1,264,245 | — |
| Including: | | | | |
| Corporate loans | **1,066,983** | **—** | 992,272 | — |
| Discounted bills | **47,160** | **—** | 55,699 | — |
| Personal loans | **240,676** | **—** | 216,274 | — |
| Provisions for impairment losses | **(20,095)** | **—** | (18,219) | — |
| Net loan and advance to customers | **1,334,724** | **59.4** | 1,246,026 | 59.9 |
| Investments (1) | **263,330** | **11.7** | 271,258 | 13.0 |
| Cash and deposits with Central Bank | **300,934** | **13.4** | 256,323 | 12.3 |
| Net amount of deposits and placements with banks and non-bank financial institutions | **181,718** | **8.1** | 130,588 | 6.3 |
| Amounts under resale agreements | **134,052** | **6.0** | 147,632 | 7.1 |
| Others (2) | **30,460** | **1.4** | 29,487 | 1.4 |
| **Total assets** | **2,245,218** | **100.0** | 2,081,314 | 100.0 |
| Deposits from customers | **1,873,227** | **89.0** | 1,730,816 | 88.5 |
| Including: | | | | |
| Corporate deposits | **1,544,976** | **73.4** | 1,430,062 | 73.1 |
| Personal deposits | **328,251** | **15.6** | 300,754 | 15.4 |
| Deposits and placements from banks and non-bank financial institutions | **148,590** | **7.1** | 148,735 | 7.6 |
| Amounts under repurchase agreements | **14,979** | **0.7** | 4,381 | 0.2 |
| Debt securities payable | **32,612** | **1.5** | 34,915 | 1.8 |
| Others (3) | **36,153** | **1.7** | 37,929 | 1.9 |
| **Total liabilities** | **2,105,561** | **100.0** | 1,956,776 | 100.0 |

*Notes:* (1) Including investments for trading purpose, available-for-sale investments, held-to-maturity investments and investment in associates.

(2) Including derivative financial assets, interest receivables, fixed assets, intangible assets, real estate for investment purposes, goodwill, deferred income tax assets and other assets.

(3) Including trading financial liabilities, derivative financial liabilities, staff remunerations payable, tax and fee payable, interest payables, estimated liabilities and other liabilities.

Most of the Group's assets are loans and advances to customers. As at 30 June 2011, the Group's loans and advances to customers after deducting provisions for impairment losses accounted for 59.4% of the Group's total assets.

***Loan Business***

For the analysis of loan business, please refer to the section headed "Report of the Board of Directors – Risk Management" in this announcement.

***Investment Business***

*Investment Portfolio Analysis*

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Value** | **Proportion** *(%)* | Value | Proportion *(%)* |
| Held-to-maturity debt securities | **110,298** | **41.9** | 129,041 | 47.7 |
| Available-for-sale debt securities | **140,154** | **53.2** | 130,602 | 48.1 |
| Debt securities measured at fair value through profit or loss | **2,753** | **1.1** | 2,848 | 1.0 |
| **Total debt securities** | **253,205** | **96.2** | 262,491 | 96.8 |
| Available-for-sale investment funds | **7,689** | **2.9** | 6,342 | 2.3 |
| Investment funds measured at fair value through profit or loss | **3** | **—** | 4 | — |
| **Total investment funds** | **7,692** | **2.9** | 6,346 | 2.3 |
| Available-for-sale equity investments | **174** | **0.1** | 165 | 0.1 |
| Equity investments for trading purposes | **2** | **—** | 3 | — |
| Investment in associates | **2,257** | **0.8** | 2,253 | 0.8 |
| **Total equity investments** | **2,433** | **0.9** | 2,421 | 0.9 |
| **Total investments** | **263,330** | **100.0** | 271,258 | 100.0 |
| Market value of listed securities in held-to-maturity debt securities | **914** | | 917 | |

### *Classification of Debt Securities Investment*

As at 30 June 2011, the Group's investment in debt securities reached RMB253.205 billion, a decrease of RMB9.286 billion or 3.54% compared with the end of the previous year.

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Government | **51,941** | **20.5** | 66,408 | 25.3 |
| PBOC | **54,206** | **21.4** | 69,411 | 26.4 |
| Policy banks | **40,074** | **15.8** | 33,163 | 12.6 |
| Banks and non-bank financial institutions | **43,043** | **17.0** | 32,880 | 12.6 |
| Public entities | **326** | **0.1** | 1,725 | 0.7 |
| Others [(1)] | **63,615** | **25.2** | 58,904 | 22.4 |
| **Total debt securities** | **253,205** | **100.0** | 262,491 | 100.0 |

*Note:* (1) Mainly corporate bonds.

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Domestic | **233,128** | **92.1** | 238,362 | 90.8 |
| Overseas | **20,077** | **7.9** | 24,129 | 9.2 |
| **Total debt securities** | **253,205** | **100.0** | 262,491 | 100.0 |

*Breakdown of Significant Investments in Financial Debt Securities*

The table below shows the breakdown of significant investments in financial debt securities held by the Group as at 30 June 2011.

*Unit: RMB million*

| **Debt Securities** | **Carrying values** | **Maturity date** | **Annual interest rate *(%)*** |
|---|---|---|---|
| Debt Securities 1 | 3,009 | 20 February 2015 | 3.76 |
| Debt Securities 2 | 2,200 | 6 May 2017 | 3.58 |
| Debt Securities 3 | 2,133 | 7 December 2015 | 4.66 |
| Debt Securities 4 | 1,781 | 2 June 2014 | 3.40 |
| Debt Securities 5 | 1,573 | 15 December 2018 | 2.10 |
| Debt Securities 6 | 1,572 | 19 April 2021 | 3.91 |
| Debt Securities 7 | 1,447 | 12 June 2017 | 3.87 |
| Debt Securities 8 | 1,443 | 24 February 2018 | 3.95 |
| Debt Securities 9 | 1,373 | 11 November 2018 | 2.85 |
| Debt Securities 10 | 1,297 | 29 May 2017 | 3.85 |
| **Total debt securities** | 17,828 | | |

***Investment Quality Analysis***

*Changes in the Provisions for Investment Impairment Loss*

*Unit: RMB million*

| | **As at 30 June 2011** | As at 31 December 2010 |
|---|---|---|
| **Beginning balance** | **350** | 586 |
| Accruals during the period (1) | **—** | 579 |
| Write-offs | **—** | (579) |
| Transfer out (2) | **(18)** | (236) |
| **Ending balance** | **332** | 350 |

*Notes:* (1) Equal to the net expense from provisions for impairment loss accrued in the consolidated income statement of the Group.

In 2010, CIFH's wholly-owned subsidiary, CBI, made a full impairment allowance on its investments in Farmington Finance Limited ("Farmington"), available-for-sale financial assets, which amounted to RMB579 million and was written off in the same year.

(2) Transfer-out includes the amount transferred from the provisions for impairment loss of investment in overdue debt securities to the provisions for bad debt, the sale of impaired investments and the impact due to changes in exchange rate.

*Unit: RMB million*

| | **As at 30 June 2011** | As at 31 December 2010 |
|---|---|---|
| Provisions for available-for-sale investment impairment | **225** | 241 |
| Provisions for held-to-maturity investment impairment | **107** | 109 |
| **Total** | **332** | 350 |

As at 30 June 2011, the foreign currency-denominated debt securities held by the Group totalled USD4.145 billion (equivalent to RMB26.825 billion), of which the Bank held USD1.821 billion and overseas subsidiaries held USD2.324 billion.

As at the end of the reporting period, the Group held foreign currency-denominated residential mortgage-backed securities (MBS) of USD32 million (equivalent to RMB205 million), accounting for 0.76% of its investment in foreign currency-denominated debt securities, of which 44% were prime residential MBSs. The Group held ALT-A residential MBSs of USD18 million (equivalent to RMB114 million), for which the accumulated provisions for impairment loss totalled USD12 million (equivalent to RMB74 million). The Group held no US sub-prime residential MBSs.

As at the end of the reporting period, the Group held residential MBS guaranteed by Fannie Mae and Freddie Mac of USD0.27 million (equivalent to RMB1.76 million), and held no agency debts issued by Fannie Mae and Freddie Mac. The debt securities related to Lehman Brothers held by the Group was USD80 million (equivalent to RMB517 million), for which provisions for impairment had been charged in full.

As at the end of the reporting period, the Group had made an impairment provision for its foreign currency-denominated debt securities investment with an accumulated total of USD51 million (equivalent to RMB332 million), of which the Bank's provision for impairment for foreign currency-denominated debt securities was USD50 million and overseas subsidiaries' provision for impairment for foreign currency-denominated debt securities was USD1 million.

### *Derivatives Classification and Fair Value Analysis*

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Nominal principal** | **Fair values** | | Nominal principal | Fair values | |
| | | **Assets** | **Liabilities** | | Assets | Liabilities |
| Interest rate derivatives | **199,586** | **1,356** | **1,337** | 210,359 | 1,481 | 1,521 |
| Currency derivatives | **441,494** | **3,410** | **2,323** | 429,730 | 2,985 | 2,591 |
| Credit derivatives | **1,060** | **5** | **1** | 968 | 7 | 9 |
| Equity derivatives | **148** | **5** | **5** | 395 | 5 | 5 |
| **Total** | **642,288** | **4,776** | **3,666** | 641,452 | 4,478 | 4,126 |

### *On-Balance Sheet Interest Receivables*

The table below shows the changes in the interest receivables of the Group.

*Unit: RMB million*

| | 31 December 2010 | Increase during the reporting period | Collected/released during the reporting period | **30 June 2011** |
|---|---|---|---|---|
| Loan interest receivables | 2,921 | 37,310 | (36,133) | **4,098** |
| Interest receivables from debt securities | 2,999 | 3,510 | (3,963) | **2,546** |
| Other interest receivables | 205 | 6,796 | (6,707) | **294** |
| **Sub-total** | 6,125 | 47,616 | (46,803) | **6,938** |
| Balance for provisions for interest receivables impairment | (30) | (19) | 4 | **(45)** |
| **Total** | 6,095 | 47,597 | (46,799) | **6,893** |

***Debt Assets***

The table below shows the debt assets of the Group:

*Unit: RMB million*

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Original value of debt assets | | |
| – Land, premises and constructions | **489** | 487 |
| – Others | **33** | 234 |
| Provisions for impairment of debt assets | | |
| – Land, premises and constructions | **(208)** | (205) |
| – Others | **(24)** | (75) |
| **Total book value of debt assets** | **290** | 441 |

***Deposits from Customers***

*The Group*

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| **Corporate deposits** | | | | |
| Demand deposits | **768,841** | **41.0** | 752,219 | 43.5 |
| Time deposits | **776,135** | **41.5** | 677,843 | 39.1 |
| Negotiated | **53,280** | **2.8** | 30,130 | 1.7 |
| Non-negotiated | **722,855** | **38.7** | 647,713 | 37.4 |
| **Sub-total** | **1,544,976** | **82.5** | 1,430,062 | 82.6 |
| **Personal deposits** | | | | |
| Demand deposits | **92,868** | **5.0** | 87,521 | 5.1 |
| Time deposits | **235,383** | **12.5** | 213,233 | 12.3 |
| **Sub-total** | **328,251** | **17.5** | 300,754 | 17.4 |
| **Total deposits from customers** | **1,873,227** | **100.0** | 1,730,816 | 100.0 |

As at 30 June 2011, the Group's deposits from customers totaled RMB1,873.227 billion, an increase of RMB142.411 billion or 8.23% from the end of the previous year.

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| **Corporate deposits** | | | | |
| Demand deposits | **754,036** | **42.4** | 735,188 | 45.0 |
| Time deposits | **732,704** | **41.2** | 633,497 | 38.7 |
| Negotiated | **53,050** | **3.0** | 30,100 | 1.8 |
| Non-negotiated | **679,654** | **38.2** | 603,397 | 36.9 |
| **Sub-total** | **1,486,740** | **83.6** | 1,368,685 | 83.7 |
| **Personal deposits** | | | | |
| Demand deposits | **78,146** | **4.4** | 71,140 | 4.4 |
| Time deposits | **214,511** | **12.0** | 194,505 | 11.9 |
| **Sub-total** | **292,657** | **16.4** | 265,645 | 16.3 |
| **Total deposits from customers** | **1,779,397** | **100.0** | 1,634,330 | 100.0 |

As at the end of the reporting period, the Bank's deposits from customers totalled RMB1,779.397 billion, an increase of RMB145.067 billion or 8.88% compared with the end of the previous year. The balance of corporate deposits of the Bank increased by RMB118.055 billion compared with the end of the previous year, of which the negotiated deposits increased by RMB22.950 billion to RMB53.050 billion as at 30 June 2011 from RMB30.100 billion as at the end of 2010, which was mainly because the Bank properly obtained certain negotiated deposits considering the match of the maturity of assets and liabilities. The Bank's personal deposits increased by RMB27.012 billion or 10.17% compared with the end of the previous year.

***Breakdown of Deposits from Customers by Currency***

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| RMB | **1,729,161** | **92.3** | 1,583,501 | 91.5 |
| Foreign currencies | **144,066** | **7.7** | 147,315 | 8.5 |
| **Total** | **1,873,227** | **100.0** | 1,730,816 | 100.0 |

### *Breakdown of Deposits by Geographical Location*

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Bohai Rim [(1)] | **529,565** | **28.3** | 492,182 | 28.4 |
| Yangtze River Delta | **485,378** | **25.9** | 439,504 | 25.4 |
| Pearl River Delta and West Straits | **265,200** | **14.2** | 241,641 | 14.0 |
| Central region | **241,086** | **12.9** | 218,978 | 12.7 |
| Western region | **206,982** | **11.0** | 187,530 | 10.8 |
| Northeastern region | **51,170** | **2.7** | 54,495 | 3.1 |
| Overseas | **93,846** | **5.0** | 96,486 | 5.6 |
| **Total deposits from customers** | **1,873,227** | **100.0** | 1,730,816 | 100.0 |

*Note:* (1) Including the head office.

### *Breakdown of Deposits by Remaining Maturity*

The table below sets out the breakdown of deposits from customers based on the remaining maturity as at 30 June 2011.

*Unit: RMB million*

| | **Overdue/undated** | | **Within 3 months** | | **Within 3 to 12 months** | | **Within 1 to 5 years** | | **Over 5 years** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | **Balance** | **Proportion** *(%)* | **Balance** | **Proportion** *(%)* | **Balance** | **Proportion** *(%)* | **Balance** | **Proportion** *(%)* | **Balance** | **Proportion** *(%)* |
| Corporate deposits | 849,628 | 45.4 | 324,560 | 17.3 | 295,289 | 15.8 | 73,279 | 3.9 | 2,220 | 0.1 | 1,544,976 | 82.5 |
| Personal deposits | 160,365 | 8.5 | 80,212 | 4.3 | 76,310 | 4.1 | 11,358 | 0.6 | 6 | — | 328,251 | 17.5 |
| **Total** | 1,009,993 | 53.9 | 404,772 | 21.6 | 371,599 | 19.9 | 84,637 | 4.5 | 2,226 | 0.1 | 1,873,227 | 100.0 |

### *Shareholders' Equity*

For changes in shareholder's equity during the reporting period, please refer to the Group's financial statement – Consolidated Statement of Changes in Equity.

### *Major Off-Balance Sheet Items*

The table below sets out major off-balance sheet items and their balances as at the end of the reporting period:

*Unit: RMB million*

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Credit commitments | | |
| – Banker's acceptance bill | **482,616** | 427,573 |
| – Guarantees issued | **79,679** | 68,932 |
| – Letter of credit issued | **138,913** | 116,529 |
| – Irrevocable loan commitments | **77,333** | 60,496 |
| – Credit card commitments | **52,349** | 49,844 |
| **Sub-total** | **830,890** | 723,374 |
| Operating leasing commitments | **7,038** | 6,641 |
| Capital commitments | **653** | 424 |
| Pledged assets | **18,837** | 6,952 |
| **Total** | **857,418** | 737,391 |

### *Supplementary Financial Indicators*

| | | Data of the Bank *(%)* | | |
|---|---|---|---|---|
| **Major Indicators** [1] | **Standard** *(%)* | **30 June 2011** | 31 December 2010 | 31 December 2009 |
| **Liquidity ratio** | | | | |
| Including: RMB | ≧25 | **66.01** | 56.75 | 48.12 |
| Foreign currencies | ≧25 | **89.39** | 68.68 | 104.47 |
| **Loan-to-deposit ratio** [2] | | | | |
| Including: RMB | ≦75 | **72.01** | 73.31 | 79.96 |
| RMB equivalents | ≦75 | **71.53** | 72.83 | 79.62 |

*Notes:* (1) The figures are calculated with the method required by Chinese banking regulation.

(2) Discounted bills are included in loans.

*Capital Management*

The Bank's objective for capital management includes: to ensure the capital adequacy ratio fulfill the regulatory requirements at all times, to establish a long-term capital replenishing mechanism for maintaining a strong capital base, to specify the asset expansion plan according to capital base for balancing capital, profits and risks and to maximize shareholders' value with controllable risks.

To that end, the Bank executed the following strategies to manage capital: (1) considering the Bank's overall development strategy and risk preference, the Bank set up a targeted range of capital adequacy ratio. Meanwhile, the Bank set up a capital warning line and regularly monitored capital adequacy ratio of the whole bank. If the capital adequacy ratio or core capital adequacy ratio is below the warning line, a series of measures, such as replenishing capital and adjusting asset structure or other effective methods, shall be taken immediately so as to ensure the capital adequacy ratio within the targeted range; (2) the Bank reasonably utilized all sorts of capital instruments and optimized the total amount and the structure of capital in order to improve capital quality and the capability of bearing losses; and (3) the Bank improved its capital management mechanism, established a scientific capital management system, improved the awareness of capital constraint so as to use capital in a more efficient way. Performance-based employee evaluation system emphasizing "profits" and "return on risk capital" was promulgated throughout the Bank. By leveraging on the internal capital allocation system, the Bank realized an optimized allocation of economic capital among all business units, products, industries and clients to ensure a consistent and stable return on capital.

In the meantime, to ensure the aforementioned strategies being enforceable, the Bank was expediting the application of risk measurement techniques and steadily expanding the application of capital management in aspects of product pricing, performance evaluation and operation plans, etc, so that the instructive function of economic capital in guiding the Bank's business operation was enhanced.

The Bank calculated and disclosed its capital adequacy ratio in accordance with the *Measures for the Administration of Capital Adequacy Ratio of Commercial Banks* (Decree of the CBRC [2004] No. 2) promulgated by the CBRC on 23 February 2004 and based on the relevant provisions subsequently revised.

*Unit: RMB million*

| | **30 June 2011** | 31 December 2010 | 31 December 2009 *(Note)* |
|---|---|---|---|
| Total capital before deduction | **176,672** | 160,928 | 122,735 |
| Including: Total core capital | **136,268** | 119,166 | 103,573 |
| Total supplementary capital | **40,404** | 41,762 | 19,162 |
| Deduction: Unconsolidated equity investments and others | **4,204** | 4,314 | 4,147 |
| Net capital | **172,468** | 156,614 | 118,588 |
| Net core capital | **134,155** | 116,988 | 101,527 |
| Risk weighted assets | **1,508,690** | 1,385,262 | 1,106,648 |
| Market risk capital *(Note)* | **305** | — | — |
| **Core capital adequacy ratio** | **8.87%** | 8.45 | 9.17% |
| **Capital adequacy ratio** | **11.40%** | 11.31 | 10.72% |

*Note:* Since 2011, the regulatory authorities cancelled the threshold for the provision for market risk capital required before. Instead, all banks shall charge provisions for market risk capital according to relevant calculation methods.

### *Major Accounting Estimates and Assumptions*

The preparation of the financial statements in conformity with the International Financial Reporting Standards requires the Group to make certain accounting estimates and assumptions when the Group's accounting policies are applied to determine the amounts of relevant assets and liabilities as well as income and expenses for the reporting period. The accounting estimates and assumptions made by the Group are based on its historical experience and other factors such as reasonable expectations of future events, and are reviewed on an on-going basis. The accounting estimates and assumptions made by the Group appropriately reflected the financial positions of the Group.

The main aspects of the compilation basis of the Group's financial statements influenced by estimates and judgments include: confirmation and measurement of financial instruments (provisions for loan impairment losses and bad debt write-offs, classification of debt securities and equity investments, measurement of the fair value of investments for trading purpose and transactions designated at fair value through profit or loss, measurement of the fair value of available-for-sale investments, measurement of the fair value of derivatives), affirmation of actuarial obligations for pension and welfare, and recognition of deferred income tax and income tax expense.

### *Measurement of Fair Value*

The Bank measures the fair value of financial instruments according to the method stated in Price Determination Method for Financial Instruments of China CITIC Bank in Treasury and Capital Market Business. The methods for determination of fair value include the use of financial media quotes, open or individual valuation techniques, and trading counterparty or third-party price inquiry. In principle, it is the Bank's priority to use the quotes from active markets to measure fair values. For financial instruments without active markets, the latest market trading quotes shall be applied. For those financial instruments without market quotes, valuation techniques or price inquiry method shall be applied.

