



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



2009 ANNUAL REPORT

STOCK CODE : 01988





Important Notice

The Board of Directors (the "Board"), the Supervisory Board, and the Directors, Supervisors and Senior Management of the Company warrant that there are no misstatements, misleading representations or material omissions in this report, and shall assume joint and several liability for the truthfulness, accuracy and completeness of its contents.

The annual report was approved on 19 April, 2010 at the 9th meeting of the 5th session of the Board of Directors of the Company. Of the 18 Directors who were entitled to attend the meeting, 18 attended the meeting, among whom 15 attended the meeting in person and 3 were represented by proxy. Mr. Zhang Hongwei, Vice Chairman, and Mr. Chen Jian, Director of the Company, entrusted the Chairman, Mr. Dong Wenbiao, in writing, to exercise their respective voting rights at the meeting. Mr. Liu Yonghao, Vice Chairman, entrusted Director, Mr. Wang Hang, in writing, to exercise his voting rights at the meeting.

For the purpose of this annual report, China Minsheng Banking Corp., Ltd. shall be referred to as the "Company", the "Bank", "China Minsheng Bank" or "Minsheng Bank" whereas China Minsheng Banking Corp., Ltd. and its subsidiaries together shall be referred to as the "Group".

The financial information and statements contained in this annual report are prepared in accordance with the International Financial Reporting Standards ("IFRS"). Unless otherwise specified, all money amounts are stated in Renminbi ("RMB") for the consolidated data of the Group.

Auditors of the Company, PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers, have audited the financial reports of 2009 prepared under the China Accounting Standards ("CAS") and the IFRS respectively, and issued standard auditors' reports with unqualified opinions.

**Board of Directors
China Minsheng Banking Corp., Ltd.**

Mr. Dong Wenbiao (Chairman), Mr. Hong Qi (President), Mr. Wang Songqi (Director), Mr. Zhao Pinzhang (Senior Management responsible for finance and accounting) and Ms. Bai Dan (head of the Finance and Accounting Department) warrant the truthfulness and completeness of the financial reports included in the annual report.

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Message from the Chairman



Mr. DONG Wenbiao

Chairman of the Board of Directors

Message from the Chairman

2009 was a successful year for Minsheng Bank in spite of the global economic recession induced by the financial crisis. This year, the re-election of the Board of Directors, the Supervisory Board and the management has been successfully completed prior to the expiry of their terms of office. We have continued the strategic business unit ("SBU") reform and further adjusted our business structure. We have begun to provide banking services targeting on small and micro-enterprises in order to avoid homogenization of commercial banking industry. Our H shares have been successfully listed on the Hong Kong Stock Exchange.

It is the sound development of China's economy, strong confidence from investors to Minsheng Bank, supports from the society and the efforts of the staff of Minsheng Bank that contributed to our success.

As at the end of 2009, the total assets of the Group was RMB1,426,392 million, representing an increase of 35.3% as compared to last year. Earnings per share was RMB0.63, representing an increase of RMB0.21 as compared to last year. Market value at the end of the year was RMB175,296 million and return on average asset ratio amounted to 0.98%, an improvement of 0.18 percentage point as compared to last year. Under the challenging economic situation of international and domestic market, the Board of Directors and the management of Minsheng Bank were satisfied with the results achieved.

From 2010, Minsheng Bank will enter into a new development stage of "Second Take-off".

First of all, after years of exploration, reforms and innovation, Minsheng Bank has identified its distinct position to be a bank for privately-owned enterprises, small and micro-enterprises and high end customers. By leveraging on our expertise, we intend to assist privately-owned enterprises with growth potential to be the top 500 in China, Asia and the world, and small and micro-enterprises in their financial and organic expansion. By utilizing our professional capabilities, we will assure the high end customers to maintain and increase their wealth. We aim to capitalize those opportunities into profits and wealth by applying scientific systems and offering professional and unique products and comprehensive and tailor-made services.

Secondly, the SBU reform has been successful in its current stage. With such reform and specialization of our businesses, our risk control capability has been further enhanced, all businesses of Minsheng Bank have developed stably. The Company's deposits and loans and profits increased significantly, which shows a good sign of development. We believe more advantages and strengths of the SBUs will be revealed in the next three years.

Thirdly, the corporate governance of Minsheng Bank has significantly enhanced, which is a foundation for its stable development. At present, the Board of Directors, the Supervisory Board and the management of Minsheng Bank has a mature structure with gradually open, transparent and highly efficient daily operation. The duties and functions of the Board have been further defined. In particular, the Board of Directors attached emphasis to the "Output of Soft Power". "Soft Power" comprises of development strategies, operating ideas and culture brand, which are also the foundation for a healthy development. The six specialised committees under the Board of Directors have conducted discussions and research on material aspects of the Company's development in order to ensure that the Company will develop on a scientific, rational and healthy way.

Fourthly, through internal reforms and innovation, the business teams, in particular the core business teams, have identified an unanimous objective to develop Minsheng Bank as a "distinctive and efficient bank". Professionalism of the management has been enhanced in the process of the SBU reform. A professional management team has become the guarantee of its human resources and one of the core competitiveness for the future growth of Minsheng Bank.

Finally, on behalf of the Board of Directors, I would like to extend my gratitude for the support of our investors and the society and dedications of our staff. With your endeavours, Minsheng Bank achieved satisfactory performance in 2009. With the successful listing of the H shares, Minsheng Bank plans to create more values for its shareholders and make more contributions to the society through improvement, innovation and expansion of our business during the period from 2010 to 2015.



DONG Wenbiao
Chairman of the Board of Directors
China Minsheng Banking Corp., Ltd.

19 April, 2010

Annual Awards



Annual Awards

In 2009, the Company's brand value and recognition from the society further improved. With its outstanding operating results, corporate culture and management, the Company obtained 266 major awards, which mainly include the followings:

Mr. Dong Wenbiao, Chairman of the Board, was elected as one of the 2009 CCTV Annual Chinese Economic Figures (2009 CCTV 中國經濟年度人物).

The Company was awarded for the second year, the Best Board of Directors (最佳董事會獎) under the 5th Gold Round Table Awards for the Boards of Directors of Chinese Listed Companies (第五屆董事會金圓桌獎). Mr. Dong Wenbiao, Chairman of the Board, won the Award of Most Strategically-Minded Chairman (最具戰略眼光董事長) and Mr. Zhang Ke, former Independent Non-executive Director of the Company, won the Award of Most Influential Independent Director (最具影響力獨立董事).

In the 4th China Creativity Industry Annual Meeting, Mr. Dong Wenbiao, Chairman of the Board, won the "Award of Outstanding Contribution to Cultural Creativity Industry" (文化創意產業傑出貢獻獎).

Our President, Mr. Hong Qi, was recognized as a Social Responsibility Leader (社會責任領袖) at the 1st Corporate Social Responsibility Annual Meeting and the Responsibility Leaders Election Campaign (首屆中國企業社會責任年會暨責任領袖評選).

At the election campaign of the Most Influential Enterprise, Most Outstanding Chinese Entrepreneurs and Enterprises with Highest Growth Potential of 2009 (2009 年度最具影響力企業、最受關注企業家、最具成長性企業評選活動) jointly organized by China Enterprise Confederation and China Enterprise Directors Association, the Company was elected as the Most Influential Enterprises of 2009 (2009 年度最具影響力企業) and our Chairman of the Board, Mr. Dong Wenbiao, was awarded the prize of Most Outstanding Chinese Entrepreneurs (最受關注企業家).

The Company was elected as one of the Top Ten Chinese Enterprises with Outstanding Corporate Culture Building (全國企業文化建設十大功勳單位) in the annual election organized by the China Culture Administration Society and was the only bank winning this honour.

The Company was honoured with the Chinese Brand of Outstanding Contribution to Social Responsibility of 2009 (2009 中國品牌社會責任貢獻獎) in the 2nd Chinese Brand Forum co-organized by the Chinese Enterprise Newspaper and China Private Sector Economic Research Association.

Annual Awards

The Company was awarded the Best Corporate Bank of the Year (年度最佳公司銀行) at the Chinese Financial Institutions Gold Medal List 2009 (2009 中國金融機構金牌榜) and the first Golden Dragon Prize (金龍獎) campaign jointly organized by the Financial News and Institute of Finance and Banking of the Chinese Academy of Social Sciences.

The Company obtained 2009 CBN Financial Value List — Best Small and Micro-Enterprise Services Award (2009 第一財經金融價值榜最佳小微企業服務獎) in CBN Financial Value Ranking 2009 (2009 第一財經金融價值榜).

In the 4th Session of the 21st Century Annual Finance Summit of Asian (21世紀亞洲金融年會), the Company was recognized as the Best Risk Management Bank in Asia of 2009 (2009 亞洲最佳風險管理銀行) and Financial Services Innovation Award for Small and Micro-Enterprise (2009小微金融服務創新獎).

The Company was honoured the Excellent Achievement Award of Trade Financing in China (中國區貿易金融成就獎) at the Ceremony of Award Presentation to Outstanding Banker in Asia 2009 (2009年亞洲銀行家領袖成就獎頒獎典禮) organized by the Asian Banker.

At the Most Trusted Banks by Chinese CFO 2009 (2009年度中國 CFO 最信賴的銀行) campaign held by CFO World, The Company was honoured with the Best Service Innovation Award (最佳服務創新獎) and Best Trade Financing Award (最佳貿易融資獎).

In the 2nd Most Respected Banks Election 2009 (2009年第二屆中國最受尊敬銀行評選) cum the 3rd Best Chinese Bank Wealth Management Products Election Campaign 2009 (2009年第三屆中國最佳銀行理財產品評選) prize presentation ceremony organized by Moneyweek, the Company was granted various awards, including Most Respected Banks in China 2009 (2009年中國最受尊敬銀行), Best Private Banking Service Bank (最佳服務私人銀行), Best Retail Bank 2009 (2009年最佳零售銀行) and Best Marketing and Service Team 2009 (2009年度最佳營銷與服務團隊).

In the Competitiveness Ranking of Financial Institutions 2009 (2009卓越競爭力金融機構), the Company won the 2009 Outstanding Competitiveness in Individual Loan Bank Award (2009年卓越競爭力個人貸款銀行獎).

In the 6th China International Finance Forum (第六屆中國國際金融論壇), the Company was honoured with the Best Private Bank in China (中國最佳私人銀行) and the Best Wealth Management Products in China (中國最佳理財產品) awards.

Annual Awards

In the Comprehensive Evaluation Campaign of Online Bank 2009 organized by the Chinese Finance Certification Agency, or the CFCA, the Company received the 2009 Award for the PRC Online Bank with Best Risk Prevention (2009年中國網上銀行最佳網銀安全獎).

In the 8th Chinese Corporate Governance Conference (第八屆中國公司治理論壇) organized by the Shanghai Stock Exchange, the Company was nominated the 2009 Information Disclosure Award (2009年度信息披露獎提名) and ranked 11th among nearly 1,000 listed companies.

Bank Profile

1. Registered Chinese Name: 中國民生銀行股份有限公司
(Abbreviation: “中國民生銀行”)
English Name: CHINA MINSHENG BANKING CORP., LTD. (Abbreviation: “CMBC”)
2. Legal Representative: Dong Wenbiao
3. Authorized Representatives: Andrew Wong
Soon Yuk Tai
4. Board Secretary: Mao Xiaofeng
Joint Company Secretaries: Mao Xiaofeng
Soon Yuk Tai
Representative of Securities Affairs: He Qun
5. Mailing Address: Building VIII, Beijing Friendship Hotel, No. 1 Zhongguancun Nandajie, Beijing, China
Telephone: 86-10-68946790
Facsimile: 86-10-68466796
Email: cmbc@cmbc.com.cn
6. Registered Address: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
Postal Code: 100031
Website: www.cmbc.com.cn
Email: cmbc@cmbc.com.cn
7. Representative Office and Place of Business in Hong Kong: Room 3207-8, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
8. Newspapers selected by the Company for information disclosure: China Securities Journal, Shanghai Securities News and Securities Times
Website for publishing the A Share annual report designated by China Securities Regulatory Commission (the “CSRC”): www.sse.com.cn
Website for publishing the H Share annual report designated by The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”): www.hkexnews.hk
Annual reports available at Office of the Board of Directors of the Company

Bank Profile

9. Legal Adviser as to PRC Law: Grandall Legal Group (Beijing)
Legal Adviser as to Hong Kong Law: Clifford Chance
10. Domestic Auditor: PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Office Address: 11/F, PricewaterhouseCoopers Centre, 202 Hu Bin Road,
Shanghai, China
International Auditor: PricewaterhouseCoopers
Office Address: 22/F, Prince's Building, Central, Hong Kong
11. A Share Registrar: China Securities Depository and Clearing Corporation Limited
(Shanghai Branch)
Address: 36/F, China Insurance Building, No. 166 Lujiazui East Road,
Pudong, Shanghai, China
H Share Registrar: Computershare Hong Kong Investor Services Limited
Address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai,
Hong Kong
12. Places of Listing, Stock Names and
Stock Codes:
A Share: Shanghai Stock Exchange; Stock Name: MINSHENG BANK;
Stock Code: 600016
H Share: The Stock Exchange of Hong Kong Limited; Stock Name;
MINSHENG BANK; Stock Code: 01988
13. Initial Date of Registration: 7 February, 1996
Initial Place of Registration: No. 4 Zhengyi Road, Dongcheng District, Beijing, China
14. Date of Registration for Subsequent
Change:
Place of Registration: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
15. Registration Number of Corporate
Business License: 100000000018983
16. Registration Number of Tax Certificate: Jing Guo Shui Dong Zi 110101100018988
Di Shui Jing Zi 110101100018988000

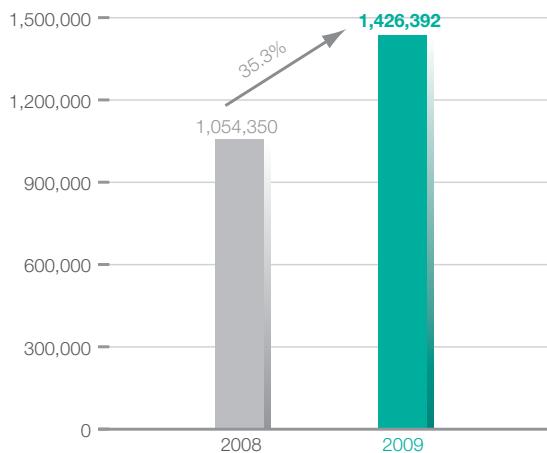
Financial Summary

I. Financial Data

	2009	2008
Operating results (RMB million)		
Operating income	42,037	34,973
Profit before tax	15,656	10,488
Net profit attributable to equity holders of the Bank	12,104	7,885
Data per share (RMB)		
Net assets per share attributable to equity holders of the Bank	3.95	2.86
Basic earnings per share	0.63	0.42
Diluted earnings per share	0.63	0.42
Net cash flow per share arising from operating activities	2.56	2.96
Scale indicators (as at the end of the year, RMB million)		
Total assets	1,426,392	1,054,350
Of which: Gross loans and advances to customers	882,979	658,360
Total liabilities	1,337,498	999,678
Of which: Deposits from customers	1,127,938	785,786
Equity attributable to equity holders of the Bank	88,034	53,880

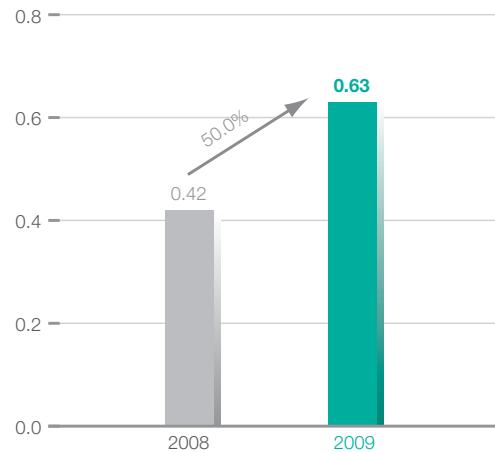
Total assets

(Unit: RMB million)



Basic earnings per share

(Unit: RMB)



Financial Summary

II. Financial Ratio

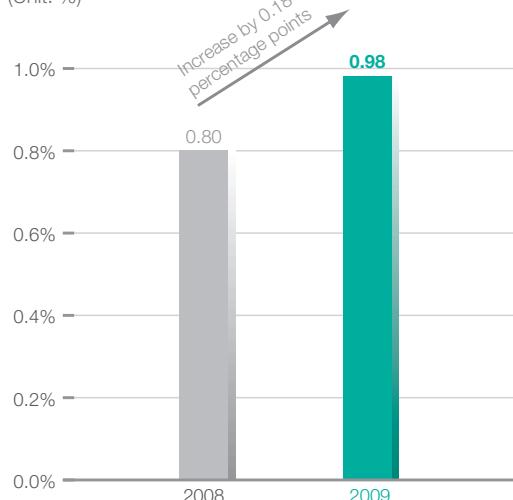
	2009	2008	Change
Profitability indicators (%)			
Return on average assets	0.98	0.80	0.18
Return on average shareholders' equity	17.06	15.15	1.91
Net interest spread	2.49	3.00	-0.51
Net interest margin	2.59	3.15	-0.56
Net fee and commission income to operating income	11.09	12.76	-1.67
Cost-to-income ratio	43.47	43.04	0.43
Assets quality indicators (%)			
Impaired loan ratio	0.84	1.20	-0.36
Allowance to impaired loans	206.04	150.04	56.00
Allowance to total loans	1.73	1.81	-0.08
Capital adequacy ratio indicators (%)			
Core capital adequacy ratio	8.92	6.60	2.32
Capital adequacy ratio	10.83	9.22	1.61
Total equity to total assets	6.23	5.19	1.04

Note:

1. Return on average shareholders' equity = net profit attributable to the Bank for the period/average balance of equity attributable to the Bank at the beginning and the end of the period
2. Net interest spread = Average return on total interest-earning assets – average cost on total interest-bearing liabilities
3. Net interest margin = Net interest income for the period/average balance of total interest-earning assets for the period
4. Cost-to-income ratio = (Operating and administrative expenses – tax and surcharge)/operating income

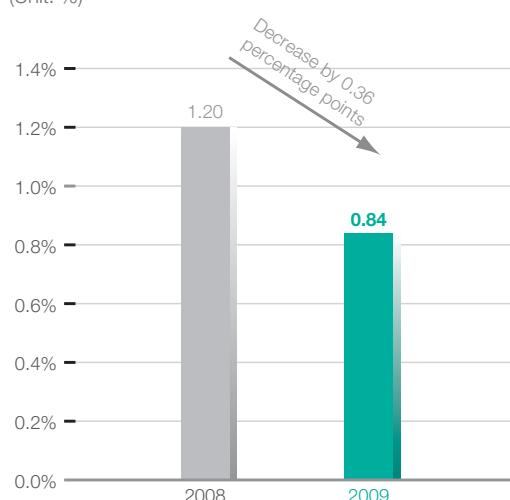
Return on average assets

(Unit: %)



Impaired loan ratio

(Unit: %)



Financial Summary

III. Five-year Financial Summary

	2009	2008	2007	2006	2005
Operating results (RMB million)					
Operating income	42,037	34,973	25,272	17,441	12,823
Operating expenses	20,539	17,817	13,752	9,717	7,022
Impairment losses on assets	5,307	6,518	2,265	2,214	1,534
Profit before tax	15,656	10,488	9,212	5,237	4,285
Net profit attributable to equity holders of the Bank	12,104	7,885	6,335	3,758	2,738
Data per share (RMB)					
Net assets per share attributable to equity holders of the Bank	3.95	2.86	3.47	1.90	2.13
Basic earnings per share	0.63	0.42	0.36	0.23	0.21
Diluted earnings per share	0.63	0.42	0.36	0.23	0.21
Net cash flow per share arising from operating activities	2.56	2.96	-0.97	4.04	1.60
Scale indicators (as at the end of the year, RMB million)					
Share capital	22,262	18,823	14,479	10,167	7,259
Total shareholders' equity	88,894	54,672	50,187	19,311	15,466
Total liabilities	1,337,498	999,678	868,650	705,776	562,294
Deposits from customers	1,127,938	785,786	671,219	583,315	488,833
Total assets	1,426,392	1,054,350	918,837	725,087	577,760
Gross loans and advances to customers	882,979	658,360	554,959	472,088	398,295
Profitability indicator (%)					
Return on average assets	0.98	0.80	0.77	0.58	0.54
Return on average shareholders' equity	17.06	15.15	18.23	21.61	18.00
Cost-to-income ratio	43.47	43.04	46.49	49.30	46.65
Net interest spread	2.49	3.00	2.84	2.64	2.58
Net interest margin	2.59	3.15	2.93	2.70	2.65
Assets quality indicators (%)					
Impaired loan ratio	0.84	1.20	1.22	1.25	1.21
Allowance to impaired loans	206.04	150.04	113.14	108.89	100.24
Allowance to total loans	1.73	1.81	1.38	1.36	1.22
Capital adequacy ratio indicators (%)					
Capital adequacy ratio	10.83	9.22	10.73	8.20	8.26
Core capital adequacy ratio	8.92	6.60	7.40	4.40	4.80
Total equity to total assets	6.23	5.19	5.46	2.66	2.68

Financial Summary

IV. Supplementary financial indicators

Major indicators	Benchmark	2009		2008		2007		
		End	Average	End	Average	End	Average	
Liquidity ratio (%)	Renminbi Foreign Currency	≥25 ≥60	34.56 126.24	40.04 118.02	45.52 109.80	40.23 103.59	34.94 97.37	40.62 83.87
Loan-to-deposit ratio (%)	Renminbi Foreign currency	≤75 ≤85	76.77 85.95	76.31 62.47	75.84 38.98	75.14 50.33	74.44 61.67	72.12 58.55
Inter-bank lending/ borrowing ratio (%)	Bank borrowing ratio Bank lending ratio	≤4 ≤8	1.86 1.80	0.95 1.96	0.04 2.11	0.17 2.33	0.29 2.54	0.19 1.94
Total loans to the single largest borrower to net capital (%)		≤10	6.50	5.30	4.09	3.92	3.75	4.95
Total loans to the top ten borrowers to net capital (%)		≤50	34.01	30.76	27.51	27.84	28.17	35.40

Note: 1. The above data are information of the Group. The indicators were based on requirements of the Chinese banking regulators.

2. Total loans to the single largest borrower = Total loans to the single largest borrower/Net capital

3. Total loans to the top ten borrowers = Total loans to top ten borrowers/Net capital

Capital adequacy ratio (%)



Allowance to impaired loans (%)



Management Discussion and Analysis



Management Discussion and Analysis



Management Discussion and Analysis

I. Review of the economic, financial and policy environments: Changes, impacts and response measures

(I) General trends of the global economy

The global economy has bottomed out under vigorous rescue measures implemented by various governments in 2009. Countries in emerging markets, China in particular, took the lead in the recovery, followed by the USA, Japan and Europe. Real estate, manufacturing and consumption were stimulated by revitalization measures of different countries. The bailout of financial institutions contributed significantly to stabilizing the economy, and was the motivating force to economic recovery in the short term. As the World Economic Outlook Update issued by the International Monetary Fund on 26 January, 2010, indicates, the recovery of the global economy has been stronger than anticipated though the pace of recovery differs in various regions. According to the projection from the World Economic Outlook Update, the global economy declined by 0.8% in 2009, an upward revision of 2 percentage points compared to its projection two months ago.

GDP growth of major economies

stabilizing at bottom



CPIs of major economies on the rise



Source: Publicly available information from Wind
(www.wind.com.cn)

Source: Publicly available information from Wind
(www.wind.com.cn)

Under the impact of the financial crisis, real economies saw a serious downturn in the first half of 2009, particularly in the first quarter. Gross Domestic Product ("GDP") of Japan and Eurozone declined by 8.6% and 5.01% respectively in the first quarter as compared with the corresponding period of the previous year, while that of the USA continued to decline until it bottomed out in the second quarter. Financial systems in major developed economies suffered enormous impact. Countries adopted various measures such as stimulating consumption, rescuing the financial sector and cutting interest rates extensively, etc. Under these policies, real economies gradually stabilized and the rise in asset prices led the recovery. Leading indicators of the Purchasing Managers Index ("PMI") also showed strong recovery. However, performance in private investments, personal consumption and the employment market was not as robust as it was expected throughout 2009. On the other hand, easing monetary policy and surging asset prices have raised inflation expectation, increasing the difficulty of decision making for the next policy move.

Management Discussion and Analysis

(II) Major characteristics of the Chinese economy

The Chinese economy, although similarly affected by the financial crisis, was relatively outstanding in its performance in 2009. Benefiting from changes of macroeconomic policies at the end of 2008 and a series of proactive fiscal and monetary easing policies in 2009, the Chinese economy began to turn around from the second quarter, resulting in an obvious V-shaped rebound. All leading indices and real economic and financial statistics have performed well. GDP growth rates for the four quarters were 6.2%, 7.9%, 9.1% and 10.7% respectively. GDP growth rate for the year was 8.7%, reaching RMB33,500,000 million.

The year-on-year growth of the above-scale industrial added value reached the higher threshold of 11% while the quarter-on-quarter growth rates were 5.1%, 9.1%, 12.4% and 18.0% respectively. State-owned enterprises and state-owned holding enterprises still recorded slight negative growth in profit. However, the operating incomes and profits of the enterprises under the central government increased by 6.0% and 14.6% respectively. The profits of collectively-owned, privately-owned and joint stock industrial enterprises showed positive growth. In addition, power generation increased by 7.0% as compared with the previous year, the growth of heavy industry surpassed that of light industry for 7 successive months, annual growth rate of tertiary industry surpassed that of secondary industry for the first time, and industrial production overall showed strong recovery.

With “steady growth” as the primary objective, proactive fiscal policies and moderately easing monetary policies, investment easily became the most straightforward policy choice. Benefiting from the RMB4,000,000 million investment package of the government and sufficient credit lending, despite a tightening of policies in the later phase, total fixed asset investment in the whole country amounted to RMB22,500,000 million, representing an increase of 30.1%, or a growth rate of 4.6 percentage points, as compared with the corresponding period of the previous year. Investment in real estate development amounted to RMB3,600,000 million, representing an increase of 16.1% as compared with the previous year. These were the main drivers of investments in the Chinese economy and private investments.

“Boosting domestic consumption” made significant progress in 2009. Despite reduced resident income growth in 2009 and sluggish consumer demand, total retail sales of consumer goods in China reached RMB12,500,000 million, representing an increase of 15.5% or a real increase of 16.9% after adjustment for the price factor, accelerating at a rate of 2.1 percentage points as compared with the corresponding period of the previous year. Sales of consumer goods contributed to 50% of the GDP, primarily driven by consumption stimulating policies, such as “Household Electric Appliances Subsidy in Rural Areas”, “vehicle purchase tax reduction” and preferential tax rate for purchase of commercial housing. Further growth depends on the state of economic recovery and the application of the above-mentioned policies.

Management Discussion and Analysis

Impact of the financial crisis on China's economy is mainly reflected in its foreign trade. Total import and export for 2009 amounted to US\$2,200,000 million, representing a decrease of 13.9% from the previous year and a negative contribution to GDP. However, the growth rate of total import and export turned from negative to positive in November, with an increase of 9.8% in November and an increase of 32.7% in December, recovering at a high speed. Trade surplus for the year amounted to US\$196,100 million, representing a decrease of US\$99,400 million as compared with the previous year.

Contributions to economic growth from the above three drivers has changed considerably. Growth in investment continues at a more than rapid pace and changes in consumption and import-export are heading in positive direction.

(III) Developments in the financial and banking industry

Due to several cuts in deposit reserve ratio requirement and the removal of credit restrictions in 2008, the lending capability of banks increased significantly. However, as interest spread narrowed due to interest rate cuts, banks, directed by government policy and particularly active encouragement from local authorities, opted for a common strategy of "volume compensating for price" and "early inputs, early returns". Driven by the easing of monetary policy, total lending of banks hit a new record of RMB4,600,000 million in the first quarter of 2009. The increase in bill discounting was rather excessive. Since then, under the guidance of relevant policies from the regulatory authorities, lending slowed down quarter by quarter, but total new loans in Renminbi for the year still hit a record high of RMB9,590,000 million. The growth of broad money supply ("M2") also reached its record high of 29.7% in November 2009, indicating high liquidity. Towards the end of 2009, the China Banking Regulatory Commission ("CBRC") alerted banks on the risk of excessive liquidity and raised bank capital requirement and provision requirement ratio. Loans to industries with undeveloped production capacity, high pollution, high consumption and excessive production capacity were restricted. The People's Bank of China ("PBOC") also took measures to absorb excessive liquidity in the market. Monetary policies have shown prudent changes under a moderately easing monetary setting.

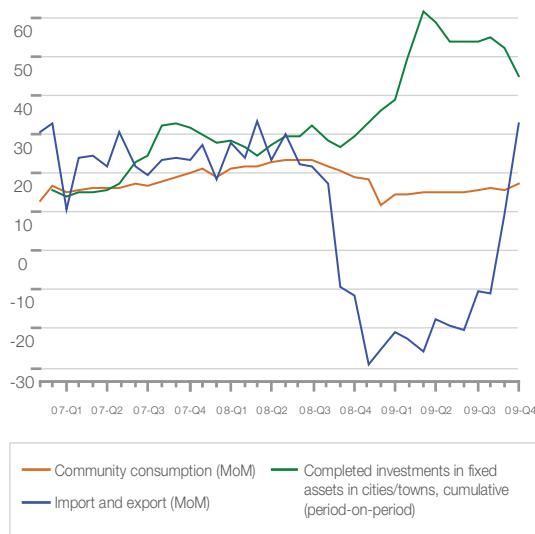
Credit structure in 2009 showed two major characteristics. Firstly, bill financing was on a huge scale at the initial stage, hitting a record RMB623,900 million in January 2009. Thereafter, bill financing was gradually replaced by mid- to long-term loans. Secondly, the share of mid- to long-term loans and household consumption loans in total lending has been increasing. The growth rates of mid- to long-term loans and household consumption loans were 225% and 251% respectively as compared with the previous year, much higher than the growth rate of 95% of total new lending of the previous year. These changes in credit structure reflected the increasing support of lending to the real economy and the strong demand for vehicles and residential properties.

Management Discussion and Analysis

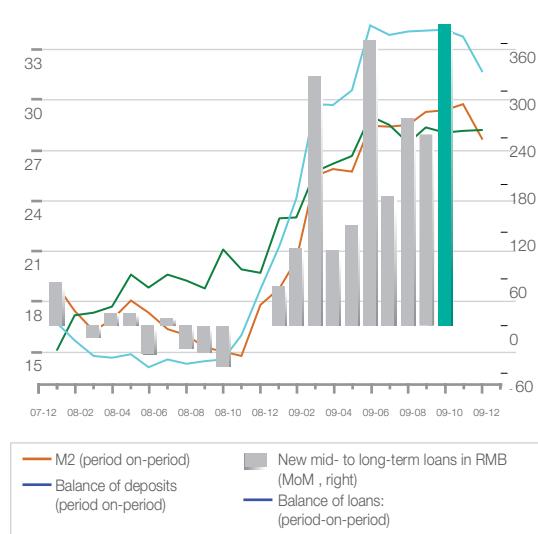
With significant growth in new loans in 2009, characterized by rapid growth of mid- to long-term loans and household consumption loans, accompanied by economic recovery, the risk exposure of the banking industry in the year was relatively limited. Both the amount and proportion of non-performing assets in the banking industry in the PRC decreased. On the other hand, loans were concentrated on supporting infrastructure, real estate and local government financing projects, which had higher potential risks. Accordingly, in the second half of 2009, to reduce risks in the financial sector, regulatory authorities required banks to control risks by increasing provision coverage and capital adequacy ratio, deducting cross-holding of subordinated debt from bank capital and introducing the Interim Measures for the Administration of Liquidity Loans (流動資金貸款管理暫行辦法)", "Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法), Interim Measures for the Administration of Fixed Asset Loans (固定資產貸款管理暫行辦法) and Guidelines for the Project Financing Business (項目融資業務指引) (collectively referred to as "three measures and one guideline").

The exchange rate between RMB and USD remained stable. Under the combined effects of a generally depreciating USD and a rapid growth of Chinese economy, RMB faced increasing pressure of appreciation against the currencies of major developed countries. In 2009, the financial market was generally stable, transactions were active, interest rates of the money market and bond market were stable with moderate increases, which picked up speed towards the second half of the year due to inflation expectation.

**Growth of Demand in Three Major Sectors
of the Economy of China**



**Monetary Supply and Credit Growth and
Structure of China**



Source: Publicly available information from Wind
(www.wind.com.cn)

Source: Publicly available information from Wind
(www.wind.com.cn)

Management Discussion and Analysis

(IV) Effect on the Company and response measures

From the Company's viewpoint, despite the emerging signs of stabilization of the global financial crisis under the strong support of government policies and China successfully exceeded a GDP growth rate of 8% in 2009, intrinsic factors underlying economic growth are not yet stable and there is much uncertainty, which will create pressure for the development of the Company's business. Under a proactive fiscal policy and moderately easing monetary policy, bank lendings increased on a remarkable scale with most of the loans having long term and policy-induced characteristics, resulting in greater risk exposure in the overall banking industry and affecting the asset quality of the Company to a certain extent. To forestall and control credit risks, the regulatory authorities have introduced regulatory policies such as "three measures and one guideline" and the requirements to increase capital adequacy and provision, which represent new requirements regarding the operation and assets-liabilities matching of the Company. The volatility in real estate and capital markets and increasingly keen competition amongst the banks also affect related business of the Company to a certain extent.

The Company has adopted the following measures to address the above problems and difficulties in operation: (i) the Company has improved on a continuing basis the corporate governance framework and mechanisms and, through re-election and smooth transition of the Board of Directors and the Supervisory Board, strengthen its strategy setting and management functions; (ii) the Company has revised and amended the Board's Five-year Development Outline (五年發展綱要). The management has organized and completed the preparation of the Three-year Development Plan (三年發展規劃), which clearly sets out the Company's objectives to develop as a "distinctive" and "efficient" bank with strategic focus on servicing private enterprises, small and micro enterprises and high-end customers; (iii) the Company has completed the listing of H shares on Hong Kong Stock Exchange following the disposal of shares in Haitong Securities Co., Ltd. ("Haitong Securities") and the issuance of RMB5,000 million of hybrid bonds and raised capital for ongoing stable development of the business; (iv) the Company has launched a comprehensive effort to restructure its customer base with a series of policies to support the provision of financial services to private enterprises, small and micro enterprises and high-end customers, aiming at a breakthrough in business development; (v) the Company continued to streamline banking processes and procedures, enhance the coordination of the front, middle, and back offices, complete the development and construction of a new core system, preliminarily forming an integrated development model encompassing the operational, management and IT systems; (vi) the Company has actively strengthened risk management system, having developed its first "Three-Year Plan of Comprehensive Risk Management System" (全面風險管理體系建設三年規劃) and "Implementation Proposal of New Basel II Accord" (新資本協議實施工作方案) for setting up, as soon as practicable, an advanced technical support platform for risk management; (vii) through internal pricing control, loan pricing and quota management measures, the Company has ensured steady increase in the level of its profits and improvement in the structure of its assets and liabilities; (viii) the Company has strengthened the allocation of financial resources and the monitoring of the budgeting process to increase income and control expenditure; and (ix) the Company has strictly controlled the quality of its credit assets by strengthening post-loan management and supervision of major business areas in an all-out effort to reduce non-performing assets and achieve "double reduction" of such assets.

Management Discussion and Analysis

II. Overview of operations

In 2009, the Company focused on realizing its strategic aim of becoming a “distinctive” and “efficient” bank for private enterprises, small and micro enterprises and high-end customers, following the guidance of the Board’s “Five-year Development Outline” and the management’s “Three-year Development Plan”. Despite of a complicated and changing external economic environment, the Company, under the leadership of the Board, responded proactively to macro-economic conditions according to its specific needs, and successfully listed its H shares, sustaining the harmonious, robust and rapid development of its various businesses and achieving sound operating results.

(I) Relatively rapid growth in profitability

During the reporting period, profit before tax of the Group amounted to RMB15,656 million, representing an increase of RMB5,168 million, or 49.3%, from the previous year. Basic earnings per share increased by RMB0.21 from the previous year to RMB0.63. Operating income increased by RMB7,064 million from the previous year to RMB42,037 million, representing an increase of 20.2%. Of which, net interest income and net non-interest income increased by 6.1% and 113.3% to RMB32,240 million and RMB9,797 million, respectively,

(II) Steady expansion in asset size

As at the end of the reporting period, total assets of the Group reached RMB1,426,392 million, representing an increase of RMB372,042 million or 35.3% from the end of previous year. Total deposits from customers increased by RMB342,152 million from the end of previous year to RMB1,127,938 million, representing an increase of 43.5%. Total loans and advances increased by RMB224,619 million to RMB882,979 million, representing an increase of 34.1% as compared to the corresponding period last year.

(III) Preliminary success of cost control measures

During the reporting period, the operating expenses amounted to RMB20,539 million, representing an increase of RMB2,722 million as compared with the corresponding period of the previous year, but the increment decreased by RMB1,343 million as compared with the increment of the previous year. The increase of 15.3%, represented a decrease of 14.3 percentage points as compared to the corresponding period of the previous year, reflecting a preliminary success of the cost control measures.

(IV) Improvement of asset quality

As at the end of the reporting period, non-performing loan ratio (according to five-category loan classification system) of the Group dropped by 0.36 percentage points from the beginning of the year to 0.84%.