The Bank strictly implements the internal control procedure for the measurement of fair values. The business departments, the risk management department and the accounting department collectively confirm the determination methodology and source for the fair values of financial instruments in light of business needs. The accounting department conducts an independent evaluation on fair value based on the requirements of the accounting standards, and prepares valuation reports regularly. The relevant systems and methodology related to the measurement of fair values are approved by the Market Risk Management Committee of the Bank's head office.

### *Items which have Fluctuations of over 30% in the Accounting Statement*

| Item | End of June 2011 /first half of 2011 | Compared with end of previous year/ same period of previous year (%) | Main reasons |
|---|---|---|---|
| Net interest income | 29,806 | 33.28 | Net interest income increased as a result of the expansion of net interest margin and scales |
| Net fee and commission income | 3,898 | 54.13 | Rapid development of intermediary businesses |
| Net gain from trading | 1,029 | 139.30 | Increase in trade volume of foreign currency exchange settlement and sale business |
| Net gain from investment securities | 110 | 54.93 | The income from available-for-sale securities investment increased |
| Net gain from other operating activities | 493 | 181.71 | Other income from overseas subsidiaries increased |
| Operating expense | 13,159 | 38.76 | The scale expanded, so the staff cost and business cost increased |
| Revaluation of real estate for investment purposes | 29 | 163.64 | The revaluation of real estate for investment purposes of overseas subsidiaries increased |
| Profit in associates | 50 | 400.00 | The profit in associates by overseas subsidiaries increased |
| Income tax expense | 5,053 | 46.80 | Increase of taxable income |
| Gains or losses from minority interests | 249 | 61.69 | Significant year-on-year growth of net profit of subsidiaries |
| Placements with banks and non-bank financial institutions | 84,376 | 73.50 | High market interest rate resulting in an increase in placements with banks and non-bank financial institutions on the condition of a secured liquidity |
| Placements from banks and non-bank financial institutions | 4,784 | (32.35) | High market interest rate resulting in a decrease in placements from banks and non-bank financial institutions |
| Financial assets sold under repurchase agreements | 14,979 | 241.91 | To meet the requirements of liquidity management, securities sold under repurchase agreements increased |
| Retained earnings | 43,359 | 41.81 | The net profit increased significantly during the reporting period |

### *Segment Report*

#### *Business Segment*

The Group has maintained a leading position in corporate banking business. In the first half of 2011, the corporate banking business contributed an operating profit of RMB16.141 billion to the Group, with the proportion of 78.26%; the personal banking business contributed an operating profit of RMB815 million to the Group, with the proportion of 3.95%; the treasury business contributed an operating profit of RMB2.662 billion to the Group, with the proportion of 12.91%; and the overseas subsidiaries contributed an operating profit of RMB1.007 billion, with the proportion of 4.88%.

*Geographical Segment*

The Bohai Rim, the Yangtze River Delta, the Pearl River Delta and West Straits have always been the most important contributors to the Group's revenue and profit growth, which collectively contributed RMB12.998 billion to the Group's total operating profit in the first half of 2011, with the proportion of 63.95%. In recent years, the Group also achieved a relatively fast business growth in central region, Western region and Northeastern region; the operating profit from these regions in the first half of 2011 was RMB4.661 billion, with the proportion of 22.93%.

## (III) Business Overview

### *(I) Corporate Banking*

In 2011, the Bank pushed forward the establishment of a capital-intensive model for corporate banking development in a proactive manner, accelerated the adjustment of corporate banking structure, customer structure and income structure, and took a proactive approach to build a three-in-one marketing management model that combines product, customer and industry for corporate banking. While maintaining the strength in traditional corporate banking, the Bank accelerated the development of emerging businesses such as supply-chain financing, small business financing, investment banking and cash management, expanded the channels for obtaining fee-based income to help shape and coordinate the comprehensive development of both the traditional and emerging businesses, and further improved its business development sustainability. As at the end of the reporting period, the balance of the Bank's corporate deposits grew by 8.63% to RMB1,486.740 billion compared with the end of the previous year; the balance of corporate loans increased by 6.44% to RMB1,050.214 billion compared with the end of the previous year; and the fee-based income of corporate banking business reached RMB2,771 million, representing a year-on-year increase of 52.42%.

— The balance of deposits from 3,393 strategic clients totalled RMB565.442 billion, accounting for 38.03% of the Bank's total balance of corporate deposits. The balance of loans to strategic clients reached RMB451.511 billion, accounting for 42.99% of the balance of Bank's corporate loans.

— The aggregate volume of financing for the supply chain financing services amounted to RMB292.785 billion, representing a year-on-year increase of RMB89.468 billion or 44.00%.

— The accumulative number of cash management projects was 1,668, representing a year-on-year increase of 35.72%. The accumulative number of clients was 10,155, representing a year-on-year increase of 42.43%

— The volume of settlement for the international business (under trade account) reached

USD97.244 billion, representing a year-on-year growth of 31.85%, which was 6 percentage points higher than the growth of the national foreign trade for the same period, and the market share reached 5.31%.

— The balance of loans to small businesses amounted to RMB87.050 billion, representing an increase of RMB18.980 billion or 27.88% compared with the end of the previous year, while the balance of non-performing loans to small businesses was RMB278 million, with an NPL ratio of only 0.32%.

— The scale of assets under custody reached RMB286.461 billion, an increase of 67.18% year on year; and the income from custody business was RMB150 million, an increase of 91.92% year on year.

*Corporate Deposits and Loans*

During the reporting period, the Bank continued to reinforce the establishment of an endogenous growth mechanism for the corporate liability business, accelerated the development of low-cost liability businesses such as corporate deposits for settlement purpose and institutional deposits, and improved the sustainability of the corporate liability business on an ongoing basis. As at the end of the reporting period, the number of the Bank's corporate deposit customers was 270,300, representing an increase of 11,593 compared with the end of the previous year. The balance of corporate deposits was RMB1,486.740 billion, up by 8.63% compared with the end of the previous year, of which, the balance of deposits from institutional customers including fiscal and tax entities amounted to RMB389.678 billion, up by 4.82% compared with the end of the previous year, accounting for 26.21% of the Bank's total corporate deposits. The balance of negotiated deposits amounted to RMB53.050 billion, accounting for 3.57% of the Bank's total corporate deposits, up by 1.37 percentage points compared with the end of the previous year.

The Bank continued to strengthen the concept of capital constraints, allocated credit resources in a delicate manner with "return on risk capital" as foundation, continued to reinforce pricing management for the loan business, and constantly carried out specialized marketing for the core industries, namely power, transportation and telecommunications. The Bank also continued to deepen the vertical business management model for the specialization system, and accelerated the innovation of financial products and services for small businesses. The Bank's corporate loan portfolio was further modified during the reporting period. As at the end of the reporting period, the balance of the Bank's corporate loans amounted to RMB1,050.214 billion (including discounted bills), up by 6.44% compared with the end of the previous year, of which, the balance of general corporate loans was RMB1,006.460 billion, representing a growth rate of 7.85% compared with the end of the previous year, and its proportion in corporate loans increased by 1.25 percentage points compared with the end of the previous year.

The Bank continued to promote the unified credit granting to strategic group clients, deepened the "head office-to-head office" cooperation with strategic clients throughout the Bank, initiated the unified regional credit granting to strategic clients and further enhanced the development of a systematic marketing strategy to strategic clients. During the reporting period, the number of corporations affiliated to strategic clients with whom the Bank established cooperation expanded to 1,274 from 1,181 at the end of the previous year. As at the end of the reporting period, the balance of deposits from the Bank's 3,393 strategic clients was RMB565.442 billion, accounting for 38.03% of the Bank's total corporate loans, and the balance of loans was RMB451.511 billion, accounting for 42.99% of the Bank's corporate loans.

*Financial Institution Business*

The Bank continued to extended the establishment of the platform for the collaboration with peers in the financial industry. By considering the cooperation of lending to peers as an opportunity, the Bank promoted the comprehensive collaboration with national commercial banks, policy banks and local banks in various aspects such as financing facility, collaterals for peers, asset management and resources sharing. Backed by the third-party escrow business and margin trading business, the Bank enhanced its collaboration with quality brokers to promote the sharing of customer base between bank and brokers. As at the end of the reporting period, the Bank has entered into third-party escrow agreements with a total of 88 brokers, and margin trading business agreements with 14 brokers. During the reporting period, the Bank's daily average deposits from financial institutions amounted to RMB164.948 billion, up by 10.56% compared with the end of the previous year, of which the daily average deposits from banking financial institutions was RMB57.063 billion, accounting for 34.59%. The daily average deposits from financial institutions driven by the third-party escrow business was RMB17.936 billion, accounting for 10.87%.

*Supply Chain Financing Business*

The Bank continued to proceed with the specialized operation of the supply chain financing business, reinforced the establishment of a whole-process supply chain financing service system that centers on core manufacturers, strengthened the integration and innovation of products and service models, accelerated electronic application and continuously improved and optimized the systematic functions for the commercial bill business. By means of providing electronic financial services and products such as notes library and pledge of notes pool, the Bank's market coverage of the matured supply chain financing service networks such as automobile, iron and steel and home appliance was further expanded. As at the end of the reporting period, the number of effective customers to whom the Bank granted credit for supply chain financing business was 6,011, an increase of 794 compared with the end of the previous year, the accumulative financing amount was RMB292.785 billion, a year-on-year increase of 89.468 billion or 44.00%, and the average daily balance of deposit from enterprises to which the Bank granted credit was RMB129.454 billion, a year-on-year increase of 40.948 billion or 46.27%.

In auto financing, confronted with various disadvantageous factors including the gradual withdrawal of domestic stimulus policies in auto industry, components and parts supply affected by Japanese earthquake and regional market restrictions on sale, the Bank sustained its advantages in traditional inventory financing, as well as maintaining full efforts in promoting the cooperation with dealers group, conducted integrated financial services including dealer shop establishment loans and cash management for group customers, and further optimized the customer structure and product structure in auto financing business. As at the end of the reporting period, the Bank's accumulated volume of financing of car dealers reached RMB137.965 billion, an increase of RMB31.898 billion or 30.07% compared with the same period of the previous year; the number of auto brands with which the Bank established head office-to-head office network business cooperation was 54, covering the key auto enterprises in China.

*Cash Management Business*

Centering on the innovation trend for cross-bank, cross-border and cross-currency business, the Bank accelerated products innovation and services of cash management, took a proactive approach in carrying out the optimization and upgrading of the functions of the cash management system, further improved and enriched integrated solutions for the cash management business and made efforts to build a product and service system that covers cash management for small, medium and large corporate clients to continuously improve the capacity of customer service and market competitiveness. As at the end of the reporting period, the aggregate number of the Bank's cash management projects was 1,668, a year-on-year increase of 439 or 35.72%; the aggregate number of clients was 10,155, an increase of 1,338 or 15.17% compared with the end of the previous year; and the transaction amount was RMB4,216.468 billion, a year-on-year increase of RMB550.460 billion.

*International Business*

For international business development, the Bank has focused on the strategic objective of "promoting the process of internationalization to become a leading market player in cross-border financial services", implemented the service philosophy of "Specialist, Speed and Slim", made major breakthroughs, improved the performance appraisal and incentive mechanism, and strived to enhance its business innovation capabilities.

During the reporting period, the settlement volume (under trade account) of the international business reached USD97.244 billion, a year-on-year growth of 31.85% which was 6 percentage points higher than the growth rate of national foreign trade for the same period, making the Bank rank the fifth among other national commercial banks with a market share of 5.31%; the cross-border RMB business maintained its fast growth momentum, with RMB75.385 billion worth of RMB settlement amount completed in cross-border trade, making the Bank continue to take the lead among other Chinese and foreign-funded banks in China. The amount of trade financing provided by the Bank registered a year-on-year increase of 10.62% to USD5.844 billion, and the total income from international business was RMB1.723 billion, an increase of 93.60% year on year. As at the end of the reporting period, the Bank's balance of trade financing was USD5.574 billion, an increase of 70.25% compared with the end of the previous year.

*Investment Banking Business*

The Bank continued to implement a specialized investment banking business model, enhanced its efforts in expanding various businesses such as bond underwriting, syndicated loans, M&A loans, export credit, domestic factoring, asset management and financial advisory, etc. Therefore, the investment banking business maintained its sound and rapid growth. During the reporting period, the net non-interest income from investment banking business reached RMB1.005 billion, up by 40.41% year on year, accounting for 36.27% of the Bank's net non-interest income of the corporate banking business. In particular, income from structured financing and bond underwriting was RMB313 million and RMB134 million respectively, up by 131.85% and 35.35% year on year respectively; the size of bond underwriting reached RMB37.175 billion, an increase of 79.87% year on year. As at the end of the reporting period, the scale of assets for structured financing reached RMB88.847 billion, an increase of 15.70% year on year; and the scale of corporate financial products issued exceeded RMB100 billion to RMB102.269 billion, an increase of 181.52% year on year, which recorded a historical high on a year-on-year basis. According to Bloomberg LP, during the reporting period, the Bank, among other Chinese-funded banks, maintained its ranking as the second largest arranger of syndicated loans in Chinese Mainland.

*Small Business Financing Business*

The Bank accelerated financial services for small businesses. During the reporting period, the Bank's new loans to small businesses were primarily directed towards the Yangtze River Delta region which accounted for 58.34%. These new loans were primarily committed to the wholesale and retail sectors which took up 45.87%, followed by the manufacturing sector which constituted 35.22%. As at the end of the reporting period, the Bank had a total of 13,531 small business clients[1], an increase of 1,971 clients compared with the end of the previous year. The balance of loans to small businesses was RMB87.050 billion, an increase of RMB18.980 billion or 27.88% compared with the end of the previous year; the balance of non-performing loans to small businesses were RMB278 million, with an NPL ratio of only 0.32% which was 0.07 percentage point lower than that of the end of the previous year. The Bank's credit granting business for small businesses maintained healthy and rapid development on the whole with operational risks well controlled.

During the reporting period, the average interest rate of new loans granted to small businesses floated by 19.08% upwards based on the benchmark interest rate. The average interest rate of all stock small business loans floated by 17.34% upwards based on the benchmark interest rate, all of which were noticeably higher than the Bank's average interest rate level for corporate loans.

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1 Small businesses of the Bank are defined as enterprises and legal person organizations with a net asset of less than RMB15 million (inclusive) at the end of the previous year, or with a sales income of less than RMB150 million (inclusive) for the previous year.

*Asset Custody Business*

The Bank continued to consolidate its foundation for custody and pensions business, took a proactive approach to explore, innovate and optimize product structure, and achieved continuous and rapid growth during the reporting period. As at the end of the reporting period, the Bank's scale of assets under custody reached RMB286.461 billion, up by 12.66% compared with the end of the previous year and up by 67.18% year on year; the scale of pension business under contract reached RMB12.065 billion, an increase of 32.42% compared with the end of the previous year, or a year-on-year increase of 92.82%. During the reporting period, the Bank's income from custody business reached RMB150 million, a year-on-year increase of 91.92%.

## *(II)* ***Retail Banking***

In 2011, having encountered the complex and volatile external market environment, the Bank set the development guidelines for its retail banking business, aimed at "strengthening the management of the main business lines, promoting the coordinated development of the business and improving the overall benefits of customers in a profit-oriented approach, by means of customer acquisition and management and on the basis of building a universal retail banking system". With these guidelines, relevant work was duly conducted. As at the end of the reporting period, the balance of the Bank's personal deposits amounted to RMB292.657 billion, up by 10.17% compared with the end of the previous year; the balance of retail credit was RMB202.661 billion (excluding credit card), up by 11.35% compared with the end of the previous year. During the reporting period, the operating income from retail banking amounted to RMB5.210 billion, up by 46.55% year-on-year, and accounting for 15.45% of the Bank's total operating income. The net non-interest income from retail banking was RMB1.181 billion, up by 59.16% year on year, accounting for 25.27% of the Bank's total net non-interest income. During the reporting period, the Bank's customer base for retail banking business continued to enlarge and reached 19.7390 million accounts as at the end of the reporting period, an increase of 4.75% compared with the end of the previous year.

— Wealth management products (excluding structured wealth management products) worth an equivalent of RMB237.774 billion were sold, up by 158.20% year on year.

— The balance of personal housing mortgage loans amounted to RMB160.948 billion, up by 7.40% compared with the end of the previous year, accounting for 71.26% of the total balance of personal loans.

— The volume of credit card transaction registered at RMB70.425 billion, up by 62.35% year on year; the operating income was RMB1.546 billion, up by 37.01% year on year.

— The number of personal Internet banking users of the Bank exceeded 5 million, an increase of 0.6014 million or 13.63% compared with the end of the previous year, 8.5275 million transactions were processed through personal Internet banking, realizing a transaction volume of RMB954.046 billion. The number of transactions and the amount involved were 2.19 times and 2.74 times of the figures for the same period of the previous year, respectively.

— Private banking maintained a rapid development momentum, as evidenced by a growth in the number of customers compared with the end of the previous year with an increase by 58.72%.

— The accumulative number of personal auto consumer credit dealt by the Bank's Auto Financing Center was 10,331, newly issued loans amounted to RMB1.366 billion and the average interest rate floated by 40.15% upwards based on the benchmark interest rate.

*Retail Assets under Management*[1]

During the reporting period, the Bank further reinforced the integrated wealth management for retail banking clients by promoting a coordinated development of savings and wealth management, expanding the service channels in order to attract more savings and promoting the innovation of wealth management products so as to facilitate a steady growth in retail assets under management. As at the end of the reporting period, the balance of personal deposits was RMB292.657 billion, up by 10.17% compared with the end of the previous year, and the retail assets under management reached RMB404.384 billion, up by 4.50% compared with the end of the previous year.

*Retail Credit*

During the reporting period, the Bank further adjusted product structure and marketing strategies for the retail credit business. While consolidating the market share of the personal housing loan business, the Bank aggressively expanded personal business loans and personal auto consumer loans to achieve a sustained growth in loan scale. By modifying product structure and pricing strategy, the Bank's capability in pricing was further improved, thus contributing to a rise in overall revenue. As at the end of the reporting period, the balance for the Bank's retail credit was RMB202.661 billion (excluding credit card), up by 11.35% compared with the end of the previous year, of which the balance of personal housing mortgage loans were RMB160.948 billion, up by 7.40% compared with the end of the previous year, the personal business loans were RMB21.380 billion, up by 45.59% compared with the end of the previous year, and the commercial housing loans were RMB6.521 billion, up by 35.12% compared with the end of the previous year.

In situations where uncertainties still existed in the macro-economy, the Bank further enhanced its risk management on retail credit, continued to maintain its total non-performing retail loans at a relatively low level and realized a slight decrease in retail NPL ratio. As at the end of the reporting period, the Bank's balance of retail credit NPL (excluding credit card) was RMB379 million, an increase of RMB24 million compared with the end of the previous year; the NPL ratio was 0.19%, down by 0.01 percentage point compared with the end of the previous year; and the NPL ratio for housing mortgage loans was 0.12%, up by 0.01 percentage point compared with the end of the previous year.

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1 Retail assets under management: aggregate value of individual customers' savings deposits and financial assets under the Bank's management.

*Wealth Management*

During the reporting period, the Bank continued to apply the market and customer-oriented development philosophy by exploring top investment sectors in market and offering innovative wealth management products on an ongoing basis to improve product lines. The Bank continued to provide clients with high-liquidity cash management products such as "Daily Express" and "Super Express", fixed-term wealth management products such as "Wealth Management Express", "Trust Plan" and "Excellent Bond", asset management products such as "Prudent Wealth Management Series" and structured deposit products such as "Holiday Win", "All-Time Win" and "Wisdom Win". The Bank also launched customized products based on customer segmentation, such as high-end VIP clients, clients with payroll account with the Bank and lady clients with fragrant cards, in order to provide clients with opportunities to acquire stable and maximum returns. During the reporting period, the Bank's retail sales volume of wealth management products (excluding structured products) was an equivalent of RMB237.774 billion.

The Bank further reinforced its efforts in developing and marketing retail products sold on an agency basis, and intensified its management on introduction, investment, clearance and other aspects of these products to create a diversified product line that comprises funds sold on an agency basis, collective broker wealth management plan, insurance products and collective funding trust plan. During the reporting period, the Bank's total income from the handling fees for funds and insurance sold on an agency basis were RMB96.070 million.

The Bank continued to step up its efforts in cross-marketing to its VIP customers and carried out marketing activities for the Platinum campaign. As at the end of the reporting period, the balance of the Bank's VIP clients' assets under management reached RMB258.699 billion, accounting for 63.97% of total retail assets under management; the newly added assets of VIP customers under management was RMB10.544 billion, accounting for 51.95% of the Bank's newly added retail assets under management.

*Private Banking*

The Bank provides private banking services to individual customers with net asset worth more than RMB8 million available for investment, and to the companies in which they have a controlling or equity stake. During the reporting period, the Bank implemented the concept of "retain wealth, create wealth and enjoy life" in business operation and service providing and further improved the "five-feature private banking" model. As at the end of the reporting period, the number of the Bank's private banking customers was 15,960, up by 58.72% compared with the end of the previous year. During the reporting period, the Bank's private banking business cooperation unit with BBVA was put in operation.