(V) Steady increase in market share of major products and services

According to the Summary of Sources & Uses of Funds of Financial Institutions (in RMB and Foreign Currency) (金融機構本外幣信貸收支表) of December 2009 issued by the PBOC, as at the end of the reporting period, total deposits of the Company captured a market share of 13.52% among 9 national joint stock commercial banks, representing an increase of 0.8 percentage points from the end of 2008. Of the foregoing, market share of savings deposits was 11.3%, representing an increase of 0.7 percentage points from the end of 2008. As at the end of the reporting period, total loans of the Company captured a market share of 13.64%, representing an increase of 0.4 percentage points from the end of 2008. Market share of loans (excluding discounted bills) was 14.01%, representing an increase of 0.2 percentage points from the end of 2008.

Management Discussion and Analysis

III. Analysis of major items of income statement

The Group further improved its profitability in 2009 and realized profit before tax of RMB15,656 million, representing an increase of 49.3% as compared with the previous year. The increase in profit was mainly driven by the continuous steady growth of operating income and the gain from the disposal of shares in Haitong Securities.

(I) Changes in items of income statement

Item	(Unit: RMB million)	
	2009	2008
Operating income	42,037	34,973
Of which: Net interest income	32,240	30,380
Net non-interest income	9,797	4,593
Operating expenses	20,539	17,817
Impairment loss on assets	5,307	6,518
Other operating expenses	535	150
Profit before tax	15,656	10,488
Income tax expenses	3,548	2,595
Net profit	12,108	7,893
Of which: Profit attributable to equity holders of the Bank	12,104	7,885
Profit attributable to non-controlling interests	4	8

(II) Operating income

The Group's operating income for 2009 was RMB42,037 million, representing an increase of 20.2% as compared with the previous year, mainly due to relatively rapid growth in net interest income from loans, net fee and commission income and investment gains. Gain from the disposal of shares in Haitong Securities of RMB4,902 million was the main driver of the increase in operating income. Excluding the gain from disposal of shares in Haitong Securities, net interest income accounted for 86.8% of the operating income, while net fee and commission income accounted for 12.6% of the operating income, maintaining at same level as compared with the previous year.

(III) Net interest income

Net interest income of the Group for 2009 was RMB32,240 million, representing an increase of 6.1% as compared with the previous year, primarily as a result of an increase in the average balance of our interest-earning assets and effective control over the average cost of our interest-bearing liabilities.

Management Discussion and Analysis

The table below sets out the analysis of the net interest income of the Group.

Item	2009			2008		
	Average balance	Interest income	Average return (%)	Average balance	Interest income	Average return (%)
Assets						
Loans and advances	812,568	43,160	5.31	591,183	44,433	7.52
Investment securities-debt securities	147,461	5,478	3.71	140,041	5,451	3.89
Balance with central bank	134,316	1,941	1.45	135,555	2,216	1.63
Due from and placement with banks and other financial institutions	138,094	2,077	1.50	93,540	4,000	4.28
Others	12,412	785	6.32	4,399	211	4.80
Total	1,244,851	53,441	4.29	964,718	56,311	5.84
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Liabilities						
Deposits from customers	964,863	16,060	1.66	708,455	18,428	2.60
Due to and placements from banks and other financial institutions	172,012	3,597	2.09	168,721	6,045	3.58
Debt securities in issue	30,259	1,315	4.35	33,500	1,410	4.21
Others	8,296	229	2.76	2,518	48	1.91
Total	1,175,430	21,201	1.80	913,194	25,931	2.84
Net interest income	32,240			30,380		
Net interest spread	2.49			3.00		
Net interest margin	2.59			3.15		

Notes: 1. Net interest spread = the average return on total interest-earning assets – the average cost on total interest-bearing liabilities

2. Net interest margin = net interest income for the period/the average balance of total interest-earning assets for the period

The net interest margin of the Group for 2009 decreased to 2.59% from 3.15% for 2008. Such change was mainly due to the following reasons: (i) the pace of the re-pricing of loans was faster than that of the re-pricing of deposits resulting from interest rate cuts in 2008; and (ii) income from inter-bank business dropped in 2009 due to excessive liquidity in the market. In 2009, the average balance of total interest-bearing assets of the Group increased to RMB1,244,851 million by 29.0% from RMB964,718 million in 2008, while net interest income for the period increased to RMB32,240 million by 6.1% from RMB30,380 million in 2008. As a result, the net interest margin decreased as compared to that of the previous year.

Management Discussion and Analysis

The table below illustrates the breakdown of changes in interest income and interest expenses owing to changes in scale and changes in interest rate in the indicated periods.

Item	(Unit: RMB million)		
	Changes from 2008 to 2009 In scale	In interest rate	Change
Assets			
Loans and advances	16,639	-17,912	-1,273
Investment securities-debt securities	289	-262	27
Balances with central bank	-20	-255	-275
Due from and placements with banks and other financial institutions	1,905	-3,828	-1,923
Others	384	190	574
Change in interest income	19,197	-22,067	-2,870
Liabilities			
Deposits from customers	6,670	-9,038	-2,368
Due to and placements from banks and other financial institutions	118	-2,566	-2,448
Debt securities in issue	-136	41	-95
Others	110	71	181
Change in interest expenses	6,762	-11,492	-4,730
Change in net interest income	12,435	-10,575	1,860

Note: Change in scale is measured by the change of average balance (daily average balance), and change in interest rate is measured by change of average interest rate.

1. Interest income

Affected by the interest rate cuts in 2008, the interest income and interest expense of the Group decreased by RMB2,870 million and RMB4,730 million, respectively, as compared with the previous year. Although the interest spread contracted, the net interest income increased by RMB1,860 million or 6.1% as a result of an increase in the average balance of loans and advances and investment in debt securities and better cost control in deposit interest. Interest income from loans and advances accounted for 80.8% of the total interest income and interest from investment in debt securities accounted for 10.3% of the total interest income.

(1) Interest income from loans and advances to customers

Various loan portfolios of the Group developed rapidly in 2009. However, interest income from loans and advances decreased by 2.9% as compared with the previous year due to the effects of interest rate cut.

Management Discussion and Analysis

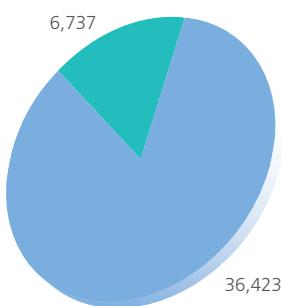
The table below sets out the average balances, interest incomes and average return of the components of loans and advances to customers of the Group during the reporting period.

	(Unit: RMB million)					
	Average balance	2009 Interest income	Average return (%)	Average balance	2008 Interest income	Average return (%)
Corporate loans	684,150	36,423	5.32	487,892	37,117	7.61
Retail loans	128,418	6,737	5.25	103,291	7,316	7.08
Total loans and advances	812,568	43,160	5.31	591,183	44,433	7.52

Note: Average balances are calculated based on the average daily balances.

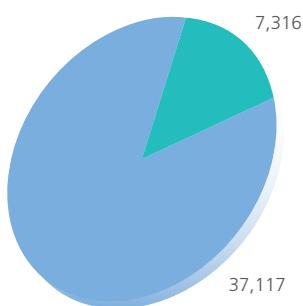
2009 Interest Income

(Unit: RMB million)



2008 Interest Income

(Unit: RMB million)



(2) Interest income from investment securities-debt securities

In 2009, the interest income from investment securities-debt securities of the Group increased by 0.5% as compared with the previous year. This was mainly because the Company adopted a flexible investment policy in response to the effect of the interest rate cuts.

(3) Interest income due from and placements with banks and other financial institutions

The interest income from due from and placements with banks and other financial institutions of the Group in 2009 decreased by 48.1% from last year. Such decrease was due to the interest rate cuts as a result of the adjustment to the benchmark interest rate of the PBOC, as well as the decrease in market interest rate as a result of sufficient liquidity.

Management Discussion and Analysis

2. Interest expenses

In 2009, interest expenses of the Group decreased by 18.2% as compared with the previous year, which was mainly due to the decrease in interest rates on deposits.

(1) Interest expenses on deposits

Interest expenses of the Group on deposits decreased by 12.9% in 2009 as compared with the previous year mainly due to the decrease in interest rates on deposits and the fall in average cost on demand deposits and time deposits of customers, which was larger than the increase in the balance of deposits.

Interest expenses and costs ratio on corporate deposits:

Item	2009			2008		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Demand	359,894	2,527	0.70	264,151	2,602	0.99
Time	442,712	10,497	2.37	328,578	13,349	4.06
Total	802,606	13,024	1.62	592,729	15,951	2.69

Interest expenses and costs ratio on retail deposits:

Item	2009			2008		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Demand	37,287	132	0.35	30,915	197	0.64
Time	124,970	2,904	2.32	84,811	2,280	2.69
Total	162,257	3,036	1.87	115,726	2,477	2.14

(2) Interest expenses on due to and placements from banks and other financial institutions

Interest expenses of the Group on deposits with and placements from banks and other financial institutions for 2009 decreased by 40.5% as compared with the previous year. The decrease was mainly due to the decreases in market interest rate.

(3) Interest expenses on debt securities

Interest expenses of the Group on debt securities for 2009 decreased by 6.7% as compared with the previous year, mainly due to the decrease in debt securities.

Management Discussion and Analysis

(IV) Non-interest income

Non-interest income of the Group increased at a relatively rapid pace in 2009. This is mainly due to disposal of the equity interests in Haitong Securities in the reporting period, generating a gain of RMB4,902 million.

1. Analysis of non-interest income

(Unit: RMB million)

Item	2009	2008	Increase (%)
Fee and commission income	5,006	4,755	5.3
Less: Fee and commission expenses	342	294	16.3
Net fee and commission income	4,664	4,461	4.6
Other non-interest gain/(loss)	5,133	132	3,788.6
Total	9,797	4,593	113.3

2. Analysis of net fee and commission income

In the reporting period, the Group realized a net fee and commission income of RMB4,664 million, increasing by RMB203 million (or 4.6%) over the corresponding period of the previous year and representing 11.1% of total operating income. The increase of the Group's fee and commission income was mainly due to the increase of bank card service charges. The table below shows the breakdown of the fee and commission incomes of the Group:

(Unit: RMB million)

Item	2009	2008	Change (%)
Consulting and advisory service fees	1,577	1,702	-7.3
Bank card service charges	1,207	920	31.2
Credit commitment fee and commission	926	917	1.0
Trust and other fiduciary service fees	633	603	5.0
Settlement and clearing service fees	299	312	-4.2
Agency fees	135	139	-2.9
Others	229	162	41.4
Fee and commission income	5,006	4,755	5.3
Less: Fee and commission expenses	342	294	16.3
Net fee and commission income	4,664	4,461	4.6

Management Discussion and Analysis

3. Other non-interest gain/(loss)

(Unit: RMB million)

Item	2009	2008	Change (%)
Net trading income	224	185	21.1
Exchange gain	177	-111	Negative in the same period in the previous year
Gain on interest rate instruments	-51	427	-111.9
Gain on precious metals and other products	98	-131	Negative in the same period in the previous year
Net gain/(loss) on disposal of available-for-sale securities	4,909	-53	Negative in the same period in the previous year
Total	5,133	132	3,788.6

(V) Operating expenses

In the reporting period, operating expenses of the Group increased by RMB2,722 million or 15.3% to RMB20,539 million. Such increase was RMB1,343 million or 14.3 percentage points less than that in the previous year.

(Unit: RMB million)

Item	2009	2008	Change (%)
Staff cost	9,144	7,950	15.0
Business development expenses	1,634	1,295	26.2
Office expenses	1,578	904	74.6
Business tax and surcharges	2,802	2,916	-3.9
Others	5,381	4,752	13.2
Total	20,539	17,817	15.3

(VI) Impairment losses on assets

In the reporting period, the Group recorded an impairment loss on assets of RMB5,307 million, representing a decrease of RMB1,211 million as compared with the previous year. As the quality of assets of the Group improved and the balance and ratio of non-performing loans decreased in 2009, provisions for impairment of asset has reduced accordingly.

(Unit: RMB million)

Item	2009	2008	Change (%)
Loans and advances	4,792	5,686	-15.7
Available-for-sale investments	356	599	-40.6
Others	159	233	-31.8
Total	5,307	6,518	-18.6

Management Discussion and Analysis

(VII) Income tax

In the reporting period, the income tax of the Group was RMB3,548 million, increasing by RMB953 million over the previous year. The effective tax rate was 22.7%.

IV. Analysis of major items of statement of financial position

(I) Assets

As at 31 December, 2009, total assets of the Group amounted to RMB1,426,392 million, up by 35.3% over the previous year. The increase of total assets was mainly due to a relatively rapid growth in loans.

The table below sets out the components of the Group's total assets as at 31 December, 2009.

Item	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Total loans and advances	882,979	61.9	658,360	62.4
Allowance for impairment loss on loans	15,241	1.1	11,885	1.1
Net loans and advances	867,738	60.8	646,475	61.3
Investment securities and other financial assets	156,956	11.0	135,000	12.8
Balances with central banks	221,590	15.6	181,878	17.3
Due from banks and other financial institutions	61,848	4.3	14,748	1.4
Placements with banks and other financial institutions	73,015	5.1	52,408	5.0
Properties and facilities	8,068	0.6	6,973	0.6
Deferred income tax assets	3,181	0.2	1,079	0.1
Other assets	33,996	2.4	15,789	1.5
Total	1,426,392	100.0	1,054,350	100.0

Management Discussion and Analysis

1. Loans and advances

As at 31 December, 2009, total loans and advances of the Group amounted to RMB882,979 million, up by 34.1% over the previous year. Total loans and advances accounted for 61.9% of total assets, maintaining at the same level as with the previous year.

Item	31 December, 2009		31 December, 2008		Change (%)
	Amount	% of total	Amount	% of total	
Corporate loans	719,099	81.4	549,789	83.5	30.8
Of which: Discounted bills	35,221	4.0	63,931	9.7	-44.9
Retail loans	163,880	18.6	108,571	16.5	50.9
Total	882,979	100.0	658,360	100.0	34.1

Breakdown of retail loan business is as follows:

Item	31 December, 2009		31 December, 2008		Change (%)
	Amount	% of total	Amount	% of total	
Mortgage loans	99,619	60.8	87,401	80.5	14.0
Receivables from credit cards	14,266	8.7	12,727	11.7	12.1
Shang Dai Tong (商貸通)	44,809	27.3	6,637	6.1	575.1
Others	5,186	3.2	1,806	1.7	187.2
Total	163,880	100.0	108,571	100.0	50.9

2. Investment securities and other financial assets

As at 31 December, 2009, the balance of the Group's investment securities and other financial assets was RMB156,956 million, up by 16.3% over the previous year. The increase was primarily due to an increase of the balance of held-to-maturity investment as compared with the previous year.

(1) Breakdown of investment securities and other financial assets

Item	31 December, 2009		31 December, 2008		Change (%)
	Amount	% of total	Amount	% of total	
Trading financial assets	4,747		4,405		7.8
Available-for-sale investments	49,035		53,597		-8.5
Held-to-maturity investments	57,142		38,716		47.6
Loans and receivables	45,567		37,066		22.9
Derivative financial assets	465		1,216		-61.8
Total	156,956		135,000		16.3

Management Discussion and Analysis

(2) Holdings of major government bonds

The table below shows the major government bonds held by the Company at the end of the reporting period:

Item	Par value	Annual interest rate (%)	Maturity date
2001 Book-entry T-bonds	1,017	4.69	6-6-2016
2003 Book-entry T-bonds	9,918	2.66–3.5	19-2-2010 to 9-4-2013
2006 Book-entry T-bonds	3,632	2.4–2.51	16-5-2011 to 27-2-2013
2007 Book-entry T-bonds	2,655	3.53–3.9	16-7-2010 to 23-8-2014
2008 Book-entry T-bonds	3,320	2.71–4.16	21-4-2013 to 28-2-2023
2009 Book-entry T-bonds	5,380	1.17–2.29	8-3-2010 to 4-6-2014
Total	25,922		

(3) Holdings of major financial bonds

The table below shows the major financial bonds held by the Company at the end of the reporting period:

Item	Par value	Annual interest rate (%)	Maturity date	Provision for impairment
2002 Financial bonds	1,120	2.7	23-4-2012	—
2003 Financial bonds	4,948	Floating, 2.72–4.07 for the period	19-5-2013 to 16-6-2013	—
2007 Financial bonds	22,520	3.6–3.95	13-7-2010 to 12-10-2010	—
2009 Financial bonds	6,000	1.76	16-9-2010	—
Total	34,588			—

Management Discussion and Analysis

(4) Major types and amount of derivative financial instruments

(Unit: RMB million)

Item	Contractual/Notional amount	Fair value	
		Assets	Liabilities
Interest rate swap contracts	16,393	312	263
Currency forwards contracts	14,888	111	105
Currency swap contracts	3,764	42	3
Precious metal swap contracts	422	—	23
Credit default swap contracts	68	—	1
Extension options	9,700	—	—
Total	45,235	465	395

Our financial instruments measured at fair value include: trading financial assets, derivative financial instruments and available-for-sale investments. Trading financial assets and debt securities in available-for-sale investments were evaluated using the following methods: for RMB bonds, in principle the valuation provided by China Government Securities Depository Trust & Clearing Co. Ltd. would apply; for bonds denominated in foreign exchange, market value was determined through a combination of BLOOMBERG quotes, DATASCOPE quotes and enquiries; for equity interests in other listed companies held by the Company, the closing price on the last day of the reporting period was used; and the fair value of most derivative financial instruments was obtained from quotes of market prices. The Company did not have substantial investments in trading financial assets, and the changes in the fair market value of assets had little impact on the profit of the Company. Derivative financial instruments mainly consisted of interest rate swap contracts with customers, the market risks of which had been hedged and the changes in fair value had little impact on the profit of the Company. Changes in fair value of available-for-sale investments were considered when calculating the shareholders' equities.

(II) Liabilities

As at 31 December, 2009, total liabilities of the Group amounted to RMB1,337,498 million, up by 33.8% over the previous year; the balance of deposits of customers was RMB1,127,938 million, up by 43.5% over the previous year, accounting for 84.3% of total liabilities. The growth in deposits from customers was mainly attributed to sufficient liquidity available in the market and increased efforts of the Group to promote its deposits by leveraging on the competitive edge of its products.

Management Discussion and Analysis

The table below sets out the breakdown of the Group's total liabilities as at 31 December, 2009.