*Credit Card*

The Bank is committed to the customer-centered, market-oriented business philosophy that highlights the coordinated development between "profit, quality and scale" for its credit card business. The Bank strived to innovate and explore changes by fully capitalizing on its advantages, and continued to promote its business to develop towards the high end of the value chain through product and technology upgrades.

As at the end of the reporting period, the Bank issued a total of 12.6796 million credit cards, an increase of 23.06% year on year. The balance of outstanding loans stood at RMB23.205 billion, an increase of 61.75% year on year. During the reporting period, the transaction volume of credit cards reached RMB70.425 billion, up by 62.35% year on year; the income from credit card business reached RMB1.546 billion, up by 37.01% year on year.

*Personal Auto Consumer Credit*

As at the end of the reporting period, the Bank established sub-centers in Beijing and Shanghai under the Auto Financing Center in head office for personal auto consumer credit marketing in local areas. Influenced by plates-limitation policy in Beijing since 2011, the Bank's Beijing auto financing sub-center enhanced its effort in marketing of consumer credit business, and maintained a good market performance, evidenced by its high ranking in terms of car dealer penetration compared with other competitors.

During the reporting period, an accumulated number of 10,331 personal auto consumer loans were dealt by Auto Financing Center of the Bank accumulatively and RMB1.366 billion loans were issued, with the average interest rate floating 40.15% upwards based on the benchmark interest rate. The average personal auto consumer loan interest rate of the Bank's Auto Financing Center floated 37.48% upwards based on the benchmark interest rate, significantly higher than the average level of the Bank's loans.

### *(III)* ***Treasury and Capital Market Business***

During the reporting period, the Bank adjusted its business structure on a dynamic basis, effectively managed assets and further increased the fee-based income. The businesses witnessed a sound momentum, attributable to the strengthened customer base and improving business sustainability coupled with the well-established framework and reinforced internal control. As at the end of the reporting period, the Bank's operating income from treasury and capital market business reached RMB2.818 billion, accounting for 8.36% of the Bank's total operating income; the net non-interest income from treasury and capital market business was RMB539 million, accounting for 11.53% of the Bank's total net non-interest income.

*Foreign Exchange Business*

In the first half of 2011, to prevent financial risks from cross-border capital flows, the regulatory authorities promulgated the Notice on Issues regarding Further Strengthening Administration on Foreign Exchange Business, launching measures to further strengthen general position management on foreign exchange settlement and sale and reduce foreign debts. In the face of policy changes of the PRC government, while enhancing position management to meet regulatory requirements, the Bank took the first-mover opportunity to roll out new products which ensured a steady growth in profit from its foreign exchange business.

*RMB Bond and Interest Rate Market-Making Business*

In the first half of 2011, addressing the apparent inflation pressure though in a sound domestic economy, the PBOC continued its prudent monetary policies by increasing the statutory deposit reserve ratio over six rounds and the deposit and loan interest rates over two rounds. As a result, the market saw a gradual tightening liquidity, volatile interest rates and rising RMB market yield. Responding to the unfavorable market environment, the Bank gave its first priority to controlling market risks, adopting prudent trade strategies to steadily conduct RMB bond market-making and interest rate derivative market-making business. With a focus on improving business sustainability, the Bank continued to enhance its market pricing power and the capability to conduct business based on its forecast on market trend, thus maintaining high market shares of its businesses and further building up its influence and competitiveness in RMB market. In the first quarter of 2011, the Bank was named "Outstanding Market Maker" in the inter-bank bond market maker poll, after having received the same honor in 2009 and 2010.

*Wealth Management and Derivative Trading Business*

During the reporting period, in view of customer needs and the market environment, the Bank focused on the development of low-risk prudent wealth management products and continuously launched bond related wealth management products. In collaboration with the Bank's retail banking business, a series of products such as "Bond Win", "Xiang Win", "Daily Express" and "Super Express" were developed and issued, which effectively met customers' demand for wealth management of different product duration. Meanwhile, the Bank took initiatives to capture market opportunities and investment hotspots. The structured product series, including "Wisdom Win", "Happy Investor", "Holiday Win" and "All-time Win", which realized higher returns for customers, played an active role in customer maintenance and marketing and boosted the Bank's traditional business development.

On customer-driven derivatives transactions, the Bank continued to prudently develop the business of standardized simple derivative, focusing on simplified interest rate and exchange rate risk management products while tapping market opportunities to provide customers with high quality and professional services for value preservation and risk avoiding purposes.

*Asset Management*

In the first half of 2011, the world economy was in slow recovery with an opaque outlook. With signs of further deterioration of European sovereign debt crisis, the sluggish economic growth in US, the political instability in the Middle East and North Africa and the earthquake, tsunami and nuclear disasters in Japan, the international market was impacted to some extent. The Chinese government attached top priority to stabilizing the overall prices in the macro-economic control, continued to exercise prudent monetary policies while seeking to improve the pertinence, flexibility and effectiveness of policies. China's economy was operating as expected under the macro-economic control measures and maintained a steady and rapid growth. The inflation, however, in the first half of 2011 was still lingering high. Amidst such a market environment, the Bank continued to keep the balance among safety, liquidity and profitability of investment, and adopted the matrix-based scientific investment decision-making mechanism to constantly improve asset management performance.

The Bank adopted prudent investment strategies to manage portfolio duration, made efforts in optimizing asset structure which contributed to the fast improvement of return on assets on the whole. Meanwhile, the Bank actively adjusted the structure of foreign currency assets and reduced its holding of assets with high expected risk, which enhanced profit stability and risk resistance capability of the overall assets.

### *(IV) Integrated Financial Service Platform of CITIC Group*

CITIC Group consists of financial subsidiaries engaged in banking, securities, fund, trust, insurance and futures businesses, most of which are in the leading position within their respective industries. Through the integrated financial service platform of CITIC Group, the Bank is gradually developing its unique competitiveness.

*Providing Integrated Financial Solutions*

The Bank provides customers with differentiated and comprehensive financial services through financial products cross-selling and joint marketing for major projects.

— Short-term financing bonds and mid-term notes underwriting. The Bank, together with CITIC Securities, underwrote RMB0.4 billion short-term financing bonds and RMB1.0 billion mid-term notes for clients in the capacity of lead underwriters during the reporting period.

— Corporate wealth management products issuance. Together with CITIC Securities, the Bank accumulatively issued a total of RMB3.953 billion wealth management products under the "CITIC Jujin Comprehensive Wealth Allocation Series" during the reporting period.

*Promoting Extensive Sharing of Customer Base*

Cooperating on the third-party escrow business with subsidiaries under CITIC Group including CITIC Securities, CITIC Kingtong Securities and CITIC Wantong Securities, the Bank became the host depositary bank for CITIC Securities and CITIC Kingtong Securities and the general depositary bank for CITIC Wantong Securities.

— Institutional customers: As at the end of the reporting period, the Bank and the securities companies under CITIC Group shared 5,882 institutional customers, which contributed a fee income of RMB4.1553 million to the Bank during the reporting period.

— Individual customers: During the reporting period, the number of new individual customers of the Bank in terms of third-party escrow business from the securities companies under CITIC Group increased to 13,600.

*Conducting Cross-Design and Cross-Selling*

— Taking advantages of the custody business platform: The Bank carried out an all-round cooperation with subsidiaries of CITIC Group in product development, building of the industry (VC) fund business platform as well as market exploration for custody business. In particular, the custody scale of PE products launched with CITIC Trust and CITIC Capital reached a total of RMB5.274 billion equivalent; the custody scale of collective investment scheme and separate account launched with CITIC Securities reached RMB13.104 billion; and the custody scale of collective and single fund trust schemes launched with CITIC Trust reached RMB63.498 billion.

— Cooperating to develop the annuity business. The Bank carried out extensive cooperation with other subsidiaries such as CITIC Trust and CITIC Securities. During the reporting period, the scale of the "CITIC Xinrui" corporate annuity product designed and launched by the Bank together with other subsidiaries of CITIC Group reached RMB68.8038 million; the scale of the "Ping An-CITIC Jinxiu Rensheng" corporate annuity scheme launched by the Bank together with CITIC Securities reached RMB247 million and the scale of the "Taikang-CITIC Xiangrui Xintai No. 2" corporate annuity scheme reached RMB141 million; and the scale of the "CMB Jinse Rensheng No. 1" corporate annuity scheme launched by the Bank together with China AMC reached RMB94.763 million.

*Promoting Cross-Border Business*

Leveraging on a powerful nation-wide network and the business platform of CBI in Hong Kong, USA, Macao and Singapore, the Bank accelerated its commercial banking business development at home and abroad. In the future, the Bank will expand its business in Chinese Mainland, Hong Kong and Macao as well as international business with a unified platform.

The Bank and CBI conducted extensive cooperation in cross-border syndicated loans, cross-border equity financing, loans backed by standby L/C and M&A advisory business. During the reporting period, the Bank joined the efforts with CBI to provide customers with cross-border equity financing services of USD30 million.

### *(V)* ***Cooperation with the Bank's Strategic Investor***

During the reporting period, the Bank further promoted the strategic cooperation with its strategic investor BBVA in business areas including corporate banking, investment banking, international business, treasury and capital market business and private banking, etc.

In cash management business, the two parties jointly conducted the marketing for MANGO (China) cash management project during the reporting period.

In investment banking business, during the reporting period, the two parties jointly provided USD60 million worth loans backed by standby L/C to the Bank's customers. The Bank and BBVA jointly provided JAZZTEL company with the cross-border financial leasing worth EUR60 million in total, which was awarded "Deal of the Year" by *Trade Finance*, a globally renowned financial magazine.

In annuity business, several rounds of discussion were arranged by the two parties during the reporting period, which helped materializing the agreement on phase I in pension cooperation.

In international business, during the reporting period, the two parties successfully created five cross-border RMB accounts for settlement purpose for BBVA's branches, namely Peru branch, Chile branch, Uruguay branch, Venezuela branch and New York branch.

In treasury and capital market business, during the reporting period, the Bank closely cooperated with BBVA in structured wealth management products, and the transaction volume during the reporting period exceeded RMB37 billion, up by 119% year on year.

In auto financing business, the application for setting up an auto financing joint venture with BBVA has been submitted to the CBRC. Currently, the project is in the process of approval.

In private banking business, all major agreements for private banking business cooperation between the two parties have come into effect. Therefore, the Bank became the only financial service provider among domestic commercial banks that entered into Sino-European cooperation on private banking business.

## *(VI) Domestic Distribution Channels*

*Branches*

Capturing the opportunities from booming regional economy and the economy in emerging city clusters in China, the Bank continued to improve its outlet layout in Eastern coastal cities, while further expanding its outlet coverage over the developed cities in middle and Western China during the reporting period. During the reporting period, 8 branches were opened in Baoji, Bengbu, Zhuhai, Longyan, Handan, Qinzhou, Weinan and Yingkou, and 17 sub-branches were opened as well.

As at the end of the reporting period, the Bank had 725 branch outlets in 93 medium and large-sized cities in China, including 35 tier-one branches (under the direct control of the head office), 51 tier-two branches and 639 sub-branches.

*Self-Service Outlets and Self-Service Terminals*

During the reporting period, while strengthening safety and risk prevention of self-service banking transactions, the Bank continued to expand the distribution network of self-service outlets and self-service terminals to increase the self-service terminal replacement rate for transactions. As at the end of the reporting period, the Bank had 1,243 self-service banking centers[1] and 4,314 self-service terminals (including ATM, CDM and CRS) in the Chinese Mainland, increased by 6.06% and 2.89% respectively compared with the end of the previous year.

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1 During the reporting period, according to the requirement of the CBRC, the Bank adjusted its calculation method in calculating the number of self-service banking centers and restated the year-on-year figures.

*Mobile Phone Banking*

In light of the concept of "Banking at hand", the Bank made great effort to promote the development of mobile phone banking channel. After the mobile banking application for iPhone was rolled out on 8 March 2011, applications for iPad were also successfully launched on 9 June 2011. Therefore, the terminals for banking service were diversified. As at the end of the reporting period, the number of mobile phone banking accounts with the Bank reached 35,522, up by 108.58% compared with the end of the previous year, contributing a transaction volume of RMB165 million for mobile phone banking during the reporting period, 5.89 times of that of the same period of the previous year.

*Internet Banking*

For corporate Internet banking, adapting to the future development trend in banking industry, the Bank aggressively promoted the E-banking channel including corporate Internet banking, telephone banking, mobile phone banking and bank-enterprise direct connection. With diversified product and service portfolios and optimized customer experience, the Bank is committed to forging a customer-oriented and universal E-banking portal with three primary functions integrated, namely transaction, service and information integrated. Corporate Internet banking security and risk prevention mechanism were improved on an ongoing basis. The Bank introduced the third-party certificate for security certification and the "Armor" series technologies developed by the People's Liberation Army Information Security Testing Evaluation and Certification Center to reinforce SSL, transaction data, keyboard input security and process protection controls, which enhanced the Bank's corporate Internet banking safety and ensured the safety of customer transactions. During the reporting period, the transaction volume through the Bank's corporate Internet banking reached RMB6,701.556 billion, up by RMB1,483.191 billion or 28.42% year on year; the number of transactions was approximately 5,946,877, representing a year-on-year increase of 2,556,966 or 75.43%. The replacement rate of corporate Internet banking in terms of transaction number reached 36.63%. The number of customers involved in transactions was 51,451, up by 16,869 or 48.78% year on year, representing a customer activation rate of 55.18%.

For personal Internet banking, the Bank followed the marketing philosophy featuring "Both emphasis on quantity and quality" and "Two cards and one USB-key", applied four marketing approaches, namely front marketing, cross marketing, bulk marketing and concentrated marketing, specifically to five types of premium customers (VIPs, personal loan customers, theme card customers, premium payroll customers and third-party escrow customers), and maintained the fast and steady growth in both number of customers and coverage ratio. As at the end of the reporting period, the number of personal Internet banking accounts reached 5,013,800, up by 601,400 or 13.63% compared with the end of the previous year, including 2,909,400 certified personal Internet banking accounts. The coverage ratio of personal Internet banking reached 25.40%, up by 1.99 percentage points compared with the end of the previous year. During the reporting period, the number of transactions through personal Internet banking was 8,527,500, up by 30.89% year on year and the transaction volume was RMB954.046 billion, which was 2.74 times of the figures of the same period of the previous year. With further efforts in product distribution through Internet banking, the sales volume of wealth management products through personal Internet banking for the reporting period reached RMB121.452 billion, accounting for 51.96% of the total sales volume and 16.24 times of that of the same period of the previous year; the sales volume of fund products reached RMB4.561 billion, accounting for 33.36% of total sales volume and 3.25 times of that of the same period the previous year.

*Telephone Banking*

The Bank's telephone banking customer service center sticks to concentrated operation and standardized management and constantly improves its service. Based on the established customer service hotline 95558 and VIP service hotline 10105558, the customer service center obtained outstanding achievements in call-in service, call-out marketing and concentrated operation, ranking far ahead of peers in terms of call-out businesses including wealth management marketing, personal loans collection, customer care for Internet banking customers and satisfaction survey, etc. The customer service center of the Bank was awarded ISO9000 Quality System Certification for the fourth consecutive year with "zero non-conformities", and received Five-star Call Center Certification from the Standards Committee of CCCS (Customer Contact Center Standard).

### *(VII) Information Technology*

During the reporting period, the Bank continued to increase its input in system construction guided by its IT planning and underpinned by three professional systems including application development system, operation maintenance safeguarding system and quality and security system, to cater to the needs of its business and management.

— In terms of application development, the Bank has completed analyzing all proposals related to the core system upgrading project, and is ready for implementation. The bank-wide enterprise customer information file (ECIF) system and corporate customer relation management system (phase II) were completed and put in operation, which helped improving the customer management and service capabilities. The fundamental platforms including unified development platform and workflow platform significantly boosted the development efficiency. As the corporate Internet banking platform V6.3, bank-enterprise direct connection V3.2, B2B E-commerce (phase II) and corporate telephone banking V1.0 projects were completed, the electronic channel service level were further lifted. In addition, a series of projects were put in implementation in market risk management, liquidity risk management, operational risk management, financial IC card and supply chain finance, etc.

— In terms of operation maintenance, the Bank continued to build up the bank-wide integrated operation maintenance management system. With ongoing improvements in the ITIL-based operation maintenance system, the Bank optimized its operation maintenance management indicator system and evaluation system and promoted the function of operation maintenance in supporting system. To improve the bank-wide information system emergency responding capability, emergency drills were organized for major information systems at head office and branch levels. The business continuity project was started, aiming to build up an overall business continuity plan (BCP) by means of improving the capacity of information system technology in responding to emergencies.

— In terms of quality and security, the Bank continued to strengthen its efforts in information security and IT risk management. Through establishing and perfecting information security management systems and technological standards, the Bank improved its information security management framework on an ongoing basis. To build up the information security fundamental technology platform, the Bank embarked on the concentrated user identification management project. A number of special information security self-inspections were conducted to strengthen internal control over information security risks. By establishing the monthly quality analysis meeting mechanism, the coordination and supervision on work quality and security were enhanced.

### (VIII) *Business of Overseas Subsidiaries*

*CIFH*

CIFH, where the Bank holds 70.32% equity interest and BBVA holds 29.68%, is the major platform for the Bank to carry out overseas businesses. During the reporting period, CIFH continued to strive to build its subsidiary, CBI, into a platform for the Bank's internationalization. In April 2011, as an important strategy for CITIC Bank Group to expand the market in ASEAN countries, CBI opened its branch in Singapore, marking an important milestone for the Bank to implement its internationalization strategy. During the reporting period, CIFH proactively strengthened its profitability in the context of a vigorous economy in Chinese Mainland and Hong Kong. In the first half of 2011, the net profit attributable to shareholders amounted to HKD995 million, representing a year-on-year increase of 71.53%.

— CBI. During the reporting period, leveraging on its leading advantages in RMB business, CBI appropriately launched diversified RMB products and services by making full use of the opportunity arising from the rapidly developing off-shore RMB business in Hong Kong and the close partnership with parent bank which has huge network and customer base in Chinese Mainland. This move generated significant increase in non-interest income and ensured a continuous growth of the overall income and earnings. During the reporting period, the operating income of CBI amounted to HKD1.808 billion, representing a year-on-year increase of 18.07%, and the net profit attributable to shareholders reached HKD948 million, representing a year-on-year increase of 61.60%.

— CIAM. During the reporting period, CIAM is principally committed to the implementation of its restructuring plan and successfully introduced Itochu Corporation, a comprehensive trading company in Japan, as its second largest shareholder, aiming to expand its business scope and increase its income through making full use of the cross-regional complementary advantages in the business and network of the two companies.

— CITIC Capital. During the reporting period, the private equity business and real estate business of CITIC Capital achieved good performance, realizing a net profit of HKD275 million. As at the end of the reporting period, the total amount of assets under management was approximately USD3.8 billion, representing an increase of 15% compared with the end of the previous year.

*CIFL*

CIFL is a controlled subsidiary of the Bank established in Hong Kong, where the Bank holds 95% equity interest and CBI holds 5%. CIFL's business scope includes loan business (CIFL holds a money lender license) and investment business (mainly including fund investment, bond investment and stock investment).

During the reporting period, CIFL maintained a stable growth in all businesses, of which loan business and investment business were developing vigorously in accordance with the principle established by the board of directors of CIFL at the beginning of 2011. CIFL also continued to enhance the cooperation with the Bank, its parent bank.

As at the end of the reporting period, the total assets of CIFL was RMB1.132 billion equivalent, up by 4.33% compared with the end of the previous year; the net profit was approximately RMB24 million equivalent, down by 35.14% year on year.

## (IV) Risk Management

### *(I) Credit Risk Management*

*Risk Management on Corporate Loans*

During the reporting period, the Bank actively prevented and resolved the risks of loans to government financing platform, prudently conducted loans to real estate sector and strictly controlled loans to over-capacity industries such as iron & steel.

— Loans to government financing platform. The Bank continued to enhance its effort to withdraw from loans to projects funded by government financing platform with risks potentials. The Bank made effort to request additional collateral assets such as land for projects, from which it had difficulties to withdraw. Meanwhile, the Bank continued to strictly control new credit granting to the government financing platform by requiring all new credit applications to be submitted to the head office for approval. The Bank would not grant additional credit to the government financing platform in principle except for a few land reserve centers under standardized operation with moderate liabilities.

— Loans to real estate sector. To actively cope with the complicated situations in the real estate market, the Bank granted loans to real estate sector in a prudent manner. The Bank requested to significantly decrease the amount of new loans granted to real estate sector as compared with that of the previous year by adhering to its policy of controlling the total amount of loans. Besides, the Bank further elevated the application thresholds for real estate developers and real estate projects, and mainly supported those residential projects with favorable geographical location, reasonable price and better capacity of risk resistance. The Bank insisted on its principle of closed-end management on collaterals and funds.