Item	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Deposits from customers	1,127,938	84.3	785,786	78.6
Due to and placements from banks and other financial institutions	152,317	11.4	160,248	16.0
Debt securities in issue	23,060	1.7	33,999	3.4
Other liabilities	34,183	2.6	19,645	2.0
Total	1,337,498	100.0	999,678	100.0

1. Deposits from customers

Item	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Deposits from corporate customers	932,568	82.7	647,872	82.4
— Demand deposits	497,422	44.1	295,597	37.6
— Time deposits	435,146	38.6	352,275	44.8
Deposits from retail customers	194,104	17.2	136,268	17.4
— Demand deposits	50,894	4.5	33,599	4.3
— Time deposits	143,210	12.7	102,669	13.1
Others	1,266	0.1	1,646	0.2
Total	1,127,938	100.0	785,786	100.0

2. Due to and placements from banks and other financial institutions

The total balances of the Group's due to and placements from banks and other financial institutions decreased by 4.9% over the end of the previous year.

Management Discussion and Analysis

(III) Shareholders' equity

As at 31 December, 2009, total shareholders' equity of the Group amounted to RMB88,894 million, increasing by RMB34,222 million (or 62.6%) over the previous year; the equity attributable to the equity holders of the Bank was RMB88,034 million, increasing by RMB34,154 million (or 63.4%) over the previous year. The increase of shareholders' equity was mainly due to the Company's successful listing of its H-shares in Hong Kong on 26 November, 2009 and improvement in its overall profitability.

Item	31 December, 2009	31 December, 2008
Share capital	22,262	18,823
Capital reserve	38,075	14,768
Reserve for fair value changes of available-for-sale securities	106	3,296
Surplus reserve	4,184	2,983
General reserve	10,904	8,001
Retained earnings	12,503	6,009
Equity attributable the equity holders of the Bank	88,034	53,880
Non-controlling interests in equity	860	792
Total	88,894	54,672

(IV) Off-statement items

As at the end of the reporting period, balances of major off-statement items of the Group were as follows:

Item	31 December, 2009	31 December, 2008
Letters of credit	15,094	8,250
Letters of guarantee	45,593	49,029
Acceptance bills	216,657	145,005
Irrevocable loan commitments	5,422	6,000
Unused credit card limits	28,466	28,140
Commitments on capital expenditure	256	3,213
Commitments on operating lease	4,284	2,614
Commitments on financing lease	1,841	475

Note: Lease commitments mainly represent rentals payable by the Group for leased office premises and equipment for business purposes. The lease contracts generally have a term of between 5 to 10 years.

Management Discussion and Analysis

V. Other Financial Information

(I) Items relating to fair value measurement

1. Internal control system relating to fair value measurement

In order to regulate fair value measurement, improve the quality of financial information, strengthen risk management and protect the legitimate interests of investors and all relevant parties, the Company has formulated the Administrative Measures of China Minsheng Bank regarding Fair Value (中國民生銀行公允價值管理辦法) based on the CAS, which expanded the scope of fair value measurement to cover the initial measurement of financial assets, financial liabilities and foreclosed assets; and clarified and refined the principles, methods and procedures for determining fair value. With the aim to enhance the accuracy and reliability of the valuation of fair value, the Company has assigned relevant departments responsible for fair value management to continuously improve the valuation and research on the valuation of its asset and loan businesses, enhance internal valuation capabilities. The Company has also refined its valuation models and systems to verify prices obtained externally. Moreover, the Company has implemented internal control measures over the process of fair value measurement, including check on price inquiry and confirmation, dual signature by person-in-charge on reviewer. In the meantime, the Internal Audit Department plays an active role in the rectification of identified issues through monitoring and examination of fair value scoping, methodology and procedures, so as to improve internal control within the Company.

2. Items measured at fair value

(Unit: RMB million)

Item	Opening balance	Gain/Loss from fair value changes for the period	Accumulated fair value changes charged to equity	Impairment allowance for the period	Closing balance
Financial assets	59,093	-800	106	-356	54,122
Of which:					
1: Financial assets at fair value through profit or loss for the period	5,621	-800	—	—	5,212
Of which:Derivative financial assets	1,216	-751	—	—	465
2: Available-for-sale investments	53,472	—	106	-356	48,910
Financial liabilities	1,239	-844	—	—	395

Management Discussion and Analysis

(II) Financial assets and liabilities denominated in foreign currency

(Unit: RMB million)

Item	Opening balance	Gain/Loss from fair value changes for the period	Accumulated fair value changes charged to equity	Impairment allowance for the period	Closing balance
Financial assets	7,175	-40	186	-302	5,297
Of which:					
1: Financial assets at fair value through profit and loss for the period	138	-40	—	—	98
Of which:Derivative financial assets	138	-40	—	—	98
2: Loans and receivables	—	—	—	—	—
3: Available-for-sale investments	5,976	—	186	-356	4,831
4:Held-to-maturity investments	1,061	—	—	54	368
Financial liabilities	94	-46	—	—	48

(III) Foreclosed assets

(Unit: RMB million)

Item	31 December, 2009	31 December, 2008	Impairment allowance for the period
Foreclosed assets	1,065	1,053	—
Representing:			—
Properties	1,039	1,027	—
Transportation equipment	—	—	—
Machines & Equipments	22	22	—
Others	4	4	—

(IV) Overdue and outstanding liabilities

As at the end of the reporting period, the Company had no outstanding liabilities that were overdue.

Management Discussion and Analysis

VI. Qualitative analysis of loans

(I) Industry concentration of loans

(Unit: RMB million)

Item	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	121,940	13.8	103,132	15.7
Real estate	103,713	11.8	90,158	13.7
Leasing and commercial services	94,644	10.7	51,045	7.8
Transportation, logistics and postal services	75,137	8.5	69,840	10.6
Irrigation, environmental and public facilities management	60,967	6.9	40,262	6.1
Production and supply of electricity, gas and water	48,515	5.5	46,761	7.1
Mining	41,680	4.7	28,601	4.3
Financial services	37,835	4.3	25,135	3.8
Public administration and social organizations	36,051	4.1	13,942	2.1
Wholesale and retail	35,772	4.0	25,811	3.9
Construction	26,144	3.0	25,307	3.8
Education and social services	22,125	2.5	14,290	2.2
Information transmission, computer services and software	3,816	0.4	4,960	0.8
Others	10,760	1.2	10,545	1.6
Subtotal	719,099	81.4	549,789	83.5
Personal loans and advances	163,880	18.6	108,571	16.5
Total	882,979	100.0	658,360	100.0

(II) Loans by geographical distribution

(Unit: RMB million)

Region	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Northern China	276,820	31.4	191,011	29.0
Eastern China	319,054	36.1	236,412	35.9
Southern China	95,762	10.8	95,388	14.5
Other regions	191,343	21.7	135,549	20.6
Total	882,979	100.0	658,360	100.0

Management Discussion and Analysis

(III) Distribution of loans by collateral

(Unit: RMB million)

Item	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Unsecured loans	254,221	28.8	173,421	26.3
Guaranteed loans	222,009	25.2	150,383	22.9
Secured loans				
– Collateralized loans	306,658	34.7	220,754	33.5
– Pledged loans	100,091	11.3	113,802	17.3
Total	882,979	100.0	658,360	100.0

(IV) Top ten borrowers

As at the end of the reporting period, the aggregate outstanding loan amount to the top ten borrowers of the Group was RMB36,611 million, representing 4.1 % of the total loan amount. The top ten borrowers of the Group were Chaoyang Branch of Beijing Center for Land Consolidation Reserve (北京市土地整理儲備中心朝陽分中心), Chongqing Jiangbeizui Central Business District Development & Investment Co., Ltd. (重慶市江北嘴中央商務區開發投資有限公司), Ordos State-owned Assets Investment and Management Co., Ltd. (鄂爾多斯市國有資產投資經營有限責任公司), Shanghai Lingang New City Land Reserve Center (上海臨港新城土地儲備中心), Chengdu Investment Holding Group Co., Ltd. (成都投資控股集團有限公司), Tianjin Jinyuan Investment and Development Co., Ltd (天津市津源投資發展有限公司), Chongqing Land Properties Group (重慶市地產集團), Jiaxingshi Zha Jia Su Expressway Co., Ltd. (嘉興市乍嘉蘇高速公路有限公司), Shanghai Land Reserve Center (上海市土地儲備中心) and Beijing Kaiheng Real Estate Co., Ltd. (北京凱恒房地產有限公司).

(V) Five-category classification of credit assets

(Unit: RMB million)

Item	31 December, 2009		31 December, 2008	
	Amount	%	Amount	%
Performing loans	875,582	99.2	650,439	98.8
Of which:				
– Pass	862,654	97.7	634,073	96.3
– Special-mention	12,928	1.5	16,366	2.5
Non-performing loans	7,397	0.8	7,921	1.2
Of which: Substandard	2,475	0.3	3,459	0.5
Doubtful	2,799	0.3	3,189	0.5
Loss	2,123	0.2	1,273	0.2
Total	882,979	100.0	658,360	100.0

Management Discussion and Analysis

(VI) Migration ratio of loans

	2009	2008	2007
Pass	1.37%	3.48%	1.23%
Special-mention	9.38%	16.47%	26.96%
Substandard	82.19%	28.30%	64.47%
Doubtful	53.01%	39.22%	34.98%

(VII) Subsidized loans

As at the end of the reporting period, the Company had no subsidized loans.

(VIII) Restructured loans and overdue loans

(Unit: RMB million)

Item	31 December, 2009		31 December, 2008	
	Amount	% of total	Amount	% of total
Restructured loans	3,742	0.4	5,731	0.9
Overdue loans	9,653	1.1	14,697	2.2

- Notes: 1. Restructured loans are loans for which the terms of repayment under the loan agreement have been amended by the Company as a result of deteriorated financial status of the borrower or the inability by the borrower to repay the debt due.
 2. Overdue loans are loans the principal or any interest of which is overdue for 1 or more days, including overdue loan, stagnant loans, bad loans and overdue discounted bills.

As at the end of the reporting period, the balances of restructured and overdue loans of the Group were reduced as compared to the previous year, mainly due to the domestic economic recovery and improvement of repayment capabilities of customers of the Group.

(IX) Allowances for impairment of loans

(Unit: RMB million)

Item	2009	2008
Balance as at year beginning	11,885	7,663
New allowance	4,866	5,772
Releases	-74	-86
Amounts written off and exempted during the period as uncollectible	-1,345	-1,340
Recovery after write-off	87	56
Unwinding of discount on allowance	-178	-164
Exchange differences	—	-16
Balance as at year end	15,241	11,885

Management Discussion and Analysis

Provision method for loan impairment:

On reviewing the book values of the Group's loans as at the reporting date, if evidence shows a loan impairment occurs to a loan and the event triggering such loan impairment will have an adverse effect on the future cash flow that can be reliably assessed, the Group will recognize the impairment loss of the loan and writes down the value of the loan to its recoverable amount. The reduced amount will be charged to the income statement of the relevant period as provision for impairment. Besides an individual evidence-based impairment assessment for each loan of significant amount, the Group reviews its loan portfolio as a whole to assess impairment for loans which are not of significant amount individually. If no evidence shows there is loan impairment to a loan when assessed individually, whether the amount of the loan in question is substantial or not, it will be included in a portfolio of loans of similar risk profile for collective impairment assessment. If a loan has been individually assessed and recognized at their impaired values, no general impairment provision is required.

(X) Non-performing loans and response measures

As at the end of the reporting period, the Group had non-performing loans of RMB7,397 million, the non-performing loans ratio was 0.84%, down by 0.36 percentage points over the previous year.

To reduce non-performing loans and improve asset quality, the Group mainly adopted the following measures during the reporting period:

1. Monitoring closely changes in international and national economies and adjustments in macro-economic policies; strengthening credit planning; insisting on actively adjusting the loan distribution; and continuously optimizing asset structure;
2. Optimizing the organization structure of risk management; improving the policies and systems of risk management; and enhancing the promotion and application of advanced risk management tools;
3. Improving and optimizing the monitoring and warning system as well as on-site and off-site inspection system; strengthening the monitoring on the risk management of major, problematic customers and key geographical regions and industries of the Group; and closely monitoring loans with potential risk factors and doubtful loans in order to develop timely contingency plans;
4. Optimizing the recovery mechanism and procedure for non-performing assets through improving the collection process and utilizing all available recovery resources such as collection, restructuring, foreclosing and taking legal action to increase the efficiency and effectiveness of recovery; and
5. Strengthening training programs in order to improve the professional skills and expertise of the risk management team and cultivate a sound credit management culture and philosophy of compliance.

Management Discussion and Analysis

VII. Analysis of capital adequacy ratio

(Unit: RMB million)

Item	31 December, 2009	31 December, 2008	31 December, 2007
Net capital	107,656	70,767	61,513
Of which:			
— Core capital	88,756	51,307	42,730
— Supplementary capital	21,224	20,700	19,397
— Deductions	2,324	1,240	614
Total risk-weighted assets	993,773	767,895	573,514
Core capital adequacy ratio (%)	8.92	6.60	7.40
Capital adequacy ratio (%)	10.83	9.22	10.73

As at the end of the reporting period, capital adequacy ratio and core capital adequacy ratio of the Group increased by 1.61 and 2.32 percentage points respectively. In 2009, change in capital adequacy ratio was mainly due to the following factors: (i) Capital equivalent to RMB26,750 million (net of commission and transaction levy) was raised through the listing of H shares of the Company in Hong Kong on 26 November, 2009 and the partial exercise of over-allotment option at an issue price of HKD9.08 per share for 3,439 million of shares. (ii) The Group effectively controlled the growth of risk-weighted assets by reducing the size of on- and off-statement assets with low capital gain.

Management Discussion and Analysis

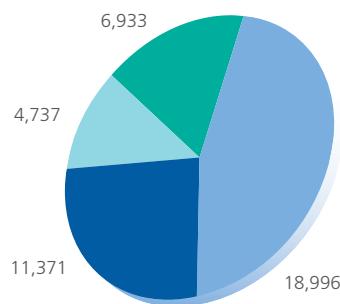
VIII. Segment report

The Group manages its business by geographical region and business lines. In respect of geographical locations, the Group operates its business in four main regions, namely, Northern China, Eastern China, Southern China and other regions. The Group provides financial services through four main business lines, including corporate banking business, personal banking business, treasury business and other business. The segment operating information of the Group is presented by geographical region and business lines.

(I) Segment operating results by geographical regions

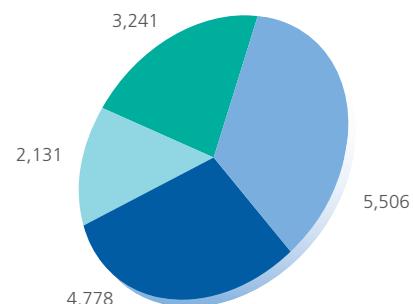
Operating income by Region

(Unit: RMB million)



Profit before Tax by Region

(Unit: RMB million)



Northern China ● 45.19% Eastern China ● 27.05%
Southern China ● 11.27% Other ● 16.49%

Northern China ● 35.17% Eastern China ● 30.52%
Southern China ● 13.61% Other ● 20.70%

(Unit: RMB million)

Region	Total assets (excluding deferred income tax assets)	Operating income	Profit before tax
Northern China	925,604	18,996	5,506
Eastern China	482,244	11,371	4,778
Southern China	205,114	4,737	2,131
Other	251,198	6,933	3,241
Inter-region adjustment	-440,949	—	—
Total	1,423,211	42,037	15,656

Note: Northern China includes Minsheng Financial Leasing Co., Ltd, the head office and the branches in Beijing, Taiyuan, Shijiazhuang and Tianjin; Eastern China includes Cixi Minsheng Township Bank Co., Ltd., Shanghai Songjiang Minsheng Township Bank Co., Ltd. and the branches in Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang; Southern China includes Minsheng Royal Fund Management Co., Ltd. and the branches in Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen; other includes Pengzhou Township Bank Co., Ltd. and the branches in Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou and Changchun. Inter-region adjustment refers to the centralized adjustments involving the Bank or a number of branch offices (such as inter-entity balances).

Management Discussion and Analysis

(II) Segment operating results by business lines

(Unit: RMB million)

Type of Business	Total assets (excluding deferred income tax assets)	Operating income	Profit before tax
Corporate banking	640,504	22,051	4,694
Personal banking	166,844	5,598	1,980
Treasury	550,413	9,471	4,018
Other business	65,450	4,916	4,964
Total	1,423,211	42,037	15,656

IX. Performance of Key Business Lines

(I) Corporate banking

In the reporting period, our corporate banking business strictly followed the guiding principles of capitalizing on the specialized marketing role of its SBUs to increase profit earning capability and capitalizing on the leading position of branches in regional markets to increase market share, and strengthening the development of professional management capability of the Company to raise management standards, further deepened its reforms and expanded its business in line with the strategic positioning and transformation strategy of the Company. In the face of drastic changes in the domestic and overseas operating environments, the corporate banking business successfully managed material operational risks and seized the timing for significant development. Further improvements were made in its business scale, operational quality and management standards, accompanied by breakthroughs in the development of its major businesses. In recognition of its strengths and steadily advancing market position, the Company was honoured with the title of the Best Corporate Bank of the Year (最佳公司銀行) at the Chinese Financial Institutions Gold Medal List 2009 (中國金融機構金牌榜) and the Golden Dragon Prize (金龍獎) campaign jointly organized by the Financial News and Institute of Finance and Banking of the Chinese Academy of Social Sciences.

1. Corporate loans

In the reporting period, the corporate loan business upheld the basic principle of balanced development of efficiency, quality, structure and scale. Leveraging on the opportunities arising from China's stimulus package for major industries and the implementation of a regional development strategy, the Company took the initiative to adjust and optimize its credit structure and risk management. As a result, its business grew quickly in scale while asset quality continued to improve and revenue generated from loans resumed an upward trend. As at the end of the reporting period, outstanding corporate loans (including discounted bills) of the Group amounted to RMB719,099 million, representing an increase of RMB169,310 million, or 30.8%, over the beginning of the period. Of which, general corporate loans outstanding amounted to RMB676,084 million, representing an increase of RMB200,899 million, or 42.3%, over the beginning of the period. Such increase was a record high in terms of the Group's corporate loans in recent years.

Management Discussion and Analysis

Non-performing loans of its corporate business continued with ‘double reduction’ in both amount and ratio. Non-performing outstanding loans and non-performing loans ratio amounted to RMB6,538 million and 0.91%, representing decreases of RMB717 million and 0.41 percentage points over the beginning of the period.