— Loans to over-capacity sectors. Loans granted to over-capacity sectors by the Bank mainly went to the steel & iron industry. The Bank followed its policy of "controlling total amount of loans" and "granting loans to optimal projects and restricting loans to non-ideal projects" in order to control the risks in grating credit to the steel & iron industry. The Bank also required that the growth of loans to the steel & iron industry shall not exceed the Bank's average loan growth. The Bank strictly controlled loans to projects of steel enterprises and mainly supported large-sized steel enterprises with high quality and competitiveness in cost, scale and product.

During the reporting period, the Bank made progress in implementing the New Basel Capital Accord. The Bank entered into agreements of three projects for the measurement of risk-weighted assets, the self-evaluation of capital adequacy ratio and the fulfillment of regulatory standards with intermediary consulting company, which have been launched in full swing.

*Risk Management on Small Business Loans*

During the reporting period, the Bank continued to strengthen its capability in managing risks generated from small business loans by various means.

— The Bank accelerated the specialized operation. The Bank accelerated the establishment of specialized operation agencies for small business financing and continued to improve its capability to control credit risk of small business loans through the specialized and intensive operation. During the reporting period, the Bank set up new specialized operation agencies in 11 branches including Changsha branch and Xi'an branch, thus the number of branches with specialized operation agencies expanded to 25.

— The Bank strengthened the management of credit direction and filtered risks at source. The Bank further identified its market position and qualified small business customers and directed credit resources to small business with high quality in mature and stable industries. Meanwhile, the Bank improved its employees' capability of identifying and controlling risks, which effectively filtered risks in customer marketing and screening and mitigated risks in early stage.

— The Bank established standards for information collection and control. The Bank set up clear standards for information collection with respect to the investigation, review and approval of credit granting and requested to establish various information gathering channels. Moreover, the Bank applied a cross-examination approach as a solid foundation to verify the authenticity of information for the purpose of making proper credit granting decision.

— The Bank promoted the cluster model for credit granting. The Bank insisted on its targeted market position of "One Chain (supply chain), Two Circles (business circle and manufacturing circle) Three Clusters (market clusters, industrial park clusters and chamber of commerce clusters)", and developed the cluster model for credit granting to small business customers in batches. Based on the in-depth research, the Bank further formed a standardized and practical credit portfolio to provide loans to industrial parks, markets, chambers of commerce, supply chains and sales channels.

— The Bank improved the measurement of credit risk. The Bank accelerated the development of the credit rating system for small business customers and strove to establish a rating system which fully adapts to the features of small business customers.

*Risk Management on Personal Loans*

During the reporting period, the Bank further optimized its policy for individual credit, reinforced its risk control and stressed its operations in compliance in accordance with the changes in macro-economic situation and regulatory requirements. Through improving individual credit system, streamlining the working procedure and promoting post-lending management, the Bank further improved the quality of its assets.

— The Bank, judging from the changes in macro-economic situation and regulatory requirements, timely adjusted its retail credit policy to ensure that the operation was in compliance and the risk was under control.

— The Bank optimized its product structure, proactively expanded personal business loans and personal auto consumer loans business, diversified its products to mitigate the potential risks due to over-concentration of any single product.

— The Bank actively explored the idea to establish the operation management and risk control system for retail credit business and vigorously advanced the building of its professional team.

— The Bank further strengthened its post-lending management. The Bank enhanced the policy compliance and operational risk management of personal loan business by means of system monitoring, regular statistics and regular notification. In addition, the Bank also strengthened its effort in the collection and recovery of loans overdue and non-performing loans and enhanced the management of assets quality.

*Risk Management on Credit Card Business*

The Bank continued to insist on the credit risk management philosophy of a coordinated development among "profit, quality and scale". Supported by the credit cycle risk management framework, the Bank focused on the adjustment to the customer structure and the credit portfolio structure. With a series of effective methods, such as channel expansion, portfolio adjustment, customer motivation, the Bank succeeded in maintaining the NPLs within an optimized level and improved the efficiency of the risk adjusted assets allocation.

— Through the improvement of underwriting policy and credit line management policy, the credit portfolio quality was optimized obviously. The high-valued customer percentage was increased to a satisfactory level. Both the risk undertaking and customer service were improved.

— The Bank continued to keep an eye on the credit line management, such as increasing the quality customers' activation rate, decreasing the credit line of high-risk and inactive customers, optimized the credit portfolio quality, and improved the efficiency in allocating the risk adjusted assets.

— By providing multiplied consumer credit products, the diversity of the Bank's credit portfolio was strengthened. This increased the revolving rate of the whole portfolio, and the return on assets was also improved.

— By enhancing the risk management in underwriting and technology supporting, pursuing perfect credit cycle management, the Bank improved its capability of identifying risks in credit approval. The Bank enhanced its monitoring on transactions and fraud application through new marketing channels, and set up a dynamic KPI system.

— Launching projects to boost the innovation of function, structure and management of the Bank's NPL collection team, the Bank optimized the structure of "cost-revenue" and building an integrated assets management system, which covers traditional credit risks collection, fraud recovery, investigation, prevention, litigation and write-off.

— Popularizing the application of the various modeling instruments in credit cycle management, the Bank established the risk modeling system, supporting the precise and accurate risk management, so as to improve the efficiency of credit management.

*Risk Management on Treasury Business*

The Bank prudentially engaged in securities investment business and provided the risk avoidance and value added services to customers during the reporting period.

— Regarding RMB bond investment business, the Bank followed its credit policy for the year and identified enterprises of high quality as major investment targets.

— Regarding foreign currency bond investment, the Bank, in consideration of the macro-economic situation in the first half of 2011 carried out further steps to improve the structure of its assets in strict compliance with the risk management guidelines formulated at the beginning of the year.

— The Bank actively provided risk management and value-preservation and value-added services to customers. While providing risk-prevention and value-added services, the Bank emphasized its analysis on customer adaptability and strictly prevented credit risks.

*Loan Monitoring and Post-Lending Management*

During the reporting period, the Bank realized a balanced growth in credit scale, a drop in both the amount and ratio of non-performing loans and a steady recovery in yields of credit assets. Moreover, the Bank realized the coordinated development among credit scale, quality and yields. The achievements of credit management are shown in the following aspects:

— The Bank seized the work priorities and made deployment in advance, made further effort to make its credit management more focused, and made effective response to the credit risks arising from the macro-economic situation.

— The Bank perfected its management techniques, strictly adhered to the new regulatory requirements and further improved the management of credit operational risks.

— The Bank encouraged its branches to withdraw from high-risk loans voluntarily, and further adjusted its credit structure.

— The Bank seized the focus of the work, deployed in advance, and further improved the quality and the efficacy of risk management in relation to government financing platform loans.

— The Bank improved the quality of post-lending investigation and further improved its risk early warning system and mitigation.

— The Bank refined its management measures and further improved its capability in collecting the principals and interests of matured loans.

— The Bank strengthened its quality analysis and assessment based on indicators, and further improved the quality of credit assets.

— The Bank rationalized and perfected the system of rules and regulations, and further consolidated its foundation for credit management system.

— The Bank reinforced its management of statistical analysis and improved the quality and reliability of grounds for decision-making.

— The Bank developed the information system, optimized its function and promoted the technical support by IT system to business development effectively.

— The Bank strengthened the loan investigation and rectification, and effectively promoted the development of its compliance related work and risk culture.

— The Bank stepped up its efforts in staff training and assessment, and reinforced its team building.

*Credit Risk Analysis*

Distribution of Loans

As at the end of the reporting period, the Group's total loans amounted to RMB1,354.819 billion, up by RMB90.574 billion or 7.16% compared with the end of the previous year.

The Group continued to optimize the regional structure of its credit assets, with loans showing a balanced growth across all regions. The Group placed its loans mainly to the Eastern coastal region of China where the economy is the most developed, including the Yangtze River Delta, the Bohai Rim and the Pearl River Delta. As at the end of the reporting period, the Group's balance of loans to these three major regions accounted for 67.06% of the Group's total loans. In the first half of 2011, loans to the Yangtze River Delta and the Bohai Rim showed a relatively faster growth, up by RMB29.107 billion and RMB19.6 billion respectively.

Concentration of Loans by Geographic Region

The Group

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Bohai Rim[1] | **365,698** | **27.00** | 346,098 | 27.38 |
| Yangtze River Delta | **356,641** | **26.32** | 327,534 | 25.91 |
| Pearl River Delta and West Straits | **186,189** | **13.74** | 174,510 | 13.80 |
| Central region | **171,243** | **12.64** | 159,534 | 12.62 |
| Western region | **156,797** | **11.57** | 143,237 | 11.33 |
| Northeastern region | **43,774** | **3.23** | 41,239 | 3.26 |
| Overseas | **74,477** | **5.50** | 72,093 | 5.70 |
| **Total loans** | **1,354,819** | **100.00** | 1,264,245 | 100.00 |

*Note:* Including the head office.

The Bank

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Bohai Rim [1] | **364,774** | **28.58** | 345,037 | 29.04 |
| Yangtze River Delta | **354,569** | **27.79** | 325,678 | 27.41 |
| Pearl River Delta and West Straits | **184,923** | **14.49** | 173,318 | 14.59 |
| Central region | **171,243** | **13.42** | 159,534 | 13.43 |
| Western region | **156,797** | **12.29** | 143,237 | 12.06 |
| Northeastern region | **43,774** | **3.43** | 41,239 | 3.47 |
| **Total loans** | **1,276,080** | **100.00** | 1,188,043 | 100.00 |

*Note:* Including the head office.

Concentration of Loans by Product

As at the end of the reporting period, the Group's balance of corporate loans (excluding discounted bills) amounted to RMB1,066.983 billion, up by RMB74.711 billion or 7.53% compared with the end of the previous year, the balance of personal loans amounted to RMB240.676 billion, up by RMB24.402 billion or 11.28% compared with the end of the previous year, and the discounted bills amounted to RMB47.160 billion, down by RMB8.539 billion or 15.33% compared with the end of the previous year.

The Group

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Corporate loans | **1,066,983** | **78.76** | 992,272 | 78.49 |
| Personal loans | **240,676** | **17.76** | 216,274 | 17.11 |
| Discounted bills | **47,160** | **3.48** | 55,699 | 4.40 |
| **Total loans** | **1,354,819** | **100.00** | 1,264,245 | 100.00 |

The Bank

*Unit: RMB million*

| | 30 June 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Corporate loans | **1,006,460** | **78.87** | 933,185 | 78.55 |
| Personal loans | **225,866** | **17.70** | 201,346 | 16.95 |
| Discounted bills | **43,754** | **3.43** | 53,512 | 4.50 |
| **Total loans** | **1,276,080** | **100.00** | 1,188,043 | 100.00 |

Structure of Personal Loans

In the first half of 2011, the Group prudently developed personal housing mortgage loans business and credit card business, with the housing mortgage loans and credit card loans experiencing a growth of 6.59% and 19.59% respectively compared with the end of the previous year.

The Group

*Unit: RMB million*

| | 30 June 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Housing mortgage loans | **170,698** | **70.93** | 160,149 | 74.05 |
| Credit card loans | **23,404** | **9.72** | 19,570 | 9.05 |
| Others | **46,574** | **19.35** | 36,555 | 16.90 |
| **Total personal loans** | **240,676** | **100.00** | 216,274 | 100.00 |

The Bank

*Unit: RMB million*

| | 30 June 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Housing mortgage loans | **160,948** | **71.26** | 149,852 | 74.42 |
| Credit card loans | **23,205** | **10.27** | 19,342 | 9.61 |
| Others | **41,713** | **18.47** | 32,152 | 15.97 |
| **Total personal loans** | **225,866** | **100.00** | 201,346 | 100.00 |

Concentration of Loans by Sector

In the first half of 2011, due to China's adjustment of the industrial structure, the Group proactively supported key industries which were highly related to real economy, such as manufacturing, wholesale and retail. At the same time, under the complicated and changing domestic and international economic and financial conditions, the Group also made efforts in manufacturing industry segmentation and management, and enhanced its supervision on risks related to those industries with over-capacity (whether actual or potential) or more vulnerable to the macro-economic control, in order to control the risks of different industries effectively. As at the end of the reporting period, the total loans for the top five industries in terms of corporate loans issued by the Group accounted for 68.59% of its total corporate loans. In terms of increment structure, the three industries with the fastest loan growth during the reporting period were real estate, manufacturing and wholesale and retail. The loans to these three industries increased by RMB25.606 billion, RMB24.034 billion and RMB17.771 billion respectively compared with the end of the previous year.

The Group

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Manufacturing | **284,298** | **26.64** | 260,264 | 26.23 |
| Transportation, warehousing and postal services | **122,616** | **11.49** | 124,734 | 12.57 |
| Production and supply of power, gas and water | **80,226** | **7.52** | 81,869 | 8.25 |
| Wholesale and retail | **146,713** | **13.75** | 128,942 | 12.99 |
| Real estate | **98,039** | **9.19** | 72,433 | 7.30 |
| Water conservancy, environment and public utilities management | **77,150** | **7.23** | 81,205 | 8.19 |
| Leasing and commercial services | **50,417** | **4.72** | 48,444 | 4.88 |
| Construction | **52,501** | **4.92** | 44,798 | 4.51 |
| Public and social organizations | **46,273** | **4.34** | 58,163 | 5.86 |
| Financial industry | **5,502** | **0.52** | 6,245 | 0.63 |
| Other customers | **103,248** | **9.68** | 85,175 | 8.59 |
| **Total corporate loans** | **1,066,983** | **100.00** | 992,272 | 100.00 |

The Bank

*Unit: RMB million*

| | 30 June 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Manufacturing | **277,395** | **27.56** | 251,249 | 26.92 |
| Transportation, warehousing and postal services | **120,194** | **11.94** | 122,142 | 13.09 |
| Production and supply of power, gas and water | **79,892** | **7.94** | 81,561 | 8.74 |
| Wholesale and retail | **142,195** | **14.13** | 120,616 | 12.93 |
| Real Estate | **87,202** | **8.66** | 61,780 | 6.62 |
| Water conservancy, environment and public utilities management | **77,150** | **7.67** | 81,155 | 8.70 |
| Leasing and commercial services | **50,282** | **5.00** | 48,263 | 5.17 |
| Construction | **52,354** | **5.20** | 44,630 | 4.78 |
| Public and social organizations | **46,198** | **4.59** | 58,087 | 6.22 |
| Financial industry | **2,408** | **0.24** | 2,512 | 0.27 |
| Other customers | **71,190** | **7.07** | 61,190 | 6.56 |
| **Total corporate loans** | **1,006,460** | **100.00** | 933,185 | 100.00 |

Breakdown of Loans by Type of Guarantee

In order to respond to the uncertain macro-economic changes proactively, in the first half of 2011, the Group continued to enhance the adjustment on the structure of credit guarantee and focused on mitigating risks by obtaining collaterals, which increased the proportion of collateral and pledged loans while the proportion of unsecured loans decreased significantly.

The Group

*Unit: RMB million*

| | 30 June 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| **Type of Guarantee** | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Unsecured loans | **325,017** | **23.99** | 336,806 | 26.64 |
| Guaranteed loans | **330,793** | **24.42** | 306,510 | 24.24 |
| Collateral loans | **483,136** | **35.66** | 434,657 | 34.38 |
| Pledged loans | **168,713** | **12.45** | 130,573 | 10.33 |
| Subtotal | **1,307,659** | **96.52** | 1,208,546 | 95.59 |
| Discounted bills | **47,160** | **3.48** | 55,699 | 4.41 |
| **Total loans** | **1,354,819** | **100.00** | 1,264,245 | 100.00 |

The Bank

*Unit: RMB million*

| | 30 June 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| **Type of Guarantee** | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Unsecured loans | **311,030** | **24.37** | 322,758 | 27.17 |
| Guaranteed loans | **312,410** | **24.48** | 286,571 | 24.12 |
| Collateral loans | **447,182** | **35.05** | 399,424 | 33.62 |
| Pledged loans | **161,704** | **12.67** | 125,778 | 10.59 |
| Subtotal | **1,232,326** | **96.57** | 1,134,531 | 95.50 |
| Discounted bills | **43,754** | **3.43** | 53,512 | 4.50 |
| **Total loans** | **1,276,080** | **100.00** | 1,188,043 | 100.00 |

Concentration of Borrowers of Corporate Loans

The Group gives emphasis on risk control regarding the concentration of borrowers of corporate loans. Currently, the Group fulfills the applicable regulatory requirements related to the concentration of borrowers. Since a single borrower is defined by the Group as a specified legal entity, a borrower can be the related party of another borrower.

The Group

| **Major regulatory indicators** | **Regulatory standard** | **30 June 2011** | 31 December 2010 | 31 December 2009 |
|---|---|---|---|---|
| Percentage of loans to the largest single customer (%) | ≤10 | **4.64** | 5.21 | 5.06 |
| Percentage of loans to the top 10 customers (%) | ≤50 | **26.37** | 30.01 | 34.70 |

*Notes:* (1) Percentage of loans to the largest single customer = balance of loans to the largest single customer/net capital.

(2) Percentage of loans to the top 10 customers = total balance of loans to the top 10 customers/net capital.

(3) The figures as of the end of 2009 in the above table were restated because the figure of the net capital as of the end of 2009 was restated.

The Group

*Unit: RMB million*

| | | 30 June 2011 | | |
|---|---|---|---|---|
| | **Industry** | **Amount** | **Percentage in total loans** *(%)* | **Percentage in regulated capital** *(%)* |
| Borrower A | Public and social organizations | **8,000** | **0.59** | **4.64** |
| Borrower B | Public and social organizations | **7,807** | **0.58** | **4.53** |
| Borrower C | Production and supply of power, gas and water | **5,221** | **0.39** | **3.03** |
| Borrower D | Transportation, warehousing and postal services | **4,968** | **0.37** | **2.88** |
| Borrower E | Manufacturing | **4,215** | **0.31** | **2.44** |
| Borrower F | Production and supply of power, gas and water | **3,500** | **0.26** | **2.03** |
| Borrower G | Production and supply of power, gas and water | **3,190** | **0.24** | **1.85** |
| Borrower H | Transportation, warehousing and postal services | **3,060** | **0.23** | **1.77** |
| Borrower I | Transportation, warehousing and postal services | **2,861** | **0.21** | **1.66** |
| Borrower J | Transportation, warehousing and postal services | **2,650** | **0.20** | **1.54** |
| **Total loans** | | **45,472** | **3.38** | **26.37** |

Centering on boosting domestic demands, the Group adhered to its customer strategy of "quality industries, quality enterprises, mainstream market and mainstream customers", and moderately enhanced its support for large-scale quality infrastructure projects and quality large-sized customers. The Group's balance of loans to its top ten corporate loan borrowers totaled RMB45.472 billion, accounting for 3.38% of the Group's total loans balance.

*Loan Quality Analysis*

This section focuses on the analysis of the Bank's loan quality.

Five-Class Loan Classification

The Bank measures and manages the quality of its credit assets pursuant to the Guidelines on the Classification of Loan Risks promulgated by the CBRC, which required Chinese commercial banks to classify the credit assets into five classes, i.e. normal, special mention, sub-standard, doubtful and loss, of which the last three classes are known as non-performing loans (NPLs).

In the first half of 2011, the Bank continued to enhance its centralized management on risks of loan of different classes and constantly improved its credit asset risk classification management system. While insisting on the core principle of "ensuring the safety of loan recovery", the Bank implemented different risk management measures for different classes of loans after taking into full consideration of various factors that may influence the quality of credit assets.

The procedures for identifying risks based on loan classification implemented by the Bank are as follows: the Bank's business departments carry out post-lending inspections first, and the results of which are subject to the preliminary comments of the credit granting department of the branches, and then the initial recognition by the credit management departments of the branches shall be conducted. After that, the examination and approval by the risk officers of the branches shall be conducted, and then the final recognition by the head office is made. The Bank conducts a dynamic adjustment on classification of loans with material changes in risk conditions.

In the first half of 2011, the Bank continued to collaborate with external audit agency and completed the sample collection and inspection on credit quality and risk classification (with loans to the government financing platform as focus), so that the authenticity and accuracy of the loan classification were further enhanced.

The Group

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Normal | **1,337,919** | **98.75** | 1,244,478 | 98.44 |
| Special mention | **8,465** | **0.63** | 11,234 | 0.89 |
| Sub-standard | **2,545** | **0.19** | 2,339 | 0.19 |
| Doubtful | **4,470** | **0.33** | 4,870 | 0.38 |
| Loss | **1,420** | **0.10** | 1,324 | 0.10 |
| **Total loans** | **1,354,819** | **100.00** | 1,264,245 | 100.00 |
| Performing loans | **1,346,384** | **99.38** | 1,255,712 | 99.33 |
| Non-performing loans | **8,435** | **0.62** | 8,533 | 0.67 |

*Note:* Performing loans include normal loans and special mention loans; non-performing loans include sub-standard loans, doubtful loans and loss loans.

As at the end of the reporting period, the Group realized the "dual drop" in both the balance of NPLs and the NPL ratio compared with the end of the previous year. The balance of NPLs recognized in accordance with regulatory risk classification standards stood at RMB8.435 billion, down by RMB98 million compared with the end of the previous year, while the NPL ratio stood at 0.62%, down by 0.05 percentage point compared with the end of the previous year.

The Bank

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion *(%)*** | Balance | Proportion *(%)* |
| Normal | **1,261,185** | **98.83** | 1,170,491 | 98.52 |
| Special mention | **7,457** | **0.59** | 10,066 | 0.85 |
| Sub-standard | **1,958** | **0.15** | 1,703 | 0.14 |
| Doubtful | **4,072** | **0.32** | 4,466 | 0.38 |
| Loss | **1,408** | **0.11** | 1,317 | 0.11 |
| **Total loans** | **1,276,080** | **100.00** | 1,188,043 | 100.00 |
| Performing loans | **1,268,642** | **99.42** | 1,180,557 | 99.37 |
| Non-performing loans | **7,438** | **0.58** | 7,486 | 0.63 |

*Note:* Performing loans include normal loans and special mention loans; non-performing loans include sub-standard loans, doubtful loans and loss loans.

Under the complicated economic and financial conditions in the first half of 2011, the Bank, with the prerequisite of ensuring the stability of loan quality, achieved a steady growth of 7.41% in its loan scale through conducting structural adjustments and enhancing loan monitoring and post-lending management. As at the end of the reporting period, normal loans increased by RMB90.694 billion or 7.75% compared with the end of the previous year, with an increase in the proportion of normal loans in the total loans to 98.83%. Special mention loans decreased by RMB2.609 billion compared with the end of the previous year and its proportion in the total loans decreased by 0.26 percentage point, the reason for which is that the Bank accelerated to withdraw from loans with potential risks and the chances where the Bank is affected by risks were further reduced. The NPL ratio of the Bank was 0.58%, representing a 0.05 percentage point decrease compared with the end of the previous year and reaching the best level in history; the balance of NPLs was RMB7.438 billion, representing a decrease of RMB48 million compared with the end of the previous year, which indicated the Bank's good capability in risk control.

In the first half of 2011, the Bank dealt with NPLs mainly through conventional means including collection, legal proceedings, arbitration and restructuring. The Bank recovered and wrote off a total of RMB1.014 billion of NPLs.

Migration of Loans

The table below sets out the migration of the Bank's loans across the five classes during the indicated period.

The Bank

| | **30 June 2011** | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| Migration ratio of normal loans (%) | **0.37** | 0.83 | 0.53 |
| Migration ratio of special mention loans (%) | **1.95** | 5.09 | 6.71 |
| Migration ratio of sub-standard loans (%) | **9.91** | 28.65 | 18.16 |
| Migration ratio of doubtful loans (%) | **4.84** | 7.32 | 5.35 |
| Migration ratio of performing loans to non-performing loans (%) | **0.07** | 0.10 | 0.32 |

In the first half of 2011, the migration ratio of the Bank's normal loans and special mention loans somewhat decreased respectively compared with the end of 2010. This was mainly due to the Bank's enhancement in credit restructuring, implementation of withdrawal mechanism, enhancement of loan recovery management, mitigation of risks at earlier stage in the first half of 2011. Therefore, the Bank effectively controlled the continuous deterioration of credit risks and reduced the possibility of downward migration.

## Loans Overdue

### The Group

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Loans repayable on demand | **1,342,586** | **99.10** | 1,253,666 | 99.16 |
| Loans overdue[(1)]: | | | | |
| 1-90 days | **5,179** | **0.38** | 3,185 | 0.25 |
| 91-180 days | **480** | **0.04** | 582 | 0.05 |
| 181 days or above | **6,574** | **0.48** | 6,812 | 0.54 |
| **Subtotal** | **12,233** | **0.90** | 10,579 | 0.84 |
| **Total loans** | **1,354,819** | **100.00** | 1,264,245 | 100.00 |
| Loans overdue for 91 days or above | **7,054** | **0.52** | 7,394 | 0.59 |
| Restructured loans[(2)] | **3,261** | **0.24** | 6,926 | 0.55 |

*Notes:* (1) Loans overdue represent loans with principals or interest overdue for one day or above.

(2) Restructured loans refer to the loans overdue or downgraded but the conditions of which (e.g. amount and term) have been rearranged.

### The Bank

*Unit: RMB million*

| | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | Balance | Proportion *(%)* |
| Loans repayable on demand | **1,265,377** | **99.16** | 1,179,017 | 99.24 |
| Loans overdue[(1)]: | | | | |
| 1-90 days | **4,577** | **0.36** | 2,595 | 0.22 |
| 91-180 days | **409** | **0.03** | 533 | 0.04 |
| 181 days or above | **5,717** | **0.45** | 5,898 | 0.50 |
| **Subtotal** | **10,703** | **0.84** | 9,026 | 0.76 |
| **Total loans** | **1,276,080** | **100.00** | 1,188,043 | 100.00 |
| Loans overdue for 91 days or above | **6,126** | **0.48** | 6,431 | 0.54 |
| Restructured loans[(2)] | **3,010** | **0.24** | 6,278 | 0.53 |

Notes: (1) Loans overdue represent loans with the principals or interest overdue for one day or above.

(2) Restructured loans refer to the loans overdue or downgraded but the conditions of which (e.g. amount and term) have been rearranged.

In the first half of 2011, the Bank firmly implemented the risk mitigation of "early identify, early react and early mitigate", continued to intensify its monitoring on overdue principals and interest of loans by means of using management system and notified monthly supervision results regarding the principals and interest overdue of branches, so as to urge them to accelerate the recovery of loans overdue. Those methods yielded satisfactory results. As at the end of the reporting period, both of the balance of loans overdue and its proportion in the total loans maintained a comparatively low level, of which the balance of loans overdue for 91 days or above decreased by RMB305 million compared with the end of the previous year.

Breakdown of Non-Performing Loans by Type of Customer

The Group

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | **NPL ratio** *(%)* | Balance | Proportion *(%)* | NPL ratio *(%)* |
| Corporate loans | **7,533** | **89.31** | **0.71** | 7,727 | 90.55 | 0.78 |
| Personal loans | **902** | **10.69** | **0.37** | 806 | 9.45 | 0.37 |
| Discounted bills | **—** | **—** | **—** | — | — | — |
| **Total NPLs** | **8,435** | **100.00** | **0.62** | 8,533 | 100.00 | 0.67 |

The Bank

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Proportion** (%) | **NPL ratio** (%) | Balance | Proportion *(%)* | NPL ratio *(%)* |
| Corporate loans | **6,547** | **88.02** | **0.65** | 6,701 | 89.51 | 0.72 |
| Personal loans | **891** | **11.98** | **0.39** | 785 | 10.49 | 0.39 |
| Discounted bills | **—** | **—** | **—** | — | — | — |
| **Total NPLs** | **7,438** | **100.00** | **0.58** | 7,486 | 100.00 | 0.63 |

With the prerequisite of ensuring a stable quality of credit assets, the Bank's credit scale of corporate loans expanded prudently. As at the end of the reporting period, the balance of non-performing corporate loans reduced by RMB154 million and the NPL ratio decreased by 0.07 percentage point. The balance of personal non-performing loans slightly increased and the NPL ratio was the same as that of the end of the previous year.

Breakdown of Personal Non-Performing Loans

The Group

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | **NPL ratio** *(%)* | Balance | Proportion *(%)* | NPL ratio *(%)* |
| Credit card loans | **513** | **56.87** | **2.19** | 431 | 53.47 | 2.20 |
| Housing mortgage loans | **192** | **21.29** | **0.11** | 177 | 21.96 | 0.11 |
| Others | **197** | **21.84** | **0.42** | 198 | 24.57 | 0.54 |
| **Total personal NPLs** | **902** | **100.00** | **0.37** | 806 | 100.00 | 0.37 |

The Bank

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Proportion** *(%)* | **NPL ratio** *(%)* | Balance | Proportion *(%)* | NPL ratio *(%)* |
| Credit card loans | **512** | **57.46** | **2.21** | 430 | 54.78 | 2.22 |
| Housing mortgage loans | **192** | **21.55** | **0.12** | 165 | 21.02 | 0.11 |
| Others | **187** | **20.99** | **0.45** | 190 | 24.20 | 0.59 |
| **Total personal NPLs** | **891** | **100.00** | **0.39** | 785 | 100.00 | 0.39 |

In the first half of 2011, the Bank managed to control the quality of credit card loans through a series of measures including tightening credit policy, strengthening the capability of controlling risks in sales channels and improving approval process. As at the end of the reporting period, the balance of credit card NPLs and the NPL ratio remained basically the same with that at the end of the previous year. The quality of housing mortgage loans and other loans remained in good shape.

Breakdown of Non-Performing Loans by Geographic Region

The Group

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **Proportion (%)** | **NPL ratio (%)** | Amount | Proportion (%) | NPL ratio (%) |
| Bohai Rim(1) | **2,622** | **31.09** | **0.72** | 2,362 | 27.68 | 0.68 |
| Yangtze River Delta | **1,872** | **22.19** | **0.52** | 1,950 | 22.85 | 0.60 |
| Pearl River Delta and West Straits | **1,602** | **18.99** | **0.86** | 1,583 | 18.55 | 0.91 |
| Central region | **659** | **7.81** | **0.38** | 479 | 5.62 | 0.30 |
| Western region | **462** | **5.48** | **0.29** | 531 | 6.22 | 0.37 |
| Northeastern region | **291** | **3.45** | **0.66** | 651 | 7.63 | 1.58 |
| Overseas | **927** | **10.99** | **1.24** | 977 | 11.45 | 1.36 |
| **Total NPLs** | **8,435** | **100.00** | **0.62** | 8,533 | 100.00 | 0.67 |

*Note:* Including the head office.

The Bank

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **Proportion (%)** | **NPL ratio (%)** | Amount | Proportion (%) | NPL ratio (%) |
| Bohai Rim(1) | **2,622** | **35.25** | **0.72** | 2,362 | 31.55 | 0.68 |
| Yangtze River Delta | **1,849** | **24.86** | **0.52** | 1,926 | 25.73 | 0.59 |
| Pearl River Delta and West Straits | **1,555** | **20.91** | **0.84** | 1,537 | 20.53 | 0.89 |
| Central region | **659** | **8.86** | **0.38** | 479 | 6.40 | 0.30 |
| Western region | **462** | **6.21** | **0.29** | 531 | 7.09 | 0.37 |
| Northeastern region | **291** | **3.91** | **0.66** | 651 | 8.70 | 1.58 |
| **Total NPLs** | **7,438** | **100.00** | **0.58** | 7,486 | 100.00 | 0.63 |

*Note:* Including the head office.

The overall loan quality of the Bank remained steady, in particular, the quality of loans to the Pearl River Delta and the West Straits, where more export-oriented and private enterprises concentrated, was not seriously affected by the changes in macro-economic environment. The NPL ratio of these regions was only 0.84%, down by 0.05 percentage point compared with the end of the previous year. The NPL balance in Northeastern region, the Yangtze River Delta and the Western region decreased by RMB360 million, RMB77 million and RMB69 million respectively compared with the end of the previous year, which indicates that the Bank has the capability in managing credit assets and effectively responding to the complicated economic and financial environment.

Breakdown of Corporate Non-Performing Loans by Sector

The Group

*Unit: RMB million*

| | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **Proportion** *(%)* | **NPL ratio** *(%)* | Amount | Proportion *(%)* | NPL ratio *(%)* |
| Manufacturing | **2,749** | **36.49** | **0.97** | 3,076 | 39.81 | 1.18 |
| Transportation, warehousing and postal services | **197** | **2.61** | **0.16** | 97 | 1.26 | 0.08 |
| Production and supply of power, gas and water | **219** | **2.91** | **0.27** | 219 | 2.83 | 0.27 |
| Wholesale and retail | **1,510** | **20.05** | **1.03** | 1,369 | 17.72 | 1.06 |
| Real estate | **952** | **12.64** | **0.97** | 1,103 | 14.27 | 1.52 |
| Leasing and commercial services | **298** | **3.96** | **0.59** | 323 | 4.18 | 0.67 |
| Water conservancy, environment and public utilities management | **153** | **2.03** | **0.20** | 15 | 0.19 | 0.02 |
| Construction | **102** | **1.35** | **0.19** | 76 | 0.98 | 0.17 |
| Financial industry | **64** | **0.85** | **1.16** | 64 | 0.83 | 1.02 |
| Public and social organizations | **—** | **—** | **—** | — | — | — |
| Other customers | **1,289** | **17.11** | **1.25** | 1,385 | 17.93 | 1.63 |
| **Total corporate NPLs** | **7,533** | **100.00** | **0.71** | 7,727 | 100.00 | 0.78 |

The Bank

*Unit: RMB million*

| | 30 June 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Amount** | **Proportion** *(%)* | **NPL ratio** *(%)* | Amount | Proportion *(%)* | NPL ratio *(%)* |
| Manufacturing | **2,638** | **40.29** | **0.95** | 2,941 | 43.89 | 1.17 |
| Transportation, warehousing and postal services | **197** | **3.01** | **0.16** | 96 | 1.43 | 0.08 |
| Production and supply of power, gas and water | **219** | **3.34** | **0.27** | 219 | 3.27 | 0.27 |
| Wholesale and retail | **1,473** | **22.50** | **1.04** | 1,332 | 19.88 | 1.10 |
| Real estate | **906** | **13.84** | **1.04** | 1,057 | 15.77 | 1.71 |
| Leasing and commercial services | **298** | **4.55** | **0.59** | 323 | 4.82 | 0.67 |
| Water conservancy, environment and public utilities management | **153** | **2.34** | **0.20** | 15 | 0.22 | 0.02 |
| Construction | **102** | **1.56** | **0.19** | 76 | 1.13 | 0.17 |
| Financial industry | **64** | **0.98** | **2.66** | 64 | 0.96 | 2.55 |
| Public and social organizations | **—** | **—** | **—** | — | — | — |
| Other customers | **497** | **7.59** | **0.70** | 578 | 8.63 | 0.94 |
| **Total corporate NPLs** | **6,547** | **100.00** | **0.65** | 6,701 | 100.00 | 0.72 |

The Bank, while implementing the credit policy of "quality industries, quality enterprises, mainstream markets and mainstream customers", put greater efforts to adjust the credit structure. The quality of loans to various industries remained steady. The balance of NPLs in manufacturing, real estate, leasing and commercial services decreased by RMB303 million, RMB151 million and RMB25 million respectively compared with the end of the previous year while the NPL ratio decreased by 0.22 percentage point, 0.67 percentage point and 0.08 percentage point respectively compared with the end of the previous year.

*Analysis of Provision for Loan Impairment*

Changes in Provision for Loan Impairment

The Group timely charged adequate provision for loan impairment losses based on the principle of prudence and authenticity. The provision for loan impairment losses consists of two parts, namely the provision evaluated based on single item and that evaluated based on portfolio.

The Group

*Unit: RMB million*

| | **As of 30 June 2011** | As of 31 December 2010 |
|---|---|---|
| **Beginning balance** | **18,219** | 15,170 |
| Accruals during the year (1) | **1,916** | 4,238 |
| Reversal of impairment allowances (2) | **(71)** | (133) |
| Transfer out (3) | **(27 )** | (93) |
| Write-offs | **(44 )** | (1,105) |
| Recoveries of loans and advances written off in previous years | **102** | 142 |
| **Ending balance** | **20,095** | 18,219 |

*Notes:* (1) Equivalent to the net loan impairment recognized in the Group's consolidated income statement.

(2) Equivalent to the increment of the present value of impaired loans after a period of time. The Group recognized it as interest income.

(3) Including the provision for loan impairment losses released after the loan assets are converted to repossessed assets.

As at the end of the reporting period, the Group's balance of provision for loan impairment increased from RMB18.219 billion as of the end of the previous year to RMB20.095 billion, an increase of RMB1.876 billion compared with the end of the previous year, of which the provision for loan impairment accrued for the first half of 2011 was RMB1.916 billion mainly due to the increase of lending. As at the end of the reporting period, the ratio of the balance of the Group's provision for loan impairment to the balance of NPLs, i.e. provision coverage ratio, and the ratio of the balance of provision for loan impairment to total loans were 238.23% and 1.48% respectively.

The Bank

*Unit: RMB million*

| | **As of 30 June 2011** | As of 31 December 2010 |
|---|---|---|
| **Beginning balance** | **17,660** | 14,620 |
| Accruals during the year [(1)] | **1,927** | 4,065 |
| Reversal of impairment allowances [(2)] | **(65)** | (125) |
| Transfer out [(3)] | **(15)** | (74) |
| Write-offs | **—** | (950) |
| Recoveries of loans and advances written off in previous years | **85** | 124 |
| **Ending balance** | **19,592** | 17,660 |

*Notes:* (1) Equivalent to the net loan impairment recognized in the Bank's income statement.

(2) Equivalent to the increment of the present value of impaired loans after a period of time. The Bank recognized it as interest income.

(3) Including the provision for loan impairment losses released after the loan assets are converted to repossessed assets.

As at the end of the reporting period, the Bank's balance of provision for loan impairment was RMB19.592 billion, an increase of RMB1.932 billion compared with the end of the previous year, of which the provision for loan impairment losses accrued for the first half of 2011 was RMB1.927 billion. The ratio of the balance of the provision for loan impairment to the balance of NPLs, i.e. provision coverage ratio, and the ratio of the balance of provision for loan impairment to total loans were 263.40% and 1.54% respectively, and the provision coverage ratio increased by 27.49 percentage points compared with the end of the previous year. The increase in the provision for loan impairment was mainly driven by the increase in loan scale. At the same time, the balance of NPLs remained relatively low, resulting in the increase in provision coverage ratio compared with the beginning of 2011, and the Bank's risk offsetting capability was further improved.

## *(II) Market Risk Management*

The Bank's market risk was mainly aroused from unfavorable changes in interest rate, exchange rate and other market prices. The Bank has established the market risk management system covering market risk identification, measuring, monitoring and control and managed the market risk by exercising access approval and limit management, so as to control the potential market risk within an acceptable level to maximize the risk-adjusted returns.

*Management on Interest Rate Risk*

The interest rate risk of the Bank mainly rose from the influence on proceeds due to the mismatch of asset and liability interest rate repricing maturity and changes of market interest rate which influenced the fair value of financial instruments. The Bank effectively managed the interest rate risk on balance sheet and investment portfolio of treasury and capital market business mainly by primarily utilizing derivative transactions, such as swaps and futures.

As for the interest rate risk on balance sheet, the Bank carried out gap analysis to assess risks so as to accordingly adjust the frequency of repricing and set different classes of maturities for corporate deposits to reduce the mismatch due from repricing.

The Bank resorted to duration analysis, sensitivity analysis, stress test and scenario simulation to measure and to control the interest rate risks of the financial instruments in treasury and capital market business and set the risk quotas including interest rate sensitivity, duration and exposure, etc. The Bank carried out the effective monitoring, management and reporting of the implementation of risk quotas by leveraging on advanced market risk management system and independent internal control mid-office platform.

*Analysis of Interest Rate Risks*

In the first half of 2011, China's economic and financial situation was still complicated and the inflation pressure was lingering high though the economy and finance developed within the preset track under the macro control. The regulatory authority implemented prudent monetary policies, alternatively utilized quantitative and pricing monetary policy instruments and flexibly launched open market operation by increasing the deposit reserve ratio for six rounds and the benchmark interest rates of deposits and loans for two rounds. The market liquidity was stable in general but insufficient in some phases. Market interest rate surged due to the factors such as the long Spring Festival holiday in the beginning of 2011, and remained its upward movement after temporary downturn. Therefore, the effective loan interest rate of financial institutions grew steadily.

Taking into account of the impact of interest rate changes on proceeds, the Bank carried out the "pricing" strategy with reference to the control measures for credit scale and changes in market liquidity. In addition, on the basis of effective control over the risk of mismatch in relation to asset and liability, the Bank intensified the interest rate evaluation and incentive mechanism, improved its capability in interest rate pricing for credit assets by enhancing pricing management, reasonably controlled the liability cost and made effort to maximize the Bank's efficiency and profit.

The Group

*Unit: RMB million*

| | **Non-interest bearing** | **Within 3 months** | **3 months – 1 year** | **1 – 5 years** | **Over 5 years** |
|---|---|---|---|---|---|
| Total assets | 37,859 | 1,569,559 | 536,360 | 77,217 | 24,223 |
| Total liabilities | 47,852 | 1,549,247 | 397,918 | 89,183 | 21,361 |
| Interest rate gap | (9,993) | 20,312 | 138,442 | (11,966) | 2,862 |

The Bank

*Unit: RMB million*

| | **Non-interest bearing** | **Within 3 months** | **3 months – 1 year** | **1 – 5 years** | **Over 5 years** |
|---|---|---|---|---|---|
| Total assets | 41,024 | 1,473,292 | 526,968 | 72,538 | 24,219 |
| Total liabilities | 41,158 | 1,479,238 | 381,155 | 80,878 | 21,530 |
| Interest rate gap | (134) | (5,946) | 145,813 | (8,340) | 2,689 |

*Exchange Rate Risk Management*

The exchange rate risk of the Bank mainly comes from the currency mismatch of on and off-balance sheet assets and liabilities and the currency position mismatch resulting from foreign exchange trading. The Bank measures exchange rate risk mainly through analysis on foreign exchange exposure. The foreign exchange exposure of the Bank consists of structural exposure and trading exposure, of which the former is mainly derived from the position which is inevitable in foreign currency capital and foreign currency profit operation, and the latter is mainly derived from the exposure of foreign exchange trading. The foreign exchange exposure of the Bank was mainly structural exposure.