In the reporting period, in light of market demand, the Group exercised sound judgment to implement the strategy of “volume compensating for price” and optimized the distribution of loans with the following strategies:

- (1) The Company took advantage of market opportunities arising from China’s economic stimulus package to increase its credit facility for major industries, projects and enterprises and at the same time imposed strict credit limit on industries characterized by heavy pollution, high energy consumption and excessive production capacity (“2 high’s 1 excess”) and redundant projects of low quality. In the reporting period, around 70% of newly granted corporate loans were directed to industries closely related to the stimulus of domestic demand, such as manufacturing, leasing and commercial services, irrigation, environmental and public utilities, transportation, logistics and postal services, power, gas and water generation and supply, public administration and social organizations, and wholesale and retail business.
- (2) In response to the trend of progressive development of the regional economy, the Company increased credit facilities to the central and western regions of China. As at the end of the reporting period, outstanding loans granted to the central and western regions of China increased significantly by over 60% as compared with the beginning of the year and their proportion of general loans significantly increased by 3.5 percentage points as compared with the same period in the previous year.
- (3) The Company encouraged credit support for projects of the “real economy”. The Company strategically allocated its credit facilities to selected government-guaranteed projects, including government financing projects, land reserve, local transportation departments, highway departments and utilities projects, which are all classified under the category of government-guaranteed projects. The credit facilities were subject to the approval by the head office of the Company according to a set of standard procedures. The Company adopted a pre-approval system to eliminate projects supported by low level government agencies, with poor financial status or insufficient collateral. Credit approval was strictly controlled. In addition, the Company optimized the resources for this kind of credit business over China as a whole through organising internal syndicated loan facilities to minimize inefficient credit provision by individual operating units.
- (4) The Company took measures to optimize the mechanism by which the credit is granted, so as to increase the availability of general loans for provision to key customers. These measures included tightening bills, reallocating recovered credit limits, transferring loan portfolios, and establishing leading bank syndicated loans.

Management Discussion and Analysis

2. Corporate deposits

In the reporting period, the Group continued to implement the guidelines of “deposit — the key foundation of the bank”, continued to take rigorous measures to improve the mechanisms for developing its liability business, secured the basis for growth of deposits, adjusted deposit structure and reduced costs related to deposits. The strategies were as follows. Firstly, the Group facilitated the organic growth of deposits portfolio, and lay the foundation for sustainable growth of deposits by providing services to help clients to manage their cash flow through financing of movable property, factoring, receivables financing, bills and cash management. Secondly, the Group optimized pricing and resources allocation mechanism, encouraging the growth of demand deposits at lower costs to the Company and took the initiative to reduce high-cost negotiated-terms deposits by nearly RMB10,000 million. The Group also adjusted pricing and settled, in a timely manner, the withdrawal of arbitrage pledged deposits to facilitate the adjustment of deposit structure. Thirdly, the Group made further effort to increase the number of core customers and took various initiatives to facilitate the growth of the customer base, through seeking new customers and enhancing the settlement network, increased the market share of the customer settlement business to boost deposit growth.



As at the end of the reporting period, the balance of corporate deposit of the Group was a record high RMB932,568 million, increasing by RMB284,696 million (or 43.9%) over the beginning of the period. As at the end of the reporting period, the portion of the Group's demand deposits in corporate deposits increased by 7.71 percentage points as compared with the beginning of the period, thanks to the Company's policy of restructuring corporate deposit and the market trend of demand deposits. Accordingly, the average interest rate of corporate deposits decreased by 0.96 percentage points as compared with previous year.

3. Non-interest income businesses

In the reporting period, the Company boosted the development of its intermediary business through various channels. Apart from further strengthening its domestic and international settlement business, the Company actively developed asset custody and annuity services. The Company made further efforts to develop entrusted loans and liabilities financing instruments in response to changes in market conditions and demands. It also actively explored and developed the financing business and financial consultation business for emerging markets as new sources of revenue for the intermediary business.

Management Discussion and Analysis

With respect to asset custody business, the Company continued with its “diversification” development strategy and increased efforts on custodian product innovation. Key focuses for the development of the trust (custody) business included trust plans, private equity investment funds, wealth management services for mutual funds, securities dealers wealth management services for securities brokers and dealers, banking management, corporate annuity, etc. and enhancement in resources allocation. These efforts facilitated the steady and rapid development of the Company’s asset custody business. As at the end of the reporting period, the assets held by the Company as custodian (including safekeeping) amounted to RMB129,283 million, up by 150% over the corresponding period of the previous year. Revenue from the custody business was RMB113 million, up by 25.9% over the same period of the previous year.

With respect to corporate annuity, the Company integrated its resources to strengthen its marketing and innovation efforts. Business coverage was extended to a new segment in corporate annuity services, through the expansion of consolidated annuity business and equity annuity business. As at the end of the reporting period, the Company managed a total number of 41,091 corporate annuity accounts and the corporate annuity funds under the custody of the Company amounted to RMB1,502 million.

With respect to financial consultation business, the Company integrated its customer consulting business with the financing business of emerging markets. Upon thorough analysis of market demand, the Company established a preliminary system of financing products for emerging markets which mainly included issuance of liabilities financing instruments, structural financing and asset management. The Company’s consultation services were enriched by additional comprehensive financial services provided to customers, the cores of which were investment and financing. A new combined fee and interest charging business model was established and the channels for developing its intermediary business were extended. In the reporting period, the Company completed restructuring of its product system and formulated a two-year major product development plan. It prepared six sets of legal documents in connection with financial consultation services of the Company for syndicated loans, mergers and acquisitions and equity financing, etc. Remarkable progress was made in its leading bank syndicated loan business, the revenue of which increased by more than 100% to RMB125 million over the corresponding period of the previous year. In the reporting period, the Company, along with four other major state-owned banks, was awarded The Best Syndicated Loan Performance Award (銀團貸款最佳業績獎), the most valuable award conferred by the Syndicate Loan and Transaction Committee under the China Banking Association (中國銀行業協會銀團貸款和交易專業委員會).

With respect to entrusted loans, the Company seized the opportunities and handled the challenge of risks in an ever-changing economic environment. While the Company grasped business opportunities in its bank’s role of serving as the major intermediary between borrowers and lenders, it also ensured compliance with regulatory requirements and avoidance of risks for its operations. Based on this guiding principle, the Company further regulated its business management system and work flow, clarified customer needs and strengthened efforts on compliance review of the sources of entrusted funds with a view to developing the entrusted loan business in an orderly manner. In the reporting period, the number of transactions under the Company’s entrusted loan business was 446 with a loan amount of nearly RMB20,000 million and a net non-interest income of RMB22 million was recorded.

Management Discussion and Analysis

4. Operation of the SBUs

In the reporting period, the Company continued to strengthen the reform of the SBUs and optimized the operating system of its SBUs. The Company gave full support to SBUs in capacity building, implementing new business models and raising customer services standard to a higher professional level. In addition, it adjusted and improved its marketing mechanisms and strengthened co-ordinated management of services offered to major customers; it also set up a matrix management model for small- and medium-sized businesses ("SMEs"); and improved collaboration selling and cross-selling mechanisms to enable SBUs and branches to capitalize on their specialized operating platforms and distribution channels.

In the reporting period, SBUs made prudent responses to the complicated macro-economy and the industry. SBUs improved their pricing capability and profit margin of the asset business by implementing an innovative business model, strengthening marketing efforts and risk control. Thanks to these endeavours, SBUs achieved rapid growth of business scale while maintaining asset quality. As at the end of the reporting period, deposit balance of the SBUs in real estate, energy, transportation and metallurgy industries was RMB155,467 million, increasing by RMB39,944 million, or 34.6%, as compared with the beginning of the period; balance of general loans amounted to RMB242,882 million, increasing by RMB68,243 million, or 39.1%, as compared with the beginning of the period; balance and ratio of non-performing loans amounted to RMB809 million and 0.33%, representing decreases of RMB1,057 million and 0.74 percentage points as compared with the end of the previous year, respectively. In line with the corporate restructuring and strategic transformation of the Company, SBUs further streamlined the structure of their customer base, business and income sources and enhanced their profitability by strengthening the management of their pricing and asset allocation. In the reporting period, the SBUs in the above-mentioned industries realized a net income of RMB7,522 million, up by nearly 10% over the previous year. The turnover of intermediary business increased slightly over the past year to RMB1,142 million. Among the general loans granted by the four industry-specific SBUs in the reporting period, 69.6% had an interest rate of or higher than the benchmark rate, which was 5.2 percentage points higher than that of the Company's newly-offered corporate general loans of the same period in the previous year.

(1) Real Estate Finance SBU

In the reporting period, in the face of the fluctuation of the real estate market, the Real Estate Finance SBU continued to implement a four-dimensional development strategy focusing on "region, customer, business model and product" to minimize the risks resulted from the fluctuation in the industry. It achieved rapid business growth by strengthening risk control through the implementation of a regional development strategy and restructuring of the customer base to reallocate resources to regions, customers and projects with lower risks. In addition, the Real Estate Finance SBU expedited the establishment of the brandname of Minsheng's Real Estate Finance SBU and the development of professional service platforms. It organized three summits respectively at Hangzhou, Chengdu and Beijing during the 5th session of the China Real Estate & Finance Annual Forum and published the Blueprint for Real Estate and Finance in the PRC (中國地產金融藍皮書), first of its kind in the industry. It also led the syndicated loans for the real estate sector. Our professional brandname and corporate image have been established among the customers and peers gradually. In view of these efforts the Real Estate Finance SBU was honoured with The Industry's Best Finance Service Award (最佳行業金融服務獎) in the 2009 Most Entrusted Bank by Chinese CFO Election campaign (2009年度中國CFO最信賴的銀行評選) organized by the CFO World (首席財務官). Mr. Dong Wenbiao, our Chairman of the Board, was awarded as 2009 Annual Figure of New House (新地產年度人物) and Outstanding Entrepreneur in Real Estate Sector (最地產的金融家) by New House (新地產) magazine under SEEC Media (HK: 00205), a leading media in the real estate sector.

Management Discussion and Analysis

Under the operating philosophy of “One team for one market (一個團隊、一個市場)”, the Real Estate Finance SBU prudently analyzes the characteristics of macroeconomic control and risks of the real estate sector, actively and prudently operated its businesses in compliance with applicable regulations and effectively control the credit risks of the real estate market. Firstly, under the principle of “vertical management, professional assessment, independent supervision and classified regulation (垂直領導、專業評審、獨立監控、分級監管)”, a multi-level and independent risk management system specially designed for the real estate sector has been formulated, which further improves the standards, systems and processes of credit assessment and asset management and regulates the management of inter-segment sales, ensuring scientific and effective risk management under professional operation. Secondly, the Real Estate Finance SBU has enhanced market monitoring and policy research, strictly controlled the approval of credit granting, optimized the four-dimensional dynamic focuses on “region, customer, business features and product”, and maintained strict risk control through giving priority to supporting residential development projects for self-occupation or living improvement with promising sales prospects and mature commercial property projects with stable liquidity. Thirdly, the Real Estate Finance SBU has closely monitored post-loan supervision and asset management, carried out closed management of loan granting, usages of loans, trade receivables control and release of collaterals, and implemented a multi-level and classified management based on the characteristics of projects. Fourthly, risk management of national corporate customers was centralized, and gradually transformed from closed project-oriented to customer-oriented, ensuring that the risk management of loan concentration and risk limit management of the Group are carried out effectively in a timely manner.

As at the end of the reporting period, the Real Estate Finance SBU established 31 branches in 25 cities. Its general outstanding loans and deposits were RMB73,690 million and RMB43,596 million, up by 22.4% and 71.5% respectively over the previous year. Non-performing loan ratio was 0.69%, down by 1.83 percentage points as compared with the previous year. The revenue of intermediary business amounted to RMB352 million.

(2) Energy Finance SBU

In the reporting period, the Energy Finance SBU conducted in-depth research on the development trends of local and international financial and energy industries. Leveraging on the government policy in favour of the energy industry, the Energy Finance SBU grasped the development opportunities in clean and recycled energy. It quitted the high-risk segments of small-sized coal-fired and thermal power plants and independent coking plants by terminating 7 customer loans with an aggregate amount of RMB346 million and shifted to provide more loans for the leading enterprises in the green energy sector. The loans for waste heat recovery plants, solar power plants and wind power plants amounted to RMB10,800 million. The Company strategically relocated its business from the power industry to the coal industry in regions with sufficient coal resources and provided tailored corporate banking services for the coal mining industry. The relevant outstanding loans increased to RMB56,000 million, ranking the second among all banks in the PRC. In addition, business structure was further consolidated by reallocation of assets through measures including the transfer and disposal of credit assets and improvements in wealth management. Financing costs of loans providing to customers were reduced to satisfy their needs by providing debt financing, which amounted to RMB5,200 million during the year. Results of the restructuring of business were remarkable.

In the reporting period, outstanding loans and deposits of the Energy Finance SBU amounted to RMB92,250 million and RMB34,523 million, up by 43.6% and 33.9% over the previous year respectively. Non-performing loan ratio was 0.09%. The revenue of intermediary business amounted to RMB215 million.

Management Discussion and Analysis

(3) Transportation Finance SBU

In the reporting period, the professional team of the Transportation Finance SBU provided tailor-made services to medium-and high-end customers in the transportation industry, including railway, automobile, port and shipping (vessel), public roads and aviation (airport). After two years of prudent operations, the Transportation Finance SBU has successfully formulated various specialized businesses, such as “loans for opening stores for vehicles (建店貸款)”, “loan packages for vessel building and leasing (船生船)” and “loans for merger and acquisition of highways (公路併購)”. The Transportation Finance SBU recruited and maintained a team of project managers comprising key marketing personnel, product managers and risk managers with sound educational backgrounds and extensive experience to provide technical support to customers, with integrated financial solutions encompassing services including group company finance, bill discounting, trade finance, commercial paper, medium-term notes, entrusted fund management and financial consultation.

As at the end of the reporting period, the Transportation Finance SBU has established 13 subdivisions and 8 business centres in 19 cities in China. Outstanding loans and deposits amounted to RMB42,768 million and RMB42,008 million, up by 52.2% and 30.5% over the previous year respectively. The non-performing loan ratio was 0.12%. Revenue from intermediary business amounted to RMB305 million.

(4) Metallurgy Finance SBU

In the reporting period, taking into account of the characteristics of the demand for financing services in the sector, the Metallurgy Finance SBU continued to provide tailor made financing services based on the “production chain” in the industry. The Metallurgy Finance SBU actively expanded its services to the upstream and downstream businesses of key clients, and took vigorous measures to develop financing of movable properties, trade financing and emerging markets business. In order to enhance the growth of intermediary business, extra efforts were put in cross-selling by ways of debt financing, liquidity management and bill management. Measures for developing new group customers and customer services were reinforced and its marketing efforts directed at various large-scale renowned enterprises achieved remarkable results. The Metallurgy Finance SBU, jointly with “www.mysteel.com (我的鋼鐵網)” organized a series of conferences under the “Steel Summit (鋼鐵高峰論壇)” which consolidated its relations with customers and enhanced sales efficiency.

As at the end of the reporting period, the Metallurgy Finance SBU has established 24 subdivisions in 21 cities in China. Outstanding loans and deposits of the Company amounted to RMB34,169 million and RMB35,340 million, up by 54.8% and 10.0% respectively over the previous year. The non-performing loan ratio was 0.48%, down by 0.53 percentage points as compared with the previous year. The revenue from intermediary business amounted to RMB270 million.

(5) SME Finance SBU

The Company actively explored optimization of the operating system for providing financial services to SMEs. Upon approval from the regulatory authorities, the SME Finance SBU has been restructured into a specialized unit for SMEs with business coverage of the whole nation and business license of branch level.

Management Discussion and Analysis

In the reporting period, the SME Finance SBU adopted a matrix management system for the business of SMEs. It accelerated geographical expansion of its SMEs business across the nation from the preliminary focus at the Yangtze River Delta to other economic zones at Bohai Rim, Western Taiwan Straits and Pearl River Delta and developed specialized business units for SMEs at strategic locations. The number of outlets specializing in the provision of SME financial services increased to 23. In addition, the SME Finance SBU launched 7 distinctive products, namely Simple and Fast Loan (易捷貸), Combined Loan (組合貸), Joint Guarantee Loan (聯保貸), Revolving Loan (循環貸), Movable Property Loan (動產貸), Legal Entity Mortgage (法人按揭) and Electronic Housekeeper for SMEs (中小企業e管家), with their combined applications, altogether making up a new brand of financial services for SMEs, which was named Wealth Compass (財富羅盤). The SME Finance SBU achieved rapid expansion of business scale and increased profit margin under a sound risk management policy.

As at the end of the reporting period, the SME Finance SBU has 3,277 customers and the outstanding loans and deposits were RMB34,180 million and RMB20,181 million respectively, up by 50.4%, 90.6% and 21.7% respectively over the beginning of the year. Non-performing loan ratio was maintained at a low level of 1.22%. 93% of loans were of short-term nature. The average return of the Company's SME business was 20% above the benchmark interest rate. The Company was elected as one of the 2009 Best 10 Financial Service Institutions for SMEs in China (2009中國中小企業金融服務十佳機構), conferred jointly by the Institute of Finance and Banking of the Chinese Academy of Social Sciences and Financial Times (金融時報), for its excellent performance in SMEs financial service business.

(6) Trade Finance SBU

In the reporting period, the Trade Finance SBU continued to develop with the objective of becoming a professional service provider of distinctive trade finance services, and actively followed a policy of "professional, dedicated and specialized operations". The Trade Finance SBU attached equal importance to risk management and business development. In face of the financial crisis, the Trade Finance SBU launched an innovative operational concept of "1 extension, 2 changes and 5 major integrated solutions". Its business was expanded to include distinctive products. The Trade Finance SBU has established a stable customer base targeting the top 500 international enterprises and domestic leading enterprises as strategic customers and medium enterprises as basic customers. Its specialized businesses, such as international and domestic factoring and structural trade financing, enjoyed a leading position in the domestic market. The businesses of shipping financing, financing of "Going out (走出去)" projects, domestic letters of credit, letters of guarantee, syndicated loans and settlement in RMB of cross border trade have developed rapidly. In addition, the Trade Finance SBU has refined its business procedures, accelerated the development of its operational systems and the establishment of remote service platforms, expanded the correspondent banking network, trained a specialized team for trade finance business and continuously enlarged its offering and improved the capability and quality of its professional services.

Management Discussion and Analysis

As at the end of the reporting period, the Trade Finance SBU has established 21 subdivisions in 21 cities in China. Balances of RMB-denominated loans and foreign currency-denominated loans of the Trade Finance SBU amounted to RMB3,240 million and US\$1,807 million, respectively. The non-performing loan ratio was zero. Revenue from intermediary business amounted to RMB1,010 million. In the reporting period, the Trade Finance SBU was widely recognized by domestic and overseas financial media, and was honoured with the PRC Region Trade Finance Achievement Award (中國區貿易金融成就獎) by Asian Banker (亞洲銀行家) magazine and Best Trade Finance Award (最佳貿易融資獎) by CFO World (首席財務官).

5. Featured Businesses

(1) Trade finance services

The Company has been making tremendous efforts in recent years to develop its specialized trade finance services by providing quality professional services to its customers with a comprehensive product portfolio covering international settlements and import and export trade finance through a worldwide network of agency banks and convenient settlement channels.

In light of the global financial crisis, the Company strengthened the innovation of trade finance products, strengthened its business from international trade finance business to domestic trade finance business and transformed from selling particular products to the provision of specialized trade finance integrated solutions, and from providing trade finance services for single stage to trade finance services for both import and export trades at different stages. The Company has launched 5 major solutions packages to cater customer demands for diversified trade finance products and services. These solutions are the trade receivables solutions, import trade finance solutions, integrated solutions for letters of guarantees, value added services solutions and structural trade finance.

At the end of the reporting period, the Company had provided trade finance services to 9,439 clients. A total of 13,027 international dual factoring transactions were made by the Company, ranking first among domestic banks. The Company achieved an annual transaction volume of international factoring of US\$369 million, making it among the best performers in the PRC. The development of structural trade finance, which mainly comprises long-term order finance, trade finance for bulk commodities and buyer credit, achieved a breakthrough. Export buyer credit, especially the buyer credit business for shipowners, demonstrated good development potential. Despite the difficulties and challenges facing the foreign trade in China, there were no additional non-performing loans in respect of the trade finance business of the Company throughout the year. Besides, the Company further enriched its foreign exchange trade products. The Company has entered into a multicurrency payment co-operation agreement with, among others, the Deutsche Bank, pursuant to which the Company is able to provide multicurrency payment services involving over 120 currencies for more than 160 countries in the world. This successfully lowered transaction costs, evaded foreign currency exchange rate risks and facilitated import and export trade payments.

Management Discussion and Analysis

(2) Transactional finance

The Company considers transactional finance business based on customers' logistics and cash flow control to be the major banking finance business in the future. As such, the Company has been strengthening its capabilities in transactional finance business in recent years. The Company has established a comprehensive transactional finance product portfolio by integrating various upstream and downstream finance modes in our business chain based on our movable assets finance business. In the reporting period, in the face of adverse situations such as rapid decline of domestic trade settlement volume, significant shrink in demand from trading companies and production enterprises, the Company managed to realize a rapid and healthy growth in movable assets finance business through a series of measures including streamlining of business procedures, enriching product offering, introduction of innovative business modes and product profiles, setting up multi-level supervision system and centralized approval of credits and collaterals. Total movable assets finance of the year exceeded RMB130,000 million. Over 1,600 regular customers brought a growth of RMB61,000 million in deposits. Balance of the movable assets finance business at the end of the year was RMB61,600 million without incurring any non-performing loan which was among the best in the market. The Company was granted the title The Most Influential Supply Chain Financial Services Provider in the PRC in 2008–2009 (影響中國2008–2009最佳供應鏈金融服務商) in the Third China International Logistics and Supply Chain Co-operation and Development Summit Forum.

(3) Bills business

Bills business is a traditional and specialized featured business of the Company. In the reporting period, the Company has introduced innovative products, strengthened risk control, improved profitability and provided integrated bill solutions. The department fully leveraged on the marketisation of interest, various forms and channels of the bills factoring market. Three new bill products, such as Fast and Easy Bill Discounting (快易貼), Safe Bill Discounting (貼現保) and Bill Discounting with Interests Paid by Entrusted Third Party (委託第三方付息), were launched in the year. To promote the bill business further, the Company put more efforts in marketing and enhanced risk management. In the reporting period, net revenue from bills was RMB1,460 million and the clients of the bill business reached 6,450, increasing by 4,448 as compared with 2008. No operational risk was encountered.

6. Corporate banking customers base

The Company continued to develop its customer bases in the reporting period. With a view to attracting all potential customers, the Company expanded the existing customer base and identified core customers. Leveraging its advantages in the management of major customer relationships and matching the needs in the transformation of the national economy and the transformation of its own business, the Company expanded its service coverage of non-state-owned enterprises and SMEs to cultivate a core customer base of non-state-owned enterprises, with whom long term and strategic cooperation could be developed. As at the end of the reporting period, the Company had a total of 144,000 (non nil) corporate deposit account customers, over 6,500 of which have outstanding loans (excluding discounted bills). The number of corporate deposit and loan business customers increased by 10.1% and 33.6% respectively from the beginning of the year.

Management Discussion and Analysis

7. Development of business team of corporate banking

The Company developed a “1+3” training system to help its corporate banking business team to develop their professional expertise in the reporting period. The well arranged training course is integrated with business management policies, marketing of major business, case study and sharing of current experience. In the reporting period, the business unit of the Company organized around 150 training sessions for nearly 12,000 corporate participants, and the professional expertise of the team has been significantly improved. In recognition of these efforts, the Company was rewarded as an Advanced Unit in Financial Education (金融教育先進單位) by the China Foundation for Development of Financial Education.

In the reporting period the Company has strengthened its business structure and the transformation of its development strategy. It will further increase the proportion of retail and SME businesses in the future. As the business unit with the largest market share in the Bank, the corporate banking business will take proactive steps to adjust to changes in market environment and trend and strike a balance between capital control and expansion in scale. The Company will also put effort into developing business in emerging markets, strengthening the credit asset business and increasing intermediary business revenue. The income structure will be further optimized to lay a solid foundation for the Company's sustainable business development.

(II) Retail business

The Company provided various retail banking products and services to its customers, including retail loans, deposits, debit cards, credit cards, wealth management services, investment services, fund management agency services, foreign trading and conversion services, and deferred transactions of precious metals. The Company offered these services through various channels, including its branches and sub-branches, self-service banks, online banking and telephone banking systems. As at the end of the reporting period, the outstanding retail loans of the Group amounted to RMB163,880 million, accounting for 18.6% of total loans, and retail deposits amounted to RMB194,104 million, accounting for 17.2% of total deposits.

1. Retail loans

The Company offered various loan products for retail customers. In 2009, the Company successfully launched Shang Dai Tong (商貸通) loan business aiming at owners of small and micro-enterprises and individual businesses. It boosted the rapid growth of retail loans of the Company. As at the end of the reporting period, total retail loans of the Group increased by RMB55,309 million (or 50.9%), as compared with the previous year. Outstanding mortgage loans amounted to RMB99,619 million, up by 14.0% over the previous year and accounting for 60.8% of total retail loans.



Management Discussion and Analysis

Shang Dai Tong product specifically provides RMB credit business and a series of financial services, including settlement, deposit, wealth management, consumption credit and consultation, for individual industrial and commercial businesses and owners of small and micro-enterprises in operating activities such as production and investment. Shang Dai Tong business can help individual private enterprises to overcome financing difficulties and accelerate their healthy development, which has a positive effect on promoting a harmonious society and market economy. In addition, the Company has improved its operational structure, lowered the concentration of risks, identified new business opportunities in the personal loan business, enhanced overall core competitiveness of the retail banking business, and strengthened or expanded its branches, all of which helped the strategic operational transformation of the Company. After less than one year's development, the Company has become the leading bank of Shang Dai Tong business, and the competitiveness of the Company by differentiation and peer competition has therefore been reinforced significantly.

At present, the Shang Dai Tong business of the Company mainly targeted small and micro-enterprises with loan demand of less than RMB5 million. The Company persisted in its stated policies in the choice of area, industry and entry requirements of customer. It also adopted a prudent strategy by launching Shang Dai Tong at ten key branches in the coastal area of Eastern China, and gradually extending to all branches of the Company after accumulating experience and understanding the business pattern. It has achieved expected results in view of its business progress and has received positive comments from the government, enterprises and media. As at the end of the reporting period, Shang Dai Tong had an outstanding loans of RMB44,809 million, accounting for 27.3% of the outstanding personal loans. The Shang Dai Tong business has over 30,000 customers and the assets were of good quality. In view of the pricing of loans and the characteristics of Shang Dai Tong loans, the Shang Dai Tong business has effectively optimized the loan interest structure of the Company.

The basic principle in the selection of target market for Shang Dai Tong is to estimate the risk probabilities of specific industries by using the Law of Large Numbers (大數法則) and to select industries suitable for launching Shang Dai Tong. As a result, the Company is able to identify target groups of customers rapidly and conduct sales in batch, which help to expand the scale of Shang Dai Tong business in specific industries.

In order to facilitate rapid and healthy growth of the business, the Company persists in five principles of risk management in developing Shang Dai Tong business. Firstly, the principle of independent management, which maintained the independence of risk management system and operational management of Shang Dai Tong. Secondly, the principle of probability management, which emphasized on the control and management of risk by using the Law of Large Numbers on the basis of "fundamental" risks, with an aim to achieving economies of scale. Thirdly, the principle of standardized management, which implemented a classified management of Shang Dai Tong products. Shang Dai Tong products were categorized into standard and non-standard products, and different risk management and processes would be implemented respectively. Fourthly, the principle of effectiveness, which encouraged an effective operation of middle and back offices by optimising the operational processes, applying "Scorecards (評分卡)" method and centralized management. Fifthly, the principle of diminishing risks by pricing, which diminished the expected losses by increasing the margin of loans.

Management Discussion and Analysis

The Company has established comprehensive and standardized risk management by thoughtfully studying regional characteristics, formulating differentiated products and implementing delegated management and non-performing asset management. With the introduction and development of a risk measurement mode of Shang Dai Tong, the collection of customer information, marketing and reporting were accomplished in accordance with standardized procedures and requirements. With this professional, standardized and industrialized risk management system, the Company was able to effectively manage its loan application acceptance, rating, approval and execution and post-loan management, reducing duplication of tasks and enhancing operational efficiency.

The core competitiveness of the Company's Shang Dai Tong business lies in the following aspects:

Firstly, it is efficient. By implementing the Law of Large Numbers, the principles of Emphasizing on Planning (規劃先行) and Sales in Batch (批量營銷), the Company has established a standardized, systematic and professional working process which enhanced the efficiency of approval and loan granting.

Secondly, it has wide variety of products. The Shang Dai Tong business of the Company focused on providing a series of one-stop financial solutions including asset business, settlement business, deposit business, wealth management business, consumption credit business and consultation service for target customers. In addition to traditional pledges, the Company has introduced eleven innovative forms of credit facilities such as mutual assurance, associated assurance and credit to better cater for diversified and personalized needs of target customers.

Thirdly, it offered quality services. In order to enhance service quality and efficiency, professional teams have been set up for target customers of Shang Dai Tong to provide planning, sales, approval and post-loan services. Meanwhile, the Company actively integrated resources inside and outside the Company to realize the multi-departmental synergy sales and interlink services of retail banking and online banking, credit cards, information centre and corporate business. The Company is dedicated to providing diversified application channels and forms of service.

While the business has achieved relatively rapid growth, the Company also performed its corporate social responsibilities well. Preliminary statistics show that the loans granted under Shang Dai Tong helped approximately 20,000 SMEs and 200,000 staff to withstand the financial crisis and maintain stability of their operation. It indirectly created more than 100,000 job opportunities and has contributed to market prosperity and social stability.

The Shang Dai Tong business of the Company received 2009 Award for Innovation in Finance Services for Small and Micro Enterprises (2009小微金融服務創新獎) by the 4th Session of the Twenty-first Century Annual Financial Summit of Asia (第四屆21世紀亞洲金融年會), 2009 CBN Financial Value Ranking — Best Micro-enterprise Services Award (2009第一財經金融價值榜最佳小微企業服務獎) from CBN (第一財經日報), 2009 Outstanding Competitiveness in Individual Loan Bank Award (2009卓越競爭力個人貸款銀行獎) from China Business Journal (中國經營報), Best 10 Financial Products (Retail Business) (金融產品十佳獎(零售業務類)) from The Chinese Banker (銀行家) and Top 10 Marketing Campaigns Award of the 2nd Marketing Campaign Ceremony in 2009 (2009年度第二屆時代營銷盛典「十大營銷案例獎」) from Time Weekly (時代週報).

2. Retail deposits

Retail deposits of the Group included demand deposits, time deposits and notice deposits. Retail deposits were the most important low-cost funding resources of the Company. In the reporting period, the retail deposits of the Group grew steadily. The Group's balance of retail deposit increased by RMB57,836 million, up by 42.4% over the previous year.

Management Discussion and Analysis

3. Debit card business

As at the end of the reporting period, the Company had 22.81 million debit cards in issue, including 1.71 million cards issued in 2009. The Company received the Product Promotion Award for Standard Debit Cards (銀聯標準借記卡產品推廣獎) in 2009 Bank Card Achievement Awards by China UnionPay.

In 2009, the Company developed a “5+N” VIP service system covering services at airport, golf course, train station, medical access and roadside rescue services. As at the end of 2009, the Company had over 1,000 merchant partners which provide discounts and spending convenience for debit card customers.

4. Credit card business

In 2009, the Company's credit card business grew rapidly. The Company's had 7.63 million credit cards in issue, including 1.14 million cards issued in 2009. Transaction volume was RMB102,449 million, up by 37.5% over the previous year. Net non-interest income was RMB1,048 million, up by 45.6% over the previous year. Outstanding loans amounted to RMB14,266 million, up by 12.1% over the previous year. Non-performing loan ratio of over 6 months was 2.46%. As at the end of the reporting period, cumulative total of Minsheng platinum and diamond credit cards was 173,000, making the Company one of the top performers in China. The platinum and diamond credit cards of the Company were conferred titles such as 2009 Top 10 Credit Cards (2009年度十大銀行信用卡), Platinum Credit Card with the Most Service Value (最具服務價值白金信用卡) and 2009 Customers' Most Favourite Diamond and Platinum VIP Card (2009年度顧客最喜愛的鑽石白金貴賓卡) by China UnionPay, international organizations and media.



In 2009, the Company launched credit card products, such as co-branded card with Air China, China Eastern Airline and Vivi Magazine respectively, and a theme card in commemoration of the 60th Anniversary of the founding of the PRC. The number of Air China and China Eastern Airline co-branded cards in issue as at the end of the year exceeded 100,000.

5. Agency business

The Company offer services such as sale of wealth management products, funds and insurance. The number of funds sold under its agency business reached 490, the highest number among its peers in the industry. The Company also cooperated with 18 insurance companies to optimize the bank assurance platform.

6. Customers and related activities

As at the end of the reporting period, the Company had 18.16 million retail customers, with a deposit balance of RMB193,726 million. Among the retail customers, 76,300 customers with a personal financial assets of more than RMB500,000, and their total deposit amount was RMB107,070 million, representing 55.3% of total retail deposits.

Management Discussion and Analysis

The Company launched My Dream 2009 (2009我的夢想) program in 2009, the first nationwide activity which is the largest one in terms of scale, coverage and influence and encouraged the people to uphold their dreams. The activity was well-received by the public because of its creative theme, wide public participation and social influence. The program also received the Cross-media Marketing and Sales Integrated Award (跨媒介整合策劃與營銷類獎), Best Innovative Marketing Award (最佳市場營銷創新獎) and Competitive Marketing Excellence Award (卓越競爭力營銷模式獎) from China Advertising Association (中國廣告業協會), China Times (華夏時報) and China Business Journal (中國經營報) respectively.

The Company launched the Week of Paul R. Krugman in China (保羅•克魯格曼中國周) in 2009, which consisted of four seminars held in Beijing and Shanghai for VIP customers of the Company. It was the first introduction of value-added services in the banking industry, and was awarded The Most Influential Activity Award 2009 (2009最具影響力活動獎) and Best Marketing Activity of Financial Brand (最佳金融品牌營銷活動獎) by China Times and The Chinese Banker respectively.

7. Private banking business

The Company's private banking business has adopted a matrix business management structure. Twelve private banking agencies were established under the Company's branches in Beijing, Shanghai, Nanjing, Shenzhen, Guangzhou, Chengdu, Fuzhou, etc. Advanced training sessions were held to provide intensive professional training for the staff in this business line. The business of private banking mainly catered to customers' demand for diversified financial services, such as tailor-made investment products, individual credit business and other integrated financial service solutions, and non-financial services such as family asset heritage and functional trust. As at the end of the reporting period, the private banking business had 1,229 clients and the financial assets under management reached RMB25,400 million.

(III) Treasury business

1. Transactions

In the reporting period, the transaction volume of RMB bonds of the Company amounted to RMB797,891 million. The aggregate volume of the Company's foreign exchange market maker transactions reached US\$213,700 million, representing an increase of 83% over the same period in the previous year. The volume of proprietary foreign exchange trading amounted to US\$1,216 million, representing an increase of 73.7% as compared with the corresponding period in the previous year. Forward settlement and selling exchange transaction volume also reached US\$1,390 million, representing an increase of 18.8% over the same period in the previous year. In addition, the Company recorded increases in the volumes of spot and forward exchange transaction in foreign currencies, as well as individual firm bid foreign exchange transactions over the corresponding period in the previous year.

2. Investments

As at the end of the reporting period, the balances of the Group's investment and other financial assets amounted to RMB156,956 million, representing a growth of 16.3% as compared with the corresponding period in the previous year. In 2009, the Company significantly increased the gain of RMB debt securities investment through band operation based on price difference by accurate estimation of the domestic debt securities market trend. In addition, the Company sold part of its foreign currency denominated debt securities by taking advantage of the price hike of international debt securities. Its potential investment risk was effectively mitigated.

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In 2009, the Company was approved by the Ministry of Finance and the PBOC to be the issuing bank in a pilot scheme to launch the business of savings bonds (electronic mode) and obtained the trial qualification to participate in bond transaction from the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

3. Wealth management

In 2009, the Company's wealth management business emphasized on stable wealth management products with manageable risks. Boosting its effort in the research of domestic and international markets, the Company focused on research and development of investment in products of the monetary market and credit market and launched a series of stable products, particularly the Apex Asset Management (非凡資產管理) series of wealth management products with asset pool concept.

In the reporting period, the Company issued a total of 265 tranches of wealth management products, raising capital of RMB137,500 million. The balance of wealth management amounted to RMB73,200 million.

In the reporting period, the Company focused on the following innovative wealth management business:

(1) Introduction of Apex Asset Management series of wealth management products. The Apex Asset Management series of wealth management products used, for the first time, an advanced "wealth management business asset pool" operating model. The investment under this pool involves national bonds, policy-induced financial bonds, enterprise bonds, central bank bills, short-term financing bonds, mid-term bills, repurchase of bonds, placements in monetary market, bank deposits, central bank acceptance and trust plans. It also includes wealth management products of other banks that are made up of the above investment products. The Company managed the asset pool with an active investment portfolio management approach and an asset and liability management approach. An advanced maturity mispairing and rolling issue model was also introduced to develop products. This resolved the restriction on the absolute consistency between the term of liability and the asset maturity of a single wealth management product. As such, individual demands from corporate, other banks and retail customers regarding investment term were satisfied, resulting in increased product returns and liquidity.

(2) Stability with innovation — Enhancing development of the wealth management business. To ensure the stable development of the wealth management business, the Company launched innovative products including a high-end white liquor wealth management scheme and art investment scheme in the second half of the year. At the same time, wealth management products in relation to the equity market, standard warehouse receipts and large market value management were in the pipeline. The wealth management business was diversified through the expansion of product lines.

(3) Setting up a "10+1" platform jointly with trustee companies. Led by the Company, the 10+1 Bank and Trustee Companies Partnership was established with 10 quality trustee companies in the PRC replacing the original project-based cooperation model and upgraded to a strategic cooperation model. Cooperation was no longer solely directed by a commercial bank, but by both the bank and the trustee companies complementing advantages and sharing resources. Cooperation focuses were on exploring new markets and creating innovative products, and were facilitated by the establishment of a comprehensive risk management system.