As to the exchange rate risk of structural exposure such as foreign currency capital, the Bank mitigated exchange loss mainly through improving its capability in using foreign currency capital and hedging for foreign currency capital.

As to the exchange rate risk of foreign exchange trading exposure, the head office conducted a centralized management of trading exposure, and the foreign exchange positions of all branches must have back-to-back squaring with the head office. The head office, through squaring in market or hedging, controlled the exchange rate risk exposure within the limit set by the Bank head office's Market Risk Committee.

*Analysis of Exchange Rate Risk*

The Group

*Unit: RMB million*

| | **US Dollars** | **HK Dollars** | **Others** | **Total** |
|---|---|---|---|---|
| Net on-balance sheet positions | 34,340 | 1,733 | (8,745) | 27,328 |
| Net off-balance sheet positions | (34,441 ) | 23,976 | 9,241 | (1,224) |
| Total | (101) | 25,709 | 496 | 26,104 |

The Bank

*Unit: RMB million*

| | **US Dollars** | **HK Dollars** | **Others** | **Total** |
|---|---|---|---|---|
| Net on-balance sheet positions | 19,415 | (2,059) | (2,172) | 15,184 |
| Net off-balance sheet positions | (19,227) | 1,885 | 2,565 | (14,777) |
| Total | 188 | (174) | 393 | 407 |

### (III) *Liquidity Risk Management*

The liquidity risk is the risk where the Bank could not obtain capital at reasonable cost in a timely manner to fulfill the needs of customer to withdraw matured liabilities and to promote the growth of the Bank's asset business. The liquidity risk of the Bank is mainly caused by the maturity mismatch between assets and liabilities, customers' early or centralized drawing of money, and the Bank's funding support for lending, investment, trading and other operating activities.

*Management on Liquidity Risk*

The objective of liquidity risk management of the Bank is to observe the targets established for assets and liabilities management and guidelines for liquidity risk management, perform the obligation of payment on a timely basis and facilitate business development. The liquidity risk management of the Bank adopts a centralized management pattern featuring in integrated management and multiple-level responsibility. The treasurer of the head office is in charge of liquidity risk management throughout the Bank, providing branches with liquidity through coordinating the Bank's internal funds, resolving the shortage of capital through instruments such as money market and open market operation to make full use of surplus capital. The treasurers of branches shall follow instructions of the head office, and are responsible for liquidity risk management within their authorization.

*Analysis of Liquidity Risk*

In the first half of 2011, the Bank proactively put the liquidity three-tier reserve management system in practice, reinforced scenario analysis and stress tests regarding liquidity risks, and continued to perfect the liquidity risk management contingency plan. The Bank kept up with changes in regulatory policies and the Bank's own asset and liability structure, and kept an eye on impacts of innovative products and new businesses on the Bank's liquidity. Moreover, the Bank adjusted its liquidity risk management strategy dynamically, utilized liquidity instruments and arranged the duration structure in a reasonable way, maintained an easy access to financing channels including money market, and endeavored to raising the Bank's capability in preventing, controlling and managing liquidity risks.

During the first half of 2011, the Bank, while fully utilizing the standardized funding products such as placements with banks, continued to use the non-standardized funding business such as deposit with banks as instruments in liquidity portfolio allocation. Under the prerequisite of controllable liquidity risks, the Bank seized market opportunities to adjust its portfolio structure in order to maximize the efficiency of working capital throughout the Bank. In addition, pursuant to the requirements of regulatory authorities, the Bank continued to compile with the Guidelines of Liquidity Risk Management for Commercial Banks to expedite the building of the information system for liquidity risk management. Following the successful procedure of tender inviting and bidding, this project officially moved on to the stage of system development and implementation, which marks the Bank's commencement of building a bank-wide unified liquidity risk management platform and signifies the Bank's great leap forward in applying the liquidity risk management technique.

During the first half of 2011, the Central Bank exercised the prudent monetary policy and raised the statutory deposit reserve ratio for six times, which marked the substantial enhancement in the intensity and frequency of the tightening policies. Therefore the accumulative effect of policy execution became apparent gradually. The adjustment of the above policy, coupled with other factors including the deposit of taxes into the national treasury, festivals and holidays, the fluctuations of funds outstanding for foreign exchange spiked volatility in the market liquidity and led to frequent and periodical liquidity squeeze. Meanwhile, the changes in the intertwining policy and market environment posed higher requirements on the liquidity risk management of commercial banks. Therefore, the adaptability and forward thinking are especially important in the formation of asset and liability policies, and great emphasis shall also be given to the supporting liquidity management strategies.

The Group

*Unit: RMB million*

| Repayable on demand | Within 3 months | 3 months – 1 year | 1 – 5 years | Over 5 years | Indefinite | Total |
|---|---|---|---|---|---|---|
| (967,467 ) | 9,072 | 248,259 | 318,109 | 256,489 | (275,195) | 139,657 |

The Bank

*Unit: RMB million*

| Repayable on demand | Within 3 months | 3 months – 1 year | 1 – 5 years | Over 5 years | Indefinite | Total |
|---|---|---|---|---|---|---|
| (952,176) | 37,095 | 235,170 | 294,364 | 240,268 | 279,361 | 134,082 |

### *(IV) Internal Control and Operational Risk Management*

*Internal Control*

During the reporting period, pursuant to the requirements of the Basic Standards for Enterprise Internal Control and its complementary guidelines, the Bank specified its targets and task of internal control. With the implementation of internal control projects and the operational risk management project based on the New Basel Capital Accord, the Bank optimized the internal control management system and defined the duties of “three firewalls”, namely the relevant departments for business process implementation, departments for daily process management and internal audit departments. Based on the improvement of methodology, the Bank reviewed the overall internal control system, standardized the record of business management process, identified risk loopholes and key points for risk control and carried out self-evaluation on risk and control, so as to form a complete set of basic standards for systematic internal control with process as vehicle and risk control as guidance, and further improved its internal control management.

— The Bank optimized the internal control environment

The Bank complied with the current domestic laws and regulations, adopted the advanced international good practice of corporate governance and continuously improved its modern corporate governance structure with "Three Meetings and One Management" which comprises Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Management. Duties and responsibilities are clearly identified among the power body, decision-making body, supervisory body and executive body, all of which fulfilled their own duties, coordinated with each other and maintained effective check and balance. As a result, the Bank's corporate governance was greatly improved and a favorable internal control environment where all staff members participated and fulfilled their own duties was gradually established.

— The Bank improved the risk identification and evaluation system

To satisfy the requirements of internal management and risk control, the Bank kept improving the risk management system and cultivating the risk management culture of pursuing "risk-adjusted return". The Bank set up special committees to deal with major risks of banking industry such as credit risk, market risk, operational risk and liquidity risk, designated institutions to carry out professional management and established the risk management system and procedures covering all of the Bank's businesses. In consideration of its assets structure, operation model and business features, the Bank primarily finished the comparison of its implementation results with the standards stated in "Basic Standards for Enterprise Internal Control", its complementary guidelines and the related internal control regulations of the banking industry through reviewing the current internal control policies, regulations and operation rules. Therefore, the Bank identified risks, designed risk handling strategies, continuously improved risk management system, enhanced the capability of risk identification and measurement and promoted the risk responding strategy. Besides, the Bank submitted risk analysis report to the Board of Directors and senior management on a regular basis, which significantly increased its capability of risk identification, evaluation and control.

— The Bank improved the internal control measures

The Bank continued to improve the internal control measures in accordance with the Bank's institutional characteristics, business scale, risk profile and business complexities. In consideration of the results of risk evaluation, branches and management departments of business lines exercised their professional advantages to keep risks under acceptable level and facilitate effective control of business operations by means of separation of incompatible duties, approval rights authorization and accounting system control and through a combination of manual and automatic control measures as well as preventive and detective control measures.

— The Bank extended the channels for information exchange and communication

By integrating all the resources across the Bank, the Bank made full use of its office system as the major channel for display, exchange, publication and communication throughout the Bank and secured the smooth communication of various business management information among different tiers of branches and all departments. In the meantime, the Bank improved the channels for letters, visits, reports and complaints, encouraged and guided all the staff members to take initiatives to participate in the internal control related work of the Bank. In addition, the Bank established the collection and reporting mechanism for external information, improved its management measures in a timely manner, enhanced its internal control to effectively prevent and mitigate risks.

— The Bank optimized the internal control supervision system

Pursuant to the principle of "Prioritizing Internal Control", the Bank strived to improve its internal supervision system, regulations and procedures. Each business department fully exercised their professional advantages and enhanced the inspection and supervision over their own businesses. Each branch strictly implemented all the internal control and risk prevention measures and effectively controlled the risks in business operation. The compliance and audit departments mainly coordinated various examination and supervision and continued to improve the means of supervision, which enhanced the efficiency and efficacy of compliance examination and supervision, enhanced the supervision function and upgraded the value of auditing.

*Internal Audit*

Centering on the guidelines of "transformation, improvement and development" regarding internal audit, the Bank further launched a risk-oriented auditing principle and continuously improved the audited value in the first half of 2011. By changing the audit philosophy and completing the professional audit management mechanism and method, the Bank also advanced the coordination mechanism for integrating projects for inspection whilst gradually established an internal control supervision and management system featuring overall coordination and information sharing, so as to safeguard its business transformation and development.

— The Bank organized audit for corporate credit business, on-going audit on information technology risk and audit without notification. In these auditing, the Bank attached high importance to loans to real estate sector, credit granting to group customers, notes business, credit granting to small business, and the implementation of the "Three Measures and One Guideline" as well as the control of risk regarding information technology and the management of cash, collaterals, objects under custody, notes certificates and seals, so as to avoid risks and promote compliance operation.

— The Bank supported the National Audit Office to conduct special audit on credit direction and economic responsibility and deployed self-inspection and self-correction. All business lines and branches acted in a serious and prudent manner by voluntarily revealing problems and rectifying irregularities once identified. The Bank took the inspection as an opportunity to further standardize its business operation and management, so as to carry out the State's macro–economic control policy and prevent the potential financial risks.

— The Bank further advanced its work in respect of case prevention. In order to fulfill the obligations of case prevention in each level and strengthen the management on policies and workflow, the Bank formulated Guidelines for Case Prevention of China CITIC Bank 2011 to carry out the "13 Rules" for operational risk and clarify the responsibilities of staff members in different positions. In addition, the Bank reinforced its risk inspection in key areas, put greater efforts in evaluation and accountability, further promoted the execution of its internal control systems, so as to realize an overall improvement of quality and effect of case prevention.

*Compliance Management*

According to the Guidelines for the Compliance Risk Management of Commercial Banks and the Bank's reality, the Bank emphasized the behavior norm of honesty and integrity, focused on the building of a compliance management system to gradually give full play to the function of the second firewall in compliance management, reinforce the compliance professional management, continually strengthen the concept of compliance operation as well as enrich the means of compliance risk management, so as to further enhance the capability of compliance risk management.

— The Bank actively carried out compliance examination to gradually reinforce the building of a professional team for compliance examination and inspection throughout the Bank, continuously monitored the changes in external environment and supervisory policies, conducted professional compliance control on the Bank's new products, new businesses and new policies, provided relevant comments, advices and necessary compliance risk notices in accordance with the requirement of the compliance examination, so as to prevent the risk of incompliance in advance and ensure that the operational management is in line with the applicable laws, rules and regulations.

— The Bank actively advanced the Zhuomuniao Compliance Campaign which further deepened the work in building up a culture of internal compliance control, initiated all the staff to actively identify potential risks in reporting system and procedure, set up a bottom-up risk identification channel throughout the Bank, encouraged the staff to participate actively in internal compliance control management, gave full play to the participation of staff members in internal compliance control management, so as to effectively eliminate the potential risks arising from business operation and create a culture of participation of all the staff and a healthy internal control environment.

— The Bank emphasized the compliance concept, promoted compliance evaluation and organized compliance training. The Bank always regards creating compliance culture as long-term task. Through carrying out compliance evaluation, the Bank promoted the concepts of "Compliance as top priority in business management" and "Everyone is responsible for compliance". These concepts were implemented in the process of internal compliance management consistently. The Bank actively explored new methods of compliance evaluation to stimulate its branches to set up relevant mechanism for compliance evaluation with clear goals, objects, obligations as well as appropriate incentive and punishment. Branches were encouraged to include compliance management in their daily work and link the results of compliance evaluation with the evaluation on the performance of branches and staff members, so that the Bank's compliance and risk management can be improved. The Bank put more resources in compliance training while branches at each level actively engaged in various compliance training programs in order to prevent compliance risks from the root of thought.

— The Bank explored and established a database for rules, laws and regulations of regulatory authorities and its own rules and regulations, which is centralized and used bank-wide. The Bank continually kept track of and collected applicable external regulations in a timely manner to establish a comprehensive external regulations information database for immediate reference. An information-oriented system has been established as a vehicle to provide searching function for over 30,000 staff members throughout the Bank, which enabled the Bank to enrich its management tools in internal control, implement regulatory requirements and promote the duty performance in compliance.

*Operational Risks*

In the first half of 2011, the Bank, by carrying out the operational risk management project based on the New Basel Capital Accord, continued to advance the fundamental work of management of operational risk by gradually building and optimizing the standardized, systemized and regulated internal control and operational risk management systems.

— The Bank perfected the operational risk management system. Under the framework of the Operational Risk Management Policies of China CITIC Bank, the Bank started to make research on drafting systems regarding operational risk preference and tolerance and basis rules on operational risk management, so as to provide a system safeguarding the Bank's operational risk management.

— The Bank steadily promoted the design and application of operational risk management instruments. The Bank has been researching the methodology for designing and implementing the three major instruments for operational risk management. By drawing lessons and summing up experience from implementation in four pilot branches and departments of the head office, the Bank expanded the implementation in some other branches in the second half of 2011.

— The Bank launched its development and building of operational risk system. The Bank officially launched the design of operational risk management system. By means of information technology, the Bank promoted a dynamic monitoring, warning and reporting management over operational risks and hence provided a platform for data analysis of operational risk management activities.

— The Bank organized professional trainings on operational risk. The Bank arranged its part-time operational risk specialists and the part-time staff managing operational risks to take training courses in batches, publicizing the philosophy of operational risk management culture and explaining the methods and means of management tools. As a result, the first batch of specialized teams for operational risk management of the Bank has obtained certification after professional training.

*Anti-Money Laundering*

In the first half of 2011, according to the Anti-Money Laundering Law and relevant regulations of the PBOC, the Bank earnestly fulfilled its anti-money laundering obligations, and the main measures adopted by the Bank in this regard were as follows:

— The Bank earnestly implemented the monitoring, judging, recording, analyzing and reporting systems for anti-money laundering management. Through the anti-money laundering system, the Bank arranged the reporting on large-amount and suspicious payment transactions, and closely monitored the flow and use of funds of the suspicious transactions in money-laundering and terrorism financing.

— The Bank seriously followed the requirements of regulatory authorities to grade clients according to their exposure to risks. The Bank assigned the customers to different risk levels in view of their characteristics or account nature, taking into consideration of relevant factors such as geographical location, business, industry, and whether the client is a foreign political figure, etc. Meanwhile, the Bank also timely adjusted clients' risk levels on the basis of ongoing monitoring.

— The Bank promoted anti-money laundering training for its employees. The head office and the branches held training sessions on the internal control system, client identification system and relevant regulations issued by the regulatory authorities for anti-money laundering to further enhance the skills of employees to fight against money laundering and their capabilities to identify suspicious transactions.

### *(V) Reputation Risk Management*

During the reporting period, according to the Guidelines for the Management of Reputation Risk of Commercial Banks of the CBRC and the Bank's Management Measures on Reputation Risk and its implementation measures, the Bank made progress in further standardizing news release system, learning from international good practice, enhancing staff trainings in reputation risk management and intensifying the communication with regulators. The Bank maintained a relatively stable status quo in controlling and preventing reputation risk and further improved relevant system and mechanism.

### *(VI) Investment*

On 27 April 2007, the Bank issued 2.302 billion A shares at the offer price of RMB5.80 per share and 5.618 billion H shares at the offer price of HKD5.86 per share through initial public offering (IPO). After the adjustment of the exchange rate, the offer prices for A shares and H shares were the same. The Bank raised a total of approximately RMB44.836 billion from the issuance of both A and H shares (after deducting the listing expenses). As at the end of the reporting period, the Bank had applied all of the funds raised to replenish its capital to raise its capital adequacy ratio and enhance its risk resistance capability in accordance with approvals from the CBRC and the CSRC.

The Bank did not have any material investment with non-raised capital.

### (V) Outlook

In the second half of 2011, the international economic and political environment will continue to be volatile, which brings about more uncertainties in the global economic and financial situation. China's economy will operate in a stable manner, while uncertainties will gradually appear. In the first half of 2011, domestic banking industry met more difficulties in business operation and management, though banks achieved relatively good business performance. In the second half of 2011, the Bank will continue to insist on the working principle of "transformation, upgrade and development", make effort to resolve urgent problems in current business operation, research on formulating measures and enhance its effort to organize and promote marketing. Meanwhile, the Bank will further accelerate its transformation, intensify its adjustment and control on business operation of branches, expedite the development of intermediary businesses and emerging businesses and constantly improve its capability in loan pricing. The Bank will also further upgrade its internal management, continue to improve its capability in delicacy management and risk management, effectively implement operation and review in compliance and case-prevention and continuously improve the working capability of staff members at all levels.

# III. SIGNIFICANT EVENTS

**Rights Issue of A and H Shares**

The Bank initiated the A-share and H-share rights issue (the “Rights Issue”) in June 2010 to strengthen the capital base of the Bank. Relevant proposals of the Rights Issue have been considered and approved at the 13th meeting of the second Board of Directors of the Bank in 2010, the third extraordinary general meeting of the Bank in 2010, the first A shareholders class meeting of the Bank in 2010 and the first H shareholders class meeting of the Bank in 2010. The approved total proceeds of the Rights Issue shall not be more than RMB26 billion.

In June 2011, having been approved by the CSRC with the approvals titled *Approval in respect of the Rights Issue of China CITIC Bank Corporation Limited* (numbered Zheng Jian Xu Ke [2011] No.963) and *Approval in respect of the Rights Issue of the Overseas Listed Foreign Shares of China CITIC Bank Corporation Limited* (numbered Zheng Jian Xu Ke [2011] No.952), the Bank proceeded the A-share and H-share rights issue and completed the issuance in July and August in 2011. The Bank offered the rights shares on the basis of 2 rights shares for every 10 existing shares held, proportions applied to the A-share and H-share rights issue are the same. The subscription price for the rights shares are: RMB3.33 per rights share for the A-share rights issue, and HKD4.01 per rights share for the H-share rights issue. The rights share price for A-share and H-share are the same upon adjustment according to the foreign exchange rate. The Bank has offered 5,273,622,484 A shares and 2,480,360,496 H shares with a par value of RMB1 per share for the Rights Issue. The total proceeds raised from the Rights Issue are approximately RMB17,561,162,871.72 and HKD9,946,328,240.83. Having deducted the issuance expenses, the net proceed raised from the Rights Issue is approximately RMB25,666,735,790.69, which will all be used to strengthen the Bank’s capital base.

**The Profile of the Bank’s Profit Distribution and the Implementation of the Plan for Conversion of Capital Reserve into Share Capital and the Plan of New Shares Issuance during the Reporting Period**

As approved by the 2010 annual general meeting, neither cash dividend distribution nor conversion of capital reserve into share capital was conducted by the Bank for 2010 so as to ensure a smooth proceeding of its A and H shares rights issue during the reporting period, which is in the interests of the Bank’s long-term development. The retained profits will be distributed in the future.

In the first half of 2011, the Bank’s profit after tax as set out in both foreign and domestic financial statements prepared according to PRC GAAP and IFRS was RMB14.412 billion. The Bank’s Board of Directors proposed to distribute profit for the first half of 2011 as follows:

10% of the profit after tax with a total amount of RMB1.441 billion shall be transferred to the statutory surplus reserve, RMB0.8 billion shall be transferred to the general reserve, nil to the discretionary reserve, and a total of RMB2.573 billion shall be distributed as proposed dividend. Every 10 shares shall receive a cash dividend of RMB0.55 (pre-tax), calculated on the basis of the total share capital of A and H shares. The cash dividend will be denominated and declared in RMB, and paid to A-share holders and H-share holders in RMB and HKD respectively. The actual amount of dividend for H shares shall be calculated in HKD based on the average benchmark exchange rate between RMB and HKD announced by the PBOC one week (inclusive of the date of the general meeting) before the date the general meeting is convened. The aforesaid profit distribution proposal shall be submitted to the second extraordinary general meeting of the Bank in 2011 for consideration.