Management Discussion and Analysis

(4) Well-recognized Apex Asset Management with rising brand value. Apex Asset Management was granted the Award For Best Product Design Capability (最佳產品設計能力獎) of CBN Financial Value Ranking 2009 (2009第一財經金融價值榜). The fact that Apex Asset Management stood out among numerous candidates demonstrated the Company's strong capabilities in wealth management products in terms of management, innovation, risk control, customer service and marketing. The Company's products were influential on the domestic wealth management market.

4. Underwriting of bills and bonds

In the reporting period, the total amount of debt financing instruments and various credit bonds underwritten and issued by the Company reached RMB17,350 million. During the year, the Company successfully issued an aggregate of 14 tranches of commercial papers, 5 tranches of mid-term bills and 2 tranches of subordinated bonds for 17 enterprises.

5. Transactions in gold and other precious metals

In the reporting period, the Company realized gold and silver transaction volume of 188.68 tons and 1,748.7 tons respectively in the Shanghai Gold Exchange. The total transaction amount was RMB84,429 million, making the Company the fourth largest dealer in the Shanghai Gold Exchange. The Company was the second national joint stock commercial bank participating in proprietary trading in the Shanghai Futures Exchange and has effective proprietary trading model. The Company was the second commercial bank to provide personal precious metal deferred transaction agency business for the Shanghai Gold Exchange. The personal deferred transaction agency business will be a major source of profit for the precious metal business of the Company in 2010. The Company was also the first commercial bank to offer gold forward transactions denominated in RMB in the PRC. Integrated with its existing precious metal product line such as gold lending business, the Company has been able to provide its customers with a basket of risk avoidance solutions.

(IV) E-banking services

In the reporting period, the Company's e-banking services achieved rapid growth. Transaction volume reached RMB5,144,050 million. The aggregate numbers of corporate online-banking accounts and individual online-banking accounts were 99,000 and 3,061,000 respectively. The Company had, cumulatively, 2,238,000 telephone banking customers, 32,000 mobile phone banking customers and 1,503,000 subscribers to the instant account information delivery services. The "95568" customer service hotline received 27.6 million incoming calls. The call-in connection rate was 97.04% while that for VIP services was 99.64%.

In the reporting period, the Company launched a dedicated corporate customer service telephone line "4006895568", becoming the first commercial bank to launch a service telephone line dedicated to corporate customers in the PRC. Based on the first generation of USB Key, the Company developed a new driver-free USB Key with preloaded certificate. The USB Key is ready to use on computers without installing any drivers or downloading any digital certificate. During the 11th National Games, the Company launched a driver-free and certificate preloaded U Key, bearing the colourful logo of the Games. It was designed to be both a U key and a souvenir. The Company also introduced a

Management Discussion and Analysis

transaction control system and an active fishing monitoring service to provide a comprehensive solution to the risks in or arising from electronic banking. The debit card online shopping mall was launched to provide internet banking customers with shopping and internet banking bonus point redemption service.

In the reporting period, the Company received many honours for its e-banking business from the industry. In the Annual Comprehensive Evaluation of Online Bank organized by the Chinese Finance Certification Agency, the Company received the 2009 Award for the PRC Online Bank with Best Security (2009年中國網上銀行最佳網銀安全獎). At the 3rd annual meeting of China's Electronic Finance Development and the Ceremony of the 2nd Golden Cup Awards for Chinese Electronic Finance organized by China Electronic Finance Industrial Alliance (中國電子金融產業聯盟) and Committee of Electronic Finance of China Electronic Commerce Association (電子商務協會電子金融專業委員會), the Company obtained the Most Favourite Online Bank 2009 (2009最受用戶喜愛的網上銀行) and Minsheng U Key – Best Security Product 2009 (民生U寶 — 2009年度最具安全性產品獎) awards. In 2009 Sohu Financial Wealth Management Online Festival organized by Sohu.com, the Company was awarded Best Online Bank 2009 (2009年最佳網上銀行獎). The Company obtained the Best Service Award (最佳服務質量獎) in the 2009 Website Competitiveness Ranking of Chinese Banks. In the 5th China Call Centre election event, the Company was elected as the China (Asia Pacific) Call Centre Award 2009 (2009中國(亞太)最佳呼叫中心). The Company also obtained the Best Electronic Channel Service Award in China (中國最佳電子渠道服務獎) and Best Customer Service Centre in China (中國最佳客戶服務中心) in 2008–2009 Best Customer Service Selection in China.

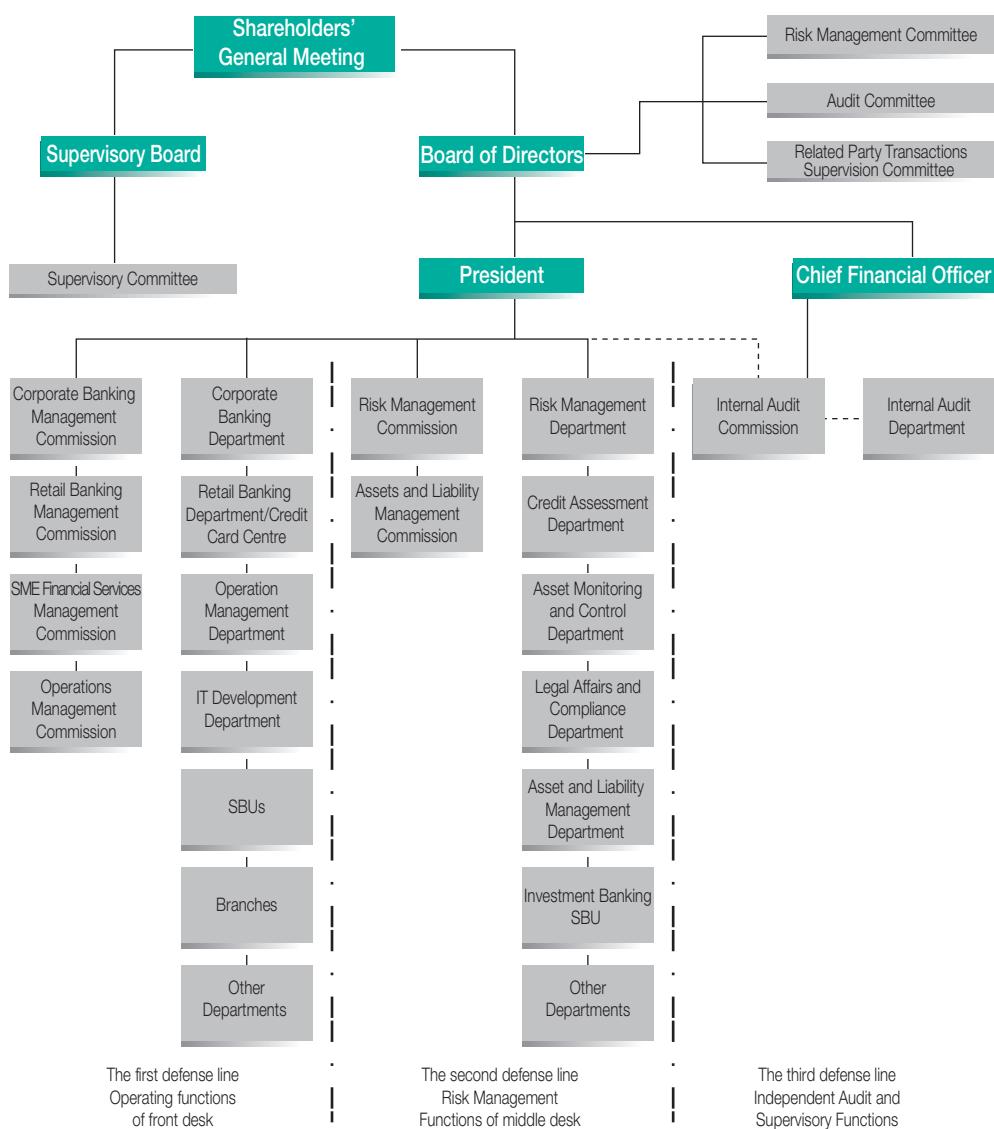
X. Risk management

The basic concept of our risk management regime is “creating value by managing risks”. Our risk management system focuses on quality and effectiveness while it can be flexibly adjusted to cope with different businesses in terms of size or scale. The objective of the risk management of the Company is to support the expansion of its business development and strategic restructuring, to strengthen its core competitiveness, to safeguard the long term interests of shareholders, employees and customers, and to maximize the benefits of its shareholders.

In 2009, the Company completed a three-year plan of comprehensive risk management system, which was approved by the Board and is being implemented. The plan has identified strategic objectives and major tasks for the Company's future risk management system and defined strategies for the management of risks. It covers credit, market, operation, liquidity and all other aspects of risk management. Pursuant to the plan, the Company will establish a comprehensive risk management system involving all organizations, businesses, risks, employees and procedures in three years. A well established, technologically advanced, effective and quality service based risk management platform will be set up for risk management in a coordinated manner.

Management Discussion and Analysis

The comprehensive risk management system will be made effective by the joint efforts of three lines of defence in charge of operation departments, risk management departments and internal audit departments respectively. The operating function is the first line of defense, which directly controls the risks of each transaction and each procedure. The risk management units at all levels constitutes the second defense line. These units map out the basic risk management system and policies. The third defense line is laid by the internal audit department. It carries out ex-post evaluation and feedback based adjustments on a risk and compliance oriented basis and by virtue of audit and supervision. The following diagram illustrates the comprehensive risk control system of the Company:



Management Discussion and Analysis

The Risk Management Commission is responsible for the overall risk management of the Company and reports to the President and the Risk Management Committee under the Board. Its main duties are: (1) to deliberate on risk profiles, overall risk limits, minimum asset return after adjustments for risks and implement them upon approval of the Board; (2) to deliberate on the basis, method and allowance for estimation of potential losses of risks on assets and implement them upon approval of the Board; (3) to deliberate on the maximum risk exposures of relevant businesses, products, geographical regions and industries and to decide on the relevant control measures and credit approval procedures; (4) to decide on the basic policies and systems for the overall risk management of the Company; (5) to review the Company's report on risk assessment and management and decide on proposals for strategic adjustment; (6) to review and approve the risk contingency plan or ongoing improvement plan; (7) to review and approve major risk management initiatives within its authority; and (8) to deliberate on other major risk management matters of the Company.

(I) Credit risk

Credit risk is the risk that a borrower or a counterparty defaults in making repayments in a timely manner in full amount for whatever reasons.

The credit risks of the Company are governed by the credit policy and technical support platform jointly developed by the risk management department, credit assessment department, asset monitoring and control department, legal affairs and compliance department and investment banking SBU under the coordination of the Risk Management Commission. The risk management system covers the procedures of pre-approval investigation, approval review, post-loan management, collection and preservation of collaterals. Credit risk of on and off-statement items are also strictly controlled.

At the beginning of 2009, given the reasonable estimates of the then macro-economic conditions, the Company issued its 2009 Guiding Opinion on Credit Policy (2009年度授信政策指導意見) setting out credit principles for different industries, maturities, customer groups, geographical regions, securities and products. The guidelines effectively diverted the allocation of credit assets to different industries. More credit assets were allocated to industries less vulnerable to economic recession while fewer were allocated to export traders and industries with excessive productivity. Such regulation has effectively contained structural risks. In addition, the policy, system and procedures of credit risk management were further optimized and improved by adopting a new internal risk rating system. The efficiency of our credit risk management system is also improved through the updates of our IT system. In addition, the Company has adopted various measures to maintain its asset quality, including cash collection, reorganization, execution of foreclosure debt-to-equity conversion, disposal and writing-off of non-performing assets.

(II) Liquidity risk

Liquidity risk refers to the risk of being unable to finance funds or liquidate a position at reasonable costs in a timely manner to fund debt obligations. The Company's objective in liquidity risk management is to ensure that it is able to meet all payment obligations and fund all operations in accordance with its development strategy. To this end, effectively identify, measure, monitor and control our liquidity risk to strike a balance between risk and income.

Management Discussion and Analysis

The Asset and Liability Management Commission is responsible for establishing policies and strategies relating to our overall management of liquidity risk. The Asset and Liability Management Department is responsible for implementing these policies and strategies to monitor and assess liquidity risk. The Company's liquidity is maintained by the adoption of annual investment guidelines which set out individual investments, limits control of investment size, product structure, maturity, currency and duration of investments. Investment portfolio is adjusted from time to time based on performance to ensure adequate liquidity is maintained. Based on the structure of assets and liabilities, the Company determines appropriate liquidity risk monitoring indices to monitor the liquidity and formulate proper policies to manage liquidity risk.

On the other hand, the Company has created multi-tier liquidity risk reserves which are flexibly managed and optimized. As a result, the Company was able to meet its payment obligations while maintaining adequate liquidity in 2009 when interest rates remained low. The Company used many liquidity management methods and improved return on liquidity. The Company proactively and flexibly managed placements from other banks and financial institutions and issued notes to regulate its liquidity. The Company also increased the participation in aggressive liability products including state treasury cash deposit.

(III) Market risk

Market risk refers to the risk of market changes having adverse effects on the values of assets and liabilities or the net income. The Company manages its interest risk and exchange rate risk in accordance with the requirements of the Guidelines of Market Risk Management of Commercial Banks (商業銀行市場風險管理指引), the Guidelines of Internal Control of Commercial Banks (商業銀行內部控制指引), and the Guidelines of Stress Tests of Commercial Banks (商業銀行壓力測試指引) promulgated by the CBRC and the New Basel II Accord. The Company has also formulated a management system for market risk through regulation, monitoring and reporting measures governing the authorization, credit extension and limit of credit. The Company uses different risk measuring and monitoring methods for banking accounts and trading accounts.

Interest rate risk is the major market risk in connection with banking accounts. The Company regularly measures the interest rate sensitivity gap position to assess the interest rate exposure. The Company further evaluates the effect of interest rate change on net interest income and net value of the Company under different scenarios.

Statement of Interest Rate Sensitivity Gap Position of Banking Accounts

(Unit: RMB million)

	< 3 months	3 months	~ 1 year	1 ~ 5 years	> 5 years	Non-interest bearing	Total
31 December, 2009	82,777		-60,807	35,040	23,104	5,647	85,761
31 December, 2008	167,130		-122,782	-18,892	20,185	3,922	49,563

The Company measures the interest rate risk of its trading accounts by using duration analysis, sensitivity analysis, stress test and scenario analysis. The Company effectively controls its interest rate risk of transaction accounts by establishing risk limit in respect of sensitivity, duration, exposure and stop-loss, etc.

Management Discussion and Analysis

The Company measures the exchange rate risk by using foreign exchange exposure analysis, sensitivity analysis, stress test and risk value. The foreign exchange exposure of the Company comprises structural exposure and trading exposure. Structural exposure arises from mismatch of capital and assets against liabilities and trading surplus in foreign currency. Trading exposure arises mainly from foreign currency (including bullion) business.

The Company endeavours to match amounts and duration of loans denominated in different currencies to control structural exposure of foreign exchange in its business operations. Mismatch may be hedged in foreign exchange market. With respect to exchange rate risks arisen from structural exposure of capital denominated in foreign currencies, the value of such capital can be maintained and enhanced by increasing the utilization of foreign currencies. With respect to trading exposure in foreign exchange transactions, the Company mitigates exchange rate risks by establishing exposure limits and stop-loss limits.

(IV) Operational risk

Operation risk refers to the risk of loss resulting from incompleteness or faults in internal procedures, human error and system failure, or external events. The operational risk of the Company mainly comprises of internal and external risks. Internal risks mainly include risks arising from human error, inappropriate procedures and operation flows and IT system failures. External risks include risks arising out of external contingencies.

The Company capitalizes on the advantage of centralized operations by gradually centralizing the management of its branches. Operating efficiency has been greatly enhanced and the operational risks have been significantly reduced by the standardization of various operational flows and optimization of different systems. By building new core facilities, automation has been highly enhanced, which reduces procedures operated manually and thereby operational risks.

On 3 February, 2010, the information technology system of the Company ran out of service for some time. The Company executed its contingency plan to fix the problems and the system quickly resumed. The Company will place more emphasis on the management and risk prevention of its IT system. The Company will improve its various management mechanism and system and enhance the functions and structures of its IT system in the areas of front, middle and back offices involving workflow control, management, examination, excitation and assessment. The operation and risk management of the Company will be greatly enhanced. The Company will ensure the compatibility of the old and new IT systems.

(V) Implementation of New Basel II Accord

The Company was officially listed by the CBRC in 2009 as one of the first banks to apply the new capital accord in the PRC. Application of the new capital accord has significant impacts on the upgrading of the Company's risk management, subdividing business management, optimizing resources allocation and increasing capital adequacy ratio and rate of return on capital. By reference to experiences of implementation of the new capital accord by domestic or overseas banks and the circumstances of the Company, the Company has formulated plans to implement the new capital accord, laying down guidelines, objectives, contents and measures in application. The plan was approved by the Board of Directors and is currently being implemented.

Management Discussion and Analysis

(VI) Anti-money laundering

With the setting up of an anti-money laundering regime and a professional anti-money laundering team, the Company has achieved its objective of “forstalling risk; promoting business”.

The Company has formulated a series of documents detailing the responsibilities in confidentiality obligations, inspection, position management, awards and penalties and anti-money laundering examinations, and management of the list of suspected clients, which constituted a well-organized anti-money laundering system. The Company has also built a dedicated anti-money laundering team equipped with ongoing related training. The detection and assessment of money laundering are strengthened by enhancing the analysis of clients and transactions and grading the clients' exposure to money laundering. Efficiency and accuracy of anti-money laundering activities is further strengthened with enhanced provision of information through upgrading systems and improving the anti-money laundering application platform.

XI. Prospects and measures

(I) Outlook on the economy and financial and banking industries

2010 will be a year full of challenges and opportunities for the Chinese economy and banking industry. Generally, the global economic conditions in 2010 will be better. The global economic recovery is expected to continue, the pressure of deflation will further subdue and the job market, investments and consumption will also improve. According to the latest forecast made by the International Monetary Fund on 26 January, 2010, the global economy will grow by 3.9% and 4.3% in 2010 and 2011 respectively. In comparison with the projection in the World Economic Outlook published in October 2009, the International Monetary Fund made an upward adjustment of 0.8 percentage points to the global economic growth in 2010.