**Closure of Register of Members**

The Bank's register of members will be closed from 26 October 2011 to 31 October 2011 during which period no transfer of H shares will be effected. In order to qualify for the interim dividend proposed for the half year of 2011, holders of H shares should deposit the share certificates together with the relevant transfer documents at the H Share registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 25 October 2011. The Bank sets the last trading day before excluding dividend of H Shares on 21 October 2011 and will begin excluding dividend from 24 October 2011. The interim dividend of 2011 will be paid on or about 17 November 2011 upon approval.

**Purchase, Sale or Redemption of the Shares of the Bank**

During the reporting period, save and except as disclosed in this announcement, none of the shares of the Bank was purchased, sold or redeemed by the Bank or any of its subsidiaries.

**Material Acquisition, Disposal or Assets Restructuring**

Save and except as disclosed in this announcement, the Bank did not have material acquisition, disposal or assets restructuring during the reporting period.

**Material Contracts and Respective Performance**

During the reporting period, save and except as disclosed in this announcement, the Bank did not have material assets business with other companies to hold in trust, contract or lease their assets, and did not entrust other companies to hold in trust, contract or lease its assets.

The guaranty business is one of the off-balance-sheet items in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any material guaranties that need to be disclosed except for the financial guarantee services within the approved business scope of the Bank.

The Bank did not entrust others to handle cash management matters.

## Fund Occupation by Substantial Shareholders

No fund of the Bank is occupied by substantial shareholders.

## Significant Related Party Transactions

The Bank enters into related party transactions with related parties in the ordinary and usual course of business based on normal commercial terms. The terms are no more favorable to the related parties than those available to non-related parties for the same transactions.

### *(I) Related Party Transactions Involving Disposal and Acquisition of Assets*

Save and except as disclosed herein, the Bank did not engage in any related party transactions involving disposal and acquisition of assets during the reporting period.

### *(II) Related Party Transactions of Credit Extension*

The Bank attached great importance to the daily monitoring and management on related party transactions and ensured a legal and compliant operation of related party transactions business through enhancing its management on process, risk approval and post-lending. As at the end of the reporting period, the balance of credit extended by the Bank to related parties was RMB2.842 billion, the balance of credit risk exposures of financial derivative products and bond holdings was an amount equivalent to RMB843 million. Among which the balance for credit to CITIC Group and its subsidiaries was RMB2.543 billion, the balance of credit risk exposures of financial derivative products and bond holdings to them was RMB733 million, and; the balance for credit to BBVA and its subsidiaries was RMB299 million, the balance of credit risk exposures of financial derivative products and bond holdings to them was an amount equivalent to RMB110 million. All of the above-mentioned credit extension business to related party shareholders and the related credit risk exposures are of good quality, and are all normal loans. Those transactions would not have material impact on the normal operation of the Bank in terms of amount, structure and quality.

When entering into credit extension related party transactions, the Bank only entered into such transactions on normal commercial terms and the price available to related parties are no more favorable than those available to independent third parties of the same kind of transactions. Meanwhile, the Bank fulfilled the regulatory requirements for approval and disclosure by SSE and the CBRC. As at the end of the reporting period, there was no fund exchange and appropriation in violation of the provisions of the *Notice of CSRC on Issues Concerning the Standardization of Fund Exchange between Listed Companies and Related Parties and External Guarantee Provided by Listed Companies* (Zheng Jian Fa [2003] No. 56) and the *Notice of CSRC on Standardization of the External Guarantee Activities of Listed Companies* (Zheng Jian Fa [2005] No. 120). The loans between the Bank and CITIC Group, the Bank's largest shareholder, and fellow controlled companies had no adverse impact on the operation and financial condition of the Bank.

### (III) *Non-Credit Extension Continuing Related Party Transactions*

The Bank continued to conduct transactions subject to the respective approved annual caps for the three years under the *2011-2013 Continuing Related Party Transactions Framework Agreement* entered into between the Bank and CITIC Group and its associates, the *2009-2011 Interbank Transactions Master Agreement* entered into between the Bank and BBVA and its subsidiaries, and the *2011-2013 Master Agreement on Capital Transactions* entered into between the Bank and CIFH and its subsidiaries. According to the applicable provisions of Chapter 14A of *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* and Chapter 10 of *Rules of Shanghai Stock Exchange for the Listing of Stocks*, the performance of the above-mentioned continuing related party transactions is disclosed as follows:

1. *Non-credit Extension Continuing Related Party Transactions with CITIC Group and its Associates*

- Third-Party Escrow Service

  According to the Third-Party Escrow Service Framework Agreement entered into between the Bank and CITIC Group in August 2010, the third-party escrow services provided by the Bank to CITIC Group and its associates shall be made on terms not more favorable than those available to independent third parties. The service fees payable to the Bank by CITIC Group and its associates shall be determined based on the relevant market rates and subject to review on a periodic basis. In 2011, the annual cap for the transactions under the Third-Party Escrow Service Framework Agreement is RMB40 million. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

- Investment Product Agency Sales Service

  According to the Investment Product Agency Sales Service Framework Agreement entered into between the Bank and CITIC Group in August 2010, the sale agency services provided by the Bank to CITIC Group and its associates shall be made on terms not more favorable than those available to independent third parties. The sales commissions payable to the Bank by CITIC Group and its associates shall be determined based on the relevant market rates and subject to review on a periodic basis. In 2011, the annual cap for the transactions under the Investment Product Agency Sales Service Framework Agreement is RMB683.1 million. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

- Asset Custody Service

  According to the Asset Custody Service Framework Agreement entered into between the Bank and CITIC Group in August 2010, the asset custody services to be provided by the Bank to CITIC Group and its associates shall be made on terms not more favorable than those available to independent third parties. The asset custody fees payable to the Bank by CITIC Group and its associates shall be determined based on the relevant market rates and subject to review on a periodic basis. In 2011, the annual cap for the transactions under the Asset Custody Service Framework Agreement is RMB91.3 million. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

- Loan Asset Transfer

  According to the Loan Asset Transfer Framework Agreement entered into between the Bank and CITIC Group in August 2010, the transactions conducted between the Bank and CITIC Group and its associates pursuant to the Loan Asset Transfer Framework Agreement shall be made on terms not more favorable than those available to independent third parties. The price payable by the transferee shall be determined on the basis of the following principles: (i) the statutory or guidance price prescribed by the PRC government; (ii) where there is no government-prescribed price or guidance price, the market price shall prevail, and; (iii) where there is no such government-prescribed price or guidance price or market price, the price shall be determined by the book value of the financial assets after proper discounting to reflect the appropriate risks of the loan assets. In 2011, the annual cap for the transactions under the Loan Asset Transfer Framework Agreement is RMB40 billion. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

- Financial Consulting and Asset Management Service

  According to the Financial Consulting and Asset Management Service Framework Agreement entered into between the Bank and CITIC Group in August 2010, the financial consulting and asset management services to be provided by the Bank to CITIC Group and its associates shall be made on terms not more favorable than those available to independent third parties. The services have no fixed price and rates, which shall be determined upon arm's length negotiations between the parties and made on terms not more favorable than those available to third parties; or, the parties shall determine the price and rates applicable to a particular type of services based on the market price and rates applicable to independent counterparties for the same transactions. In 2011, the annual cap for the transactions under the Financial Consulting and Asset Management Service Framework Agreement is RMB111 million. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

- Technology Service

  According to the Technology Service Framework Agreement entered into between the Bank and CITIC Group in August 2010, the technology services provided by CITIC Group and its associates to the Bank include the development, integration, maintenance and support as well as outsourcing services for the management information system and the transaction information system. The service fee payable by the Bank to CITIC Group and its associates shall be made on terms not more favorable than those available to independent third parties. The services have no fixed price and rates. The price and rates applicable to a particular type of services shall be determined upon arm's length negotiations between the parties and based on the market price and rates applicable to independent counterparties for the same transactions. In 2011, the annual cap for the transactions under the Technology Service Framework Agreement is RMB70.6 million. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

- Capital Market Transactions

  According to the Capital Market Transactions Master Agreement entered into between the Bank and CITIC Group in August 2010, the Bank and CITIC Group shall conduct capital market transactions in their ordinary and usual course of business according to applicable general market practices and commercial terms. There is no fixed price or rate for the transactions. The price and rates applicable to a particular type of transactions shall be the prevailing market price or the rates generally adopted by the independent counterparties for the same transactions. In 2011, the annual caps for each of realized gains, realized losses, unrealized gains or losses (as the case may be) of the transactions under the Capital Market Transactions Master Agreement is RMB1.2 billion, and that for the fair value of derivative financial instruments (whether booked into assets or liabilities or not) is RMB4.2 billion respectively. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

2. *Interbank Transactions between the Bank and BBVA*

   According to the Interbank Transactions Master Agreement entered into between the Bank and BBVA in 2009, the Bank and BBVA Group shall conduct interbank transactions in their ordinary and usual course of business according to applicable general interbank transaction practices and on normal commercial terms. There is no fixed price or rate for the transactions. The price and rates applicable to a particular type of transactions shall be the prevailing market price or the rates generally adopted by independent counterparties for the same transactions. In 2011, the annual caps for each of realized gains, realized losses, unrealized gains and losses (as the case may be) of the transactions under the Interbank Transactions Master Agreement is RMB480 million respectively, and that for the fair value of derivative financial instruments (whether booked into assets or liabilities or not) is RMB450 million. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for this year.

3. *Capital Market Transactions between the Bank and CIFH*

   According to the Capital Market Transactions Master Agreement entered into between the Bank and CIFH in August 2010, the Bank and CIFH shall conduct capital market transactions in their ordinary and usual course of business according to applicable general market practices and on normal commercial terms. There is no fixed price or rate for the transactions. The price and rates applicable to a particular type of transactions shall be the prevailing market price or the rates generally adopted by independent counterparties for the same transactions. In 2011, the annual caps for each of realized gains, realized losses, unrealized gains or losses (as the case may be) of the transactions under the Capital Market Transactions Master Agreement is RMB1 billion respectively, and that for the fair value of derivative financial instruments (whether booked into assets or liabilities or not) is RMB3.5 billion. As at the end of the reporting period, the actual amount incurred did not exceed the annual cap for the year.

## Material Litigation and Arbitration

The Bank has been involved in several lawsuits and arbitrations during its daily operation. Most of these lawsuits and arbitrations were sought by the Bank to enforce loan repayment. In addition, there were also lawsuits and arbitrations regarding disputes with clients. As at the end of the reporting period, the Bank was involved in 68 lawsuits and arbitrations with a disputed amount exceeding RMB30 million (including both as plaintiff/claimant and defendant/claimee), with an aggregate disputed amount of RMB4.59 billion; there are 52 unsettled lawsuits and arbitrations (regardless of the disputed amount) in which the Bank is defendant/claimee with an aggregate disputed amount of RMB248 million.

The management of the Bank is of the view that these lawsuits will not have any material impact on the performance and financial position of the Bank.

## Investment in Securities

The following table sets out the shareholding of the Group in the shares and securities of other listed companies as at the end of the reporting period:

*Unit: RMB*

| No. | Stock code | Stock name | Initial investment amount | Shareholding percentage | Book Value at the end of the reporting period | Gain or loss during the reporting period | Book value at the beginning of the reporting period | Changes in shareholder's equity during the reporting period | Accounting item | Source of shares |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 762 | China Unicom (HK) | 15,795,000.00 | — | 9,668,735.04 | — | 8,515,118.78 | 1,153,616.26 | Available-for-sale financial assets | Cash purchase |
| 2 | V | Visa Inc. | 7,509,605.39 | — | 28,045,823.64 | — | 23,627,618.05 | 4,418,205.59 | Available-for-sale financial assets | Free acquisition /bonus |
| 3 | MA | Mastercard International | 201,629.69 | — | 1,478,415.11 | — | 1,121,395.54 | 357,019.57 | Available-for-sales financial asset | Bonus |
| | **Total** | | **23,506,235.08** | | **39,192,973.79** | | **33,264,132.37** | **5,928,841.42** | — | — |

The following table sets out the shareholding of the Group in non-listed financial enterprises as at the end of the reporting period:

*Unit: RMB*

| Name of company | Initial Investment amount | Shares held (share) | Shareholding percentage | Book value at the end of the reporting period | Gain or loss during the reporting period | Changes in shareholder's equity during the reporting period | Accounting item | Source of shares |
|---|---|---|---|---|---|---|---|---|
| China UnionPay Co., Ltd | 70,000,000.00 | 87,500,000 | 4.24% | 113,750,000.00 | 2,450,000.00 | — | Available-for-sale financial assets | Cash purchase |
| SWIFT | 161,127.66 | 22 | — | 152,996.84 | — | — | Available-for-sale financial assets | Bonus |
| Joint Electronic Teller Services | 4,535,347.33 | 16 (Class B) | — | 4,283,079.99 | — | — | Available-for-sale financial assets | Bonus |
| Electronic Payment Services Company (HK) Ltd. | 14,263,759.80 | 2 | — | 13,470,373.89 | — | — | Available-for-sale financial assets | Bonus |
| **Total** | **88,960,234.79** | | | **131,656,450.72** | **2,450,000.00** | | | |

*Note:* Apart from the equity investment set out in the table above, CIFL, a subsidiary of the Bank, also held private equity fund with a net value of RMB308 million as at the end of the reporting period.

## Investigations, Punishment and Remedial Actions of the Bank, Board of Directors, Directors, Senior Management, Shareholders of the Company and *De Facto* Controller

During the reporting period, neither the Bank nor its Board of Directors, any Director, senior management, shareholder and *de facto* controller was subject to any investigation by competent authorities, coercive measures of judiciary or disciplinary inspection departments, transfer to judiciary authorities or recourse of criminal liabilities, investigation of CSRC, administrative penalty, banning the entry to securities markets, criticism by notice circulation, identification as inappropriate candidate, material punishment by other administrative departments or public reprimand from any stock exchanges, or any punishment by other regulatory authorities which has material impact on the Bank's operation.

## Undertakings of the Bank or its Shareholders Holding 5% or More Shares in the Bank

The shareholders made no new undertaking during the reporting period, and the undertakings within the reporting period are the same as those disclosed in 2010 annual report. The Bank is not aware of any shareholders with shareholding of 5% or above in the Bank breached any undertaking they made.

## Interests and Short Positions of Directors, Supervisors and Senior Management in the Shares, Underlying Shares and Debentures of the Bank

As at the end of the reporting period, the interests and short positions of the directors, supervisors and senior management of the Bank in the shares, underlying shares or debentures of the Bank and any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are recorded in the register kept by the Bank pursuant to section 352 of the SFO or any interests and short positions which are required to be notified to the Bank and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules are as follows:

| Name of directors | Name of the associated corporations | Nature of interests | Type/number of shares held | Proportion to the issued share capital in the associated corporations | Execution period |
|---|---|---|---|---|---|
| Dou Jianzhong | CIAM Group Limited | Personal interests | 1,250,000 (L) options | 0.56% | 9 September 2010 – 8 September 2012 |
| | | | 1,250,000 (L) options | | 9 September 2011 – 8 September 2014 |
| Chan Hui Dor Lam Doreen | China CITIC Bank Corporation Limited | Personal interests | 2,974,689 (L) H shares | 0.02% | — |
| Zhang Jijing | CITIC Resources Holdings Limited | Personal interests | 10,000,000 (L) options | 0.17% | 2 June 2006 – 1 June 2013 |
| | CITIC Pacific Limited | Personal interests | 500,000 (L) options | 0.01% | 19 November 2009 – 18 November 2014 |

(L) stands for long position.

Save as disclosed above, none of directors, supervisors and senior management of the Bank has any other interests or short positions in the shares, underlying shares or debentures of the Bank or any associated corporations during the reporting period.

## Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Bank is committed to maintain high-level corporate governance practices. In the first half of 2011, the Bank has been in compliance with the provisions of the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules and most of the proposed best practice set out therein.

## Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules for the securities transactions by directors and supervisors.

Having made specific inquiry to all directors and supervisors, the Bank confirmed that, in the first half of 2011, all the directors and supervisors complied with the rules on securities transactions by directors and supervisors as stipulated in aforementioned Model Code.

## Notes on Amendments to Business Plan

Save as disclosed herein, the Bank did not modify its business plan during the reporting period.

## Review of Interim Results

The Audit and Related Party Transactions Control Committee and the senior management of the Bank have jointly reviewed the accounting policies and practices adopted by the Bank, discussed matters related to internal control and financial reporting, as well as reviewed the Bank's interim report, and are of the opinion that, save for the disclosed information, the preparation basis of this interim report are consistent with the accounting policies adopted for the preparation of the financial report for the year 2010 of the Group.

## Publication of Results Announcement and Interim Report

Both the Chinese and English versions of this results announcement are available on the websites of the Bank (bank.ecitic.com) and the SEHK (www.hkex.com.hk). The 2011 Interim Report of the Bank containing all the information required by the Lisiting Rules will be published on the websites of the SEHK (www.hkex.com.hk) and the Bank (bank.ecitic.com) in due course. In the event of any discrepancies in interpretations between the English version and the Chinese version, the Chinese version shall prevail. The Bank also prepared an interim report for year 2011 in Chinese in accordance with the PRC GAAP, which is available on the websites of the Bank (bank.ecitic.com) and Shanghai Stock Exchange (www.sse.com.cn).

# IV. FINANCIAL REPORT

## 1. Auditor's Opinion

KPMG, the Group's external auditors, have reviewed the interim financial report of the Group. Nothing has come to the auditors' attention that causes them to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

## 2. Unaudited Consolidate Interim Financial Information

***Change in Accounting Policies***

There is no changes in accounting policies adopted in preparation of this interim report compared to those adopted in preparation of the annual financial report of 2010.

**Consolidated statement of comprehensive income**
**For the six months ended 30 June 2011**
*(Expressed in millions of Renminbi unless otherwise stated)*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Unaudited |
| Interest income | **47,616** | 33,488 |
| Interest expense | **(17,810)** | (11,125) |
| **Net interest income** | **29,806** | 22,363 |
| Fee and commission income | **4,212** | 2,801 |
| Fee and commission expense | **(314)** | (272) |
| **Net fee and commission income** | **3,898** | 2,529 |
| Net trading gain | **1,029** | 430 |
| Net gain from investment securities | **110** | 71 |
| Net hedging loss | **(1)** | (1) |
| Other operating income | **493** | 175 |
| **Operating income** | **35,335** | 25,567 |
| Operating expenses | **(13,159)** | (9,483) |
| **Operating profit before impairment** | **22,176** | 16,084 |
| Impairment losses on | | |
| – Loans and advances to customers | **(1,916)** | (1,671) |
| – Others | **(13)** | (153) |
| **Total impairment losses** | **(1,929)** | (1,824) |
| Revaluation gain on investment properties | **29** | 11 |
| Share of profits of associates | **50** | 10 |
| **Profit before tax** | **20,326** | 14,281 |
| Income tax | **(5,053)** | (3,442) |
| **Net profit** | **15,273** | 10,839 |

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Unaudited |
| **Net profit** | **15,273** | 10,839 |
| **Other comprehensive income for the period** | | |
| Available-for-sale financial assets | | |
| – Changes in fair value | **149** | (12) |
| – Losses/(gains) on disposal transferred to profit or loss | **31** | (48) |
| Income tax relating to available-for-sale financial assets | **(37)** | — |
| **Other comprehensive income/(loss) for available-for-sale financial assets, net of tax** | **143** | (60) |
| Exchange difference on translating foreign operations | **(327)** | (131) |
| Other comprehensive income of associates | **24** | 1 |
| Others | **6** | — |
| **Other comprehensive loss, net of tax** | **(154)** | (190) |
| **Total comprehensive income** | **15,119** | 10,649 |
| **Net profit attributable to:** | | |
| Shareholders of the Bank | **15,024** | 10,685 |
| Non-controlling interests | **249** | 154 |
| | **15,273** | 10,839 |
| **Total comprehensive income attributable to:** | | |
| Shareholders of the Bank | **14,941** | 10,588 |
| Non-controlling interests | **178** | 61 |
| | **15,119** | 10,649 |
| **Basic and diluted earnings per share (RMB)** | **0.38** | 0.27 |

**Consolidated statement of financial position**
**As at 30 June 2011**
*(Expressed in millions of Renminbi unless otherwise stated)*

| | 30 June 2011 Unaudited | 31 December 2010 Audited |
|---|---|---|
| **Assets** | | |
| Cash and balances with central bank | **300,934** | 256,323 |
| Deposits with banks and non-bank financial institutions | **97,342** | 81,955 |
| Placements with banks and non-bank financial institutions | **84,376** | 48,633 |
| Trading financial assets | **2,758** | 2,855 |
| Positive fair value of derivatives | **4,776** | 4,478 |
| Financial assets held under resale agreements | **134,052** | 147,632 |
| Interest receivable | **6,893** | 6,095 |
| Loans and advances to customers | **1,334,724** | 1,246,026 |
| Available-for-sale financial assets | **148,017** | 137,109 |
| Held-to-maturity investments | **110,298** | 129,041 |
| Investments in associates | **2,257** | 2,253 |
| Fixed assets | **9,807** | 9,974 |
| Investment properties | **278** | 248 |
| Goodwill | **838** | 857 |
| Intangible assets | **221** | 217 |
| Deferred tax assets | **2,461** | 2,565 |
| Other assets | **5,186** | 5,053 |
| **Total assets** | **2,245,218** | 2,081,314 |
| **Liabilities** | | |
| Deposits from banks and non-bank financial institutions | **143,806** | 141,663 |
| Placements from banks and non-bank financial institutions | **4,784** | 7,072 |
| Trading financial liabilities | **8,420** | 10,729 |
| Negative fair value of derivatives | **3,666** | 4,126 |
| Financial assets sold under repurchase agreements | **14,979** | 4,381 |
| Deposits from customers | **1,873,227** | 1,730,816 |
| Accrued staff costs | **7,436** | 7,853 |
| Taxes payable | **2,716** | 2,598 |
| Interest payable | **10,173** | 8,569 |
| Provisions | **36** | 36 |
| Debts securities issued | **32,612** | 34,915 |
| Other liabilities | **3,706** | 4,018 |
| **Total liabilities** | **2,105,561** | 1,956,776 |

| | 30 June 2011 Unaudited | 31 December 2010 Audited |
|---|---|---|
| **Equity** | | |
| Share capital | **39,033** | 39,033 |
| Share premium and other reserve | **31,578** | 31,574 |
| Investment revaluation reserve | **(502)** | (632) |
| Surplus reserve | **7,059** | 5,618 |
| General reserve | **16,498** | 15,698 |
| Retained earnings | **43,359** | 30,576 |
| Exchange difference | **(1,909)** | (1,692) |
| **Total equity attributable to shareholders of the Bank** | **135,116** | 120,175 |
| Non-controlling interests | **4,541** | 4,363 |
| **Total equity** | **139,657** | 124,538 |
| **Total liabilities and equity** | **2,245,218** | 2,081,314 |

Approved and authorised for issue by the Board of Directors on 29 August 2011.

**Tian Guoli**
*Chairman*

**Chen Xiaoxian**
*President*

**Cao Guoqiang**
*Vice President in charge of finance function*

**Wang Kang**
*General Manager of Budget and Financial Department*

**Statement of financial position**
**As at 30 June 2011**
*(Expressed in millions of Renminbi unless otherwise stated)*

| | **30 June 2011 Unaudited** | 31 December 2010 Audited |
|---|---|---|
| **Assets** | | |
| Cash and balances with central bank | **300,259** | 255,394 |
| Deposits with banks and non-bank financial institutions | **95,146** | 67,157 |
| Placements with banks and non-bank financial institutions | **70,861** | 39,221 |
| Trading financial assets | **2,029** | 2,298 |
| Positive fair value of derivatives | **3,369** | 3,094 |
| Financial assets held under resale agreements | **134,110** | 147,692 |
| Interest receivable | **6,467** | 5,615 |
| Loans and advances to customers | **1,256,488** | 1,170,383 |
| Available-for-sale financial assets | **132,003** | 119,032 |
| Held-to-maturity investments | **110,555** | 129,301 |
| Investment in subsidiaries | **9,884** | 9,884 |
| Fixed assets | **9,312** | 9,508 |
| Intangible assets | **221** | 217 |
| Deferred tax assets | **2,394** | 2,473 |
| Other assets | **4,943** | 4,548 |
| **Total assets** | **2,138,041** | 1,965,817 |
| **Liabilities** | | |
| Deposits from banks and non-bank financial institutions | **155,974** | 143,775 |
| Placements from banks and non-bank financial institutions | **1,956** | 5,813 |
| Trading financial liabilities | **7,774** | 10,729 |
| Negative fair value of derivatives | **2,601** | 2,869 |
| Financial assets sold under repurchase agreements | **14,979** | 4,381 |
| Deposits from customers | **1,779,397** | 1,634,330 |
| Accrued staff costs | **7,243** | 7,618 |
| Taxes payable | **2,630** | 2,573 |
| Interest payable | **9,851** | 8,243 |
| Provisions | **36** | 36 |
| Debt securities issued | **18,500** | 22,500 |
| Other liabilities | **3,018** | 3,360 |
| **Total liabilities** | **2,003,959** | 1,846,227 |

| | 30 June 2011 Unaudited | 31 December 2010 Audited |
|---|---|---|
| **Equity** | | |
| Share capital | **39,033** | 39,033 |
| Share premium and other reserve | **33,706** | 33,706 |
| Investment revaluation reserve | **(371)** | (451) |
| Surplus reserve | **7,059** | 5,618 |
| General reserve | **16,450** | 15,650 |
| Retained earnings | **38,205** | 26,034 |
| **Total equity** | **134,082** | 119,590 |
| **Total liabilities and equity** | **2,138,041** | 1,965,817 |

Approved and authorised for issue by the Board of Directors on 29 August 2011.

**Tian Guoli**
*Chairman*

**Chen Xiaoxian**
*President*

**Cao Guoqiang**
*Vice President in charge of finance function*

**Wang Kang**
*General Manager of Budget and Financial Department*

# Consolidated statement of changes in equity
# For the six months ended 30 June 2011 – unaudited

*(Expressed in millions of Renminbi unless otherwise stated)*

| | Share capital | Share premium | Other reserve | Investment Revaluation Reserve | Surplus reserve | General reserve | Retained earnings | Exchange difference | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2011 | 39,033 | 31,301 | 273 | (632) | 5,618 | 15,698 | 30,576 | (1,692) | 4,363 | 124,538 |
| Movements during the period | | | | | | | | | | |
| (I) Comprehensive income | — | — | 4 | 130 | — | — | 15,024 | (217) | 178 | 15,119 |
| (II) Profit appropriations | | | | | | | | | | |
| 1.Appropriations to surplus reserve | — | — | — | — | 1,441 | — | (1,441) | — | — | — |
| 2.Appropriations to general reserve | — | — | — | — | — | 800 | (800) | — | — | — |
| As at 30 June 2011 | 39,033 | 31,301 | 277 | (502) | 7,059 | 16,498 | 43,359 | (1,909) | 4,541 | 139,657 |

| | Share capital | Share premium | Other reserve | Properties revaluation reserve | Investment revaluation reserve | Surplus reserve | General reserve | Retained earnings | Exchange difference | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2010 (before restatement) | 39,033 | 30,910 | 221 | 1,451 | (236) | 3,535 | 12,562 | 17,939 | (1,372) | 4,210 | 108,253 |
| Change in accounting policy | — | 391 | 33 | (1,451) | — | — | — | (218) | — | — | (1,245) |
| As at 1 January 2010 (restated) | 39,033 | 31,301 | 254 | — | (236) | 3,535 | 12,562 | 17,721 | (1,372) | 4,210 | 107,008 |
| Movements during the period | | | | | | | | | | | |
| (I) Comprehensive income | — | — | 1 | — | (7) | — | — | 10,685 | (91) | 61 | 10,649 |
| (II) Profit appropriations | | | | | | | | | | | |
| 1. Appropriations to shareholders | — | — | — | — | — | — | — | (3,435) | — | — | (3,435) |
| As at 30 June 2010 | 39,033 | 31,301 | 255 | — | (243) | 3,535 | 12,562 | 24,971 | (1,463) | 4,271 | 114,222 |
| | | | | | | | | | | | |
| As at 1 January 2010 (before restatement) | 39,033 | 30,910 | 221 | 1,451 | (236) | 3,535 | 12,562 | 17,939 | (1,372) | 4,210 | 108,253 |
| Change in accounting policy | — | 391 | 33 | (1,451) | — | — | — | (218) | — | — | (1,245) |
| As at 1 January 2010 (restated) | 39,033 | 31,301 | 254 | — | (236) | 3,535 | 12,562 | 17,721 | (1,372) | 4,210 | 107,008 |
| Movements during the year | | | | | | | | | | | |
| (I) Comprehensive income | — | — | 19 | — | (396) | — | — | 21,509 | (320) | 153 | 20,965 |
| (II) Profit appropriations | | | | | | | | | | | |
| 1. Appropriations to surplus reserve | — | — | — | — | — | 2,083 | — | (2,083) | — | — | — |
| 2. Appropriations to general reserve | — | — | — | — | — | — | 3,136 | (3,136) | — | — | — |
| 3. Appropriations to shareholders | — | — | — | — | — | — | — | (3,435) | — | — | (3,435) |
| As at 31 December 2010 | 39,033 | 31,301 | 273 | — | (632) | 5,618 | 15,698 | 30,576 | (1,692) | 4,363 | 124,538 |

**Consolidated cash flow statement**
**For the six months ended 30 June 2011 – unaudited**
*(Expressed in millions of Renminbi unless otherwise stated)*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Unaudited |
| **Operating activities** | | |
| Profit before tax | **20,326** | 14,281 |
| Adjustments for: | | |
| — Revaluation gain on investments and derivatives | **(113)** | (524) |
| — Investment gains | **(160)** | (78) |
| — Net (gain)/loss on disposal of fixed assets | **(9)** | 1 |
| — Unrealised foreign exchange losses | **190** | 77 |
| — Impairment losses | **1,929** | 1,824 |
| — Depreciation and amortisation | **649** | 577 |
| — Interest expense on subordinated debts/bonds issued | **650** | 422 |
| — Dividend income from equity investment | **(2)** | (3) |
| — Income tax paid | **(5,062)** | (2,514) |
| | **18,398** | 14,063 |
| ***Changes in operating assets and liabilities:*** | | |
| Increase in balances with central bank | **(55,586)** | (42,970) |
| Increase in deposits with banks and non-bank financial institutions | **(6,976)** | (15,355) |
| (Increase)/decrease in placements with banks and non-bank financial institutions | **(34,659)** | 1,959 |
| Increase in trading financial assets | **(211)** | (2,053) |
| Decrease in financial assets held under resale agreements | **13,580** | 42,168 |
| Increase in loans and advances to customers | **(93,145)** | (128,469) |
| Increase/(decrease) in deposits from banks and non-bank financial institutions | **8,279** | (152,568) |
| (Decrease)/increase in placements from banks and non-bank financial institutions | **(1,327)** | 464 |
| (Decrease)/increase in trading financial liabilities | **(2,250)** | 2,716 |
| Increase in financial assets sold under repurchase agreements | **10,600** | 263 |
| Increase in deposits from customers | **144,731** | 289,082 |
| Decrease in other operating assets | **1,979** | 804 |
| Increase in other operating liabilities | **4,078** | 1,425 |
| **Net cash flows from operating activities** | **7,491** | 11,529 |

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Unaudited |
| **Investing activities** | | |
| Proceeds from disposal and redemption of investments | **246,083** | 157,515 |
| Proceeds from disposal of fixed assets, land use rights, and other assets | **26** | 6 |
| Cash received from equity investment income | **41** | 56 |
| Payments on acquisition of investments | **(256,857)** | (195,127) |
| Payments on acquisition of fixed assets, land use rights and other assets | **(518)** | (594) |
| **Net cash flows used in investing activities** | **(11,225)** | (38,144) |
| **Financing activities** | | |
| Cash received from bond issuance | **—** | 19,897 |
| Interest paid on debt securities issued | **(1,190)** | (502) |
| Cash paid for redemption of debt securities | **(4,000)** | (5,098) |
| **Net cash flows (used in)/from financing activities** | **(5,190)** | 14,297 |
| **Net decrease in cash and cash equivalents** | **(8,924)** | (12,318) |
| **Cash and cash equivalents as at 1 January** | **173,910** | 167,248 |
| **Effect of exchange rate changes on cash and cash equivalents** | **(926)** | (221) |
| **Cash and cash equivalents as at 30 June** | **164,060** | 154,709 |
| **Cash flows from operating activities include:** | | |
| Interest received | **46,886** | 33,477 |
| Interest paid, excluding interest expense on subordinated debts/bonds issued | **15,276** | 10,822 |

**Notes:**

Certain notes to the financial statements of the Bank are set out in below, please refer to the interim report of the Bank for all the notes to the financial statements.

## 1. Net interest income

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| ***Interest income arising from:*** | | |
| Deposits with central banks | **2,022** | 1,464 |
| Deposits with banks and non-bank financial institutions | **1,024** | 205 |
| Placements with banks and non-bank financial institutions | **1,040** | 206 |
| Financial assets held under resale agreements | **2,700** | 1,055 |
| Loans and advances to customers *(note (i))* | | |
| — corporate loans | **29,879** | 22,679 |
| — personal loans | **6,058** | 4,140 |
| — discounted bills | **1,373** | 961 |
| Investments in debt securities *(note (ii))* | **3,510** | 2,770 |
| Others | **10** | 8 |
| | **47,616** | 33,488 |
| ***Interest expense arising from:*** | | |
| Balances due to central banks | **—** | (16) |
| Deposits from banks and non-bank financial institutions | **(2,715)** | (1,376) |
| Placements from banks and non-bank financial institutions | **(120)** | (40) |
| Debts securities issued | **(650)** | (430) |
| Financial assets sold under repurchase agreements | **(127)** | (14) |
| Deposits from customers | **(13,992)** | (9,190) |
| Trading financial liabilities | **(206)** | (59) |
| | **(17,810)** | (11,125) |
| Net interest income | **29,806** | 22,363 |

*Notes:*

(i) Interest income includes interest income accrued on individually assessed impaired financial assets of RMB 83 million for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB 83 million).

(ii) Interest income from investments in debt securities is mainly derived from unlisted investments.

(iii) Interest income includes interest income arising from financial assets designated at fair value through profit and loss of RMB 102 million (six months ended 30 June 2010: RMB 105 million); interest expense includes interest expense arising from financial liabilities designated at fair value through profit and loss of RMB 206 million (six months ended 30 June 2010: RMB 9 million).

## 2. Net fee and commission income

| | Six months ended 30 June 2011 | 2010 |
|---|---|---|
| **Fee and commission income** | | |
| Consultancy and advisory fees | **1,324** | 963 |
| Bank card fees | **942** | 649 |
| Settlement fees | **819** | 486 |
| Guarantee fees | **392** | 170 |
| Agency fees and commission *(note(i))* | **319** | 211 |
| Commission for wealth management services | **262** | 232 |
| Commission for custodian business | **150** | 78 |
| Others | **4** | 12 |
| **Total** | **4,212** | 2,801 |
| **Fee and commission expense** | **(314)** | (272) |
| **Net fee and commission income** | **3,898** | 2,529 |

*Note:*

(i) Agency fees and commission include fees and commission for underwriting bonds and investment funds, agency fees for insurance service and others, and fees from entrusted lending business.

## 3. Net trading gain

| | Six months ended 30 June 2011 | 2010 |
|---|---|---|
| Trading profit/(loss): | | |
| — debt securities | **2** | 51 |
| — foreign currencies | **909** | 269 |
| — derivatives | **115** | 156 |
| — investment funds | **1** | (24) |
| — financial liabilities designated at fair value through profit and loss | **2** | (22) |
| Total | **1,029** | 430 |

## 4. Net gain from investment securities

| | Six months ended 30 June 2011 | 2010 |
|---|---|---|
| Net gain from sale of available-for-sale securities | **129** | 10 |
| Net revaluation (loss)/gain reclassified from other comprehensive income on disposal | **(31)** | 48 |
| Others | **12** | 13 |
| Total | **110** | 71 |

## 5. Net hedging loss

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| Net loss of fair value hedge | **1** | 1 |

## 6. Income tax

### *(a) Recognised in the statement of comprehensive income*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| Current tax | | |
| — Mainland China | **4,840** | 2,951 |
| — Hong Kong | **147** | 86 |
| — Overseas | **—** | 1 |
| Deferred tax | **66** | 404 |
| Income tax | **5,053** | 3,442 |

### *(b) Reconciliation between income tax expense and accounting profit*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| Profit before tax | **20,326** | 14,281 |
| Income tax calculated at statutory tax rate | **5,082** | 3,570 |
| Effect of different tax rates in other regions | **(82)** | (64) |
| Tax effect of non-deductible expenses *(Note (i))* | **270** | 128 |
| Tax effect of non-taxable income | | |
| — Interest income from PRC government bonds | **(179)** | (163) |
| — Others | **(38)** | (29) |
| Income tax | **5,053** | 3,442 |

*Note:*

(i) The amounts primarily represent tax effect of entertainment expenses, advertisement expenses and marketing expenses in excess of the deductible amounts.

(ii) In 2009 and 2010, CIFH received letters of enquiry from the Hong Kong Inland Revenue Department ("IRD") regarding gains of approximately HKD 14 billion arising from disposal of the Bank's shares during the year of assessment for 2008 and 2009. As at 30 June 2011, CIFH has submitted reply letters to the IRD, but has not received further enquiry from the IRD yet. No tax provision has been made on the aforementioned disposal gains, as management consider it non-assessable income arising from capital gains.

## 7. Earnings per share

Earnings per share information for the six months ended 30 June 2011 and 2010 is computed by dividing the consolidated net profit attributable to shareholders of the Bank by the weighted average number of shares in issue during the period. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended 30 June 2011 and 2010.

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| Net profit attributable to shareholders of the Bank | **15,024** | 10,685 |
| Weighted average number of shares in issue or deemed to be in issue *(in million shares)* | **39,033** | 39,033 |
| Basic and diluted earnings per share *(RMB)* | **0.38** | 0.27 |

## 8. Profit appropriations

(a) Profit appropriations and distributions other than dividends declared during the period

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **Six months ended 30 June 2011** | Year ended 31 December 2010 | **Six months ended 30 June 2011** | Year ended 31 December 2010 |
| Appropriations to | | | | |
| — Statutory surplus reserve fund | **1,441** | 2,083 | **1,441** | 2,083 |
| — General reserve | **800** | 3,136 | **800** | 3,124 |
| As at 30June/31 December | **2,241** | 5,219 | **2,241** | 5,207 |

In accordance with the approval from the Board of Directors dated 29 August 2011, the Bank appropriated RMB 1,441 million to statutory surplus reserve fund and RMB 800 million to general reserve, representing 10% and 5.55% of the net profit after taxation under PRC GAAP, respectively.

(b) On 29 August 2011, the Board of Directors proposed a cash dividend of RMB 0.55 per ten shares in respect of the period for the six-month period ended 30 June 2011. Subject to the approval of the shareholders at the General Meeting, the total amount of approximately RMB 2,573 million is payable to those on the shareholders register as at the relevant record date. This dividend has not been recognized as liability at the reporting date.

# V. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions have the following meanings:

| | |
|---|---|
| Articles of Association | Articles of Association of China CITIC Bank Corporation Limited |
| Bank/Company/China CITIC Bank/ CITIC Bank | China CITIC Bank Corporation Limited |
| BBVA | Banco Bilbao Vizcaya Argentaria S.A. |
| CBI | CITIC Bank International Limited (formerly CITIC Ka Wah Bank Limited) |
| CBRC | China Banking Regulatory Commission |
| Central Bank/PBOC | The People's Bank of China |
| China AMC | China Asset Management Co., Ltd |
| CIAM | CITIC International Assets Management Limited |
| CIFH | CITIC International Financial Holdings Limited |
| CIFL | China Investment and Finance Limited |
| CITIC Capital | CITIC Capital Holdings Limited |
| CITIC Group | CITIC Group |
| CITIC Kingtong Securities | CITIC Kingtong Securities Co., Ltd. |
| CITIC Securities | CITIC Securities Co., Ltd |
| CITIC Trust | CITIC Trust Co., Ltd |
| CITIC Wantong Securities | CITIC Wantong Securities Co., Ltd |
| CSRC | China Securities Regulatory Commission |
| Domestic | The People's Republic of China (excluding Hong Kong, Macao and Taiwan) |
| GIL | Gloryshare Investments Limited |
| Group | China CITIC Bank Corporation Limited and its subsidiaries |
| MOF | Ministry of Finance of the People's Republic of China |
| NSSF | National Council for Social Security Fund |
| SASAC | State-owned Assets Supervision and Administration Commission of the State Council |
| SEHK | The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| SSE | Shanghai Stock Exchange |
| State Council | State Council of the People's Republic of China |

By order of the Board of Directors
**China CITIC Bank Corporation Limited**
**TIAN Guoli**
*Chairman*

Beijing, the PRC
29 August 2011

*As at the date of this announcement, the executive directors of the Bank are Dr. Chen Xiaoxian and Dr. Zhao Xiaofan; the non-executive directors are Mr. Tian Guoli, Mr. Dou Jianzhong, Mr. Ju Weimin, Mr. Zhang Jijing, Mrs. Chan Hui Dor Lam Doreen, Mr. Guo Ketong, Mr. Ángel Cano Fernández and Mr. José Andrés Barreiro Hernandez; and the independent non-executive directors are Dr. Bai Chong-En, Dr. Ai Hongde, Dr. Xie Rong, Mr. Wang Xiangfei and Mr. Li Zheping.*