The PRC will maintain its moderately easing monetary and fiscal policies to support stable economic growth. It is generally expected that Chinese economic growth will stand to 9%. Firstly, import and export activities that have the most profound impact on economic growth rebounded strongly in November and December 2009. This will strongly support economic growth in 2010. Secondly, as the primary driver of economic growth in 2009, investments will increase significantly in 2010 as a result of commencement of many infrastructure projects, the RMB4,000,000 million government investment package and the acceleration of urbanization. To date, cumulated total investments of new projects shows a year-on-year increase of 67.2% while local governments still have sufficient funds to boost investments. Private investments are also increasing. Thirdly, the consumption stimulus programme has not yet been withdrawn. Together with the improvement in the job market and incomes as well as the progressive reform of the wealth allocation and social insurance system, continuous and stable growth in consumption is expected. Fourthly, economic growth provides a promising external environment for the healthy development of banking industry. As the demand for funds is still strong while sources of funds are limited, the negotiating power of banks is relatively strong. Further, the capital market will remain robust due to the introduction of innovative trading products by the management, allowing banks to explore and expand their intermediary businesses. Banks will therefore be able to improve their income and business structures and explore new development opportunities.

Management Discussion and Analysis

In 2010, the Chinese economy and banking industry will not be free of challenges. Firstly, the current recovery is not stable. Major developed economies such as Europe, the US and Japan are still posting high unemployment rates. With shrinking government budgets, many countries are exposed to sovereign credit risks. While the financial systems have some wriggle room in terms of resilience, the market may slump again, posing potential risks to the Chinese economy.

Secondly, structural risks have emerged. The priority of the government policy was to maintain economic growth in 2009 and it has changed to structural improvement in 2010. Industries that were not downsized or were still in their early stage with significant demands for investment or that were not effectively operated in 2009 will be subject to unfavourable policies and thus will lead to higher risks. The upsurge of asset value increases the risks of property and capital market related industries. Risks relating to excessive and ineffective investments induced by local governments are expected to emerge gradually in the second half of 2010 and in 2011. The quality of the assets in the relevant industries held by banks will deteriorate.

Thirdly, uncertainties in macro-economic policies are increasing. During China's Central Economic Work Conference at the end of 2009, it was confirmed that the "proactive fiscal policy and moderately easing monetary policy" would remain. However, in view of soaring commodity and asset prices, reducing liquidity and upward adjustment of interest rates on central bank bills and debentures, in particular the increases of deposit reserve ratio by 0.5 percentage points on 18 January, 2010 and 25 February, 2010 respectively, the market is quite uncertain about how the PBOC will change its policy to manage the inflation expectation. The monetary and credit policies may, and the interest rates are expected to, change.

Fourthly, the banking industry will face pressure in terms of capital requirements and liquidity. The overwhelming provision of loans in 2009 has imposed many constraints on the capital of the banking industry and further expansion of credit is impossible this year. The implementation of the New Basel II Accord, the increase of capital adequacy ratio by the CBRC, the linkage of expansion with capital adequacy level and the control over subordinated debts may require the banking industry to raise capital in 2010.

Fifthly, the banking industry will face more severe competition. It is no longer easy to maintain profit growth in 2010 by "higher volume against lower price" strategy. Instead, banks will have to consolidate their market share through strengthening strategic planning, market positioning, product innovation, quality services, reorganization, technology upgrade, resources allocation and cost control, and ensure integrated efficiencies through reinforcing risk management and pricing abilities. Most banks maintain their loan-to-deposit ratios below the regulatory benchmarks. Hence, competition for deposits will be fierce in 2010, which will foster an increase in capital costs. Loan businesses, in particular high revenue-generating assets businesses, and intermediary business will be very competitive.

Sixthly, the banking industry will be more strictly regulated. Following the "three measures and one guideline" promulgated by the CBRC to increase capital adequacy ratio and provision coverage in 2009, the PBOC unveiled a slew of measures in January 2010 by raising the restricted deposit reserve ratio by a total of 100 basis points in 18 January and 25 February 2010 consecutively in the face of the surge in credit growth in the first week of 2010. Although the regulatory authorities will be cautious in making any policy change, higher operational risk and compliance risk are expected. In addition, the banking industry in China may face more negative impacts arising from stringent policies if the US government does not raise interest rates in time. The banking industry has to prepare for changes in monetary policies and regulatory measures as well as market changes in 2010.

Management Discussion and Analysis

(II) Our major measures

In view of the new changes in the economic and financial environment, regulatory policies and market competition in 2010, the Company will consolidate strategies, boost transformation and innovation and accelerate structural reform to mitigate risks effectively and improve the overall efficiency in accordance with the new Five-year Development Outline (五年發展綱要) revised by the Board of Directors and the Three-year Development Plan (三年發展規劃) of the management. We will adopt the following measures to accomplish all operational targets and maintain development in a steady and healthy manner:

1. Closely monitor the market and adjust our operation accordingly. To keep abreast of the changing external environment, in particular, the uncertainties arising from policy changes, the Company will proactively reinforce research and analysis efforts to maintain strategic and orderly development of business. While boosting business growth, the Company will endeavour to optimize structures, develop characteristics and enhance operation efficiency.
2. Centralize the allocation of resources and restructure the business to promote key businesses. Adhering to our strategic focus, the Company will expedite the development of the privately-owned businesses, small and micro-businesses, and high-end customers. To tap the market of private businesses, the Company will build up its customer base and develop operation system to foster strategic cooperation. The Company will launch innovative financial products and services designed for SMEs. The Company will make the Shang Dai Tong business model a long-lasting one, and streamline small and micro-business management system and operation system. While expediting the consolidation of retail business resources, the Company will standardize the service system and development plan to establish a comprehensive and multi-layered platform for high end retail products.
3. The Company will continue to introduce innovations to the SBU business model to further enhance overall operation effectiveness and efficiency. Through strengthening internal cooperation of SBU, the Company will capture every market opportunity to unveil collective contractual development, further enriching credit assets operation, reducing capital requirement and optimizing income structure.
4. The Company will further develop the debt business to optimize the structure of the assets business. The Company will adopt effective measures to promote the growth of deposits and increase treasury deposits, settlement deposits and retail deposits. By establishing a marketing platform for group customers, the Company will proactively explore the market in opportunities for stable industries with high growth potentials.
5. The Company will speed up product innovation to increase income from intermediary business through various channels. The Company will reinforce the examination and management of product innovation to streamline the innovation and optimization process of products and boost business development. Through expanding business chain and integrated financial services, the Company will seek to develop business with high revenue emerging markets and expedite consolidation of inter-bank business.
6. The Company will optimize resources allocation to maintain an appropriate gearing ratio. Through measures such as pricing and credit policies, the Company will effectively regulate the growth of deposits and loans, maturity profile and utilization rates. Through efficient financial resources allocation, the Company will offer priorities to important and promising businesses pursuant to our financial policies. The Company will also adopt cost classification and authority control systems to tighten operating cost control and reduce the cost-to-income ratio.

Management Discussion and Analysis

7. The Company will strengthen its risk control to maintain healthy business development. According to the economic policy of the central government and the requirements of regulatory authorities, the Company will fortify risk controls over key industries, regions and customers in a proactive and preventive manner. We will also strengthen the management of non-performing loans for a better recovery rate. Overall compliance examination and examination of internal controls of new businesses and new products will be conducted.
8. Capital management will be enhanced to improve overall operation profitability. The Company manages its business under the constraint of its capital level. The Company examines the risk-adjusted income and added value of its operation units with a view to maximizing capital and resources utilization rate as well as reducing misappropriation of capital. Capital management will play an important role in business development planning, performance assessment and resources allocation.
9. The Company will further improve its comprehensive risk management system to upgrade the technology of risk management. The Company will devise a 3-year risk management plan and coordinate the implementation of the New Basel II Accord to improve the internal rating of credit risks and the management of market, operational and reputation risks and to adopt a risk evaluation of operating units. To cope with business transformation and procedural management, the Company will build up a risk limit management system for all kinds of risks.
10. The Company will enhance the coordination of internal restructuring and the development of process-based banking operations. The Company will move forward SBU reform to enhance internal cooperation and business development. Through optimization of the middle and back-office operation system, the Company intends to streamline the operation structure, management and procedures to realize scientific, systematic and procedural reforms. The Company will also work on all supporting systems as the groundwork for new core systems.
11. The Company will actively expand its network of branches and sub-branches and develop human resources to support the expansion. The Company will accelerate setting up of branches, tier-two branches, sub-branches and sub-branches at county level, to facilitate the strategic transformation. In addition, the Company also seeks to establish a sustainable workforce for its business development by internal promotion, recruitment, redeployment and training of employees.
12. The Company expands its market coverage by establishing banks in rural areas. In response to the CBRC policy of promoting the development of a new rural financial system, the Company proactively explores market opportunities. On the basis of Pengzhou Minsheng Township Bank Co., Ltd., Cixi Minsheng Township Bank Co., Ltd. and Shanghai Songjiang Minsheng Township Bank Co., Ltd., the Company will set up more township banks in villages and towns in Eastern, Central and Western China. Also, the Company will seek to develop a management system and organization structure to support the operation of township banks in rural areas.

To cope with changes in the external environment, the Company will continue to focus on strategic targets as “non-state-owned enterprises”, “small and micro-businesses” and “high-end customers”. The Company will further proceed with the reform towards process-based banking, and put its best efforts in accomplishing all tasks planned for the year maximizing its market value and build it into a “distinctive and efficient” bank.

Changes In Share Capital and Information on Shareholders

I. Changes in Shares and Convertible Bonds

(I) Changes in shares

1. Changes in shares:

(Unit: Share)

	31 December, 2008		Changes over the reporting period (+, -)		31 December, 2009	
	Number of shares	Percentage (%)	Issue of H shares	Release of restrictions on sale	Number of shares	Percentage (%)
I. Shares subject to restriction						
on sales	928,200,000	4.93	+290,201,000	-928,200,000	290,201,000	1.30
1. State-owned shares	—	—	—	—	—	—
2. State-owned legal person shares	—	—	—	—	—	—
3. Other domestic shares	928,200,000	4.93	—	-928,200,000	—	—
Of which:						
Domestic legal person shares	928,200,000	4.93	—	-928,200,000	—	—
Domestic natural person shares	—	—	—	—	—	—
4. Foreign investor shares	—	—	+290,201,000	—	290,201,000	1.30
Of which:						
Overseas legal person shares	—	—	+204,848,000	—	204,848,000	0.92
Overseas natural person shares	—	—	+85,353,000	—	85,353,000	0.38
II. Shares not subject to restriction on sales						
restriction on sales	17,894,801,989	95.07	+3,149,074,500	+928,200,000	21,972,076,489	98.70
1. Ordinary shares in RMB	17,894,801,989	95.07	—	+928,200,000	18,823,001,989	84.55
2. Domestic listed foreign invested shares	—	—	—	—	—	—
3. Overseas listed foreign invested shares	—	—	+3,149,074,500	—	3,149,074,500	14.15
4. Others	—	—	—	—	—	—
III. Total number of shares	18,823,001,989	100	3,439,275,500	—	22,262,277,489	100.00

By the end of the reporting period, the Company had maintained sufficient public float as stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") since the listing of its H shares.

Changes In Share Capital and Information on Shareholders

2. Shares subject to restriction on sales and restrictions

(Unit: '000 shares)

No.	Holders of shares subject to restriction on sales	Shares subject to restriction on sales	Expiry date of lockout period	Additional shares available for listing and trading	Remarks
1	China Life Insurance Co., Ltd. – Traditional – Common Insurance Products – 005L-CT001, SH	928,200	23 August, 2009	—	All shares subject to restriction on sales held are listed
2	HKSCC Nominees Limited	290,201	26 May, 2010	—	

(II) Changes in convertible bonds

As approved by the CSRC (Zheng Jian Fa Xing Zi [2003] No. 13), the Company issued RMB4,000 million 5-year convertible bonds at the Shanghai Stock Exchange on 27 February, 2003. The convertible bonds were listed on 18 March, 2003 and became convertible on 27 August, 2003. The conversion period was terminated and the bonds were delisted on 26 February, 2008. As at the close of the market on 26 February, 2008, RMB3,999,671,000 of "Minsheng Convertible Bonds" (100016) had been converted into a total of 1,616,729,400 "Minsheng Bank" shares (600016) (including bonus shares and shares from rights issue), representing 11.17% of the total share capital of the Company, and convertible bonds of RMB329,000 remained unconverted, representing 0.008% of the total issued "Minsheng Convertible Bonds". The principal and interest of these unconverted bonds were due and repaid in full on 26 February, 2008.

II. Issuance and Listing of Shares

(I) Issuance of shares in the three years immediately before the end of the reporting period

The Company launched its Initial Public Offering of ordinary shares dominated in RMB (A shares) on 27 November, 2000.

On 22 June, 2007, as approved by the CSRC vide its document of Zheng Jian Fa Xing Zi [2007] No.7, the Company issued 2,380,000,000 A shares by private placement. For details, please refer to China Securities Journal, Shanghai Securities News and The Securities Times on 27 June, 2007.

On 26 November, 2009, the Company successfully listed 3,321,706,000 overseas listed foreign invested shares (H shares). On 18 December, 2009, the Company exercised an over-allotment option of H share at the price of HK\$9.08 to allot 117,569,500 H shares. The Company raised a total of RMB26,750 million (net of commission and transaction levy). After such H share offering, the total share capital of the Company amounted to 22,262,277,489 shares.

Changes In Share Capital and Information on Shareholders

(II) Total number of shares and changes in shareholding structure in the reporting period

At the beginning of the reporting period, the Company had a total of 18,823,001,989 shares. During the reporting period, the Company issued 3,439,275,500 overseas listed foreign invested shares (H shares), 117,569,500 shares of which were over-allotted. As at the end of the reporting period, the Company had a total of 22,262,277,489 shares.

(III) In the reporting period, the Company had no employee shares.

III. Issuance and Listing of Convertible Bonds

Subject to the approval by the CSRC (Zheng Jian Fa Xing Zi [2003] No.13), the Company issued RMB4,000 million convertible bonds on 27 February, 2003, which were listed on the Shanghai Stock Exchange on 18 March, 2003. The offering document and listing announcement were published on China Securities Journal, Shanghai Securities News and The Securities Times on 21 February, and 13 March, 2003, respectively.

The convertible bonds became convertible on 27 August, 2003. The conversion period was terminated and the bonds were delisted on 26 February, 2008. As of the close of the market on 26 February, 2008, RMB3,999,671,000 of "Minsheng Convertible Bonds" (100016) had been converted into 1,616,729,400 "Minsheng Bank" shares (600016) (including bonus shares and shares from rights issue), representing 11.17% of the total share capital of the Company, and convertible bonds of RMB329,000 remained unconverted, representing 0.008% of the total "Minsheng Convertible Bonds" issued. The principal and interests of these unconverted bonds were due and repaid in full on 26 February, 2008.

IV. Issuance of Financial Bonds, Subordinated Bonds and Hybrid Capital Bonds

Pursuant to the approval by the PBOC in its administrative permission (Yin Shi Chang Zhun Yu Zi [2006] No.3) and the approval by the CBRC (Yin Jian Fu [2006] No. 18), financial bonds with a total of RMB22,000 million were issued by the Company through a public offering in the interbank bond market in two installments in 2006 and 2007 respectively. Of which, the financial bonds totaling RMB10,000 million at a fixed interest rate of 2.88% for a term of three years were issued in 2006. As at 22 May, 2006, proceeds from the RMB10,000 million financial bonds, net of expenses of issuance, were fully credited to the account of the Company, and this public offering was thus completed. As at 22 May, 2009, the RMB10,000 million financial bonds issued in 2006 were due and repaid in full.

The financial bonds totaling RMB12,000 million were issued in 2007. Of which, the financial bonds of RMB6,000 million for a term of three years and the financial bonds of RMB6,000 million for a term of five years were not redeemable by the issuer before expiry. These bonds had floating rates and the par interest rate per annum was based on the sum of a benchmark rate plus a basic spread. The benchmark rate was the one-year deposit rate on the previous interest payment date, as published by the PBOC. The initial rate and the current benchmark rate of the three-year floating rate financial bonds were 3.67% and 3.06% respectively, with an initial basic spread of 0.61%. The value date of the financial bonds was 22 June, 2007 and the expiry date will fall on 22 June, 2010. The interests are paid on an annual basis. The initial rate and the current benchmark rate of the five-year floating rate financial bonds were 3.82% and 3.06% respectively, with an initial basic spread of 0.76%. The value date of the financial bonds was 22 June, 2007 and the expiry date will fall on 22 June, 2012. The interests are paid on an annual basis. As at 22 June, 2007, the proceeds from the RMB12,000 million financial bonds, net of expenses of issue, were fully credited to the account of the Company, and this issuance was thus completed.

Changes In Share Capital and Information on Shareholders

Pursuant to the approval by the PBOC (Yin Fu [2004] No.59) and the approval by the CBRC (Yin Jian Fu [2004] No.159), the Company issued subordinated bonds totalling RMB5,800 million, comprising RMB4,315 million bonds at a fixed rate of 5.1% and RMB1,485 million floating rate bonds based on an initial rate of 4.65% (a benchmark interest rate of 2.25% plus a basic spread of 2.4%), through a private placement in the interbank bond market. Where the PBOC revises its benchmark interest rates, the interest rate of the floating rate bonds will be adjusted accordingly. These subordinated bonds were issued for a term of ten years and the interests were paid on an annual basis. The proceeds from the RMB5,800 million subordinated bonds, net of expenses of issue, were fully credited to the account of the Company and thus this private placement was completed on 8 November, 2004. According to applicable rules, the proceeds from RMB5,800 million were fully accounted as supplementary capital. On 2 November, 2009, the Company exercised the early redemption option to redeem the subordinated bonds of RMB5,800 million in full.

Pursuant to the approval by the PBOC (Yin Fu [2005] No.112) and the approval by the CBRC (Yin Jian Fu [2005] No.309), the Company issued subordinated bonds totaling RMB1,400 million at fixed interest rate for a term of ten years through a private placement in the interbank bond market. Such bonds are redeemable at the discretion of the issuer at the end of the 5th year, with an initial interest rate of 3.68%. If the Company does not exercise any redemption option at the end of the 5th year, the interest rate for the remaining five years would be increased by 300BP (100BP equal to 1%) on top of the interest rate applicable to the first five years and the interests are paid on an annual basis. On 26 December, 2005, the proceeds from the RMB1,400 million subordinated bonds, net of expenses of issue, were fully credited to the account of the Company, and this private placement was thus completed. According to applicable rules, these proceeds of RMB1,400 million were fully accounted as supplementary capital.

Pursuant to the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2006] No.27) and the approval by the CBRC (Yin Jian Fu [2006] No.80), the Company issued a total of RMB4,300 million hybrid capital bonds for a term of 15 years through a public offering in the interbank bond market. Subject to the approval by the CBRC, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the tenth year but before the maturity date of the bonds. The bonds comprised fixed rate bonds and floating rate bonds. The fixed rate bonds, amounted to RMB3,300 million and were issued at an initial interest rate of 5.05% and the interest rate for the remaining five years will increase by 300BP on top of the initial interest rate applicable in the first ten years if the Company does not exercise any redemption option. The floating rate bonds amounted to RMB1,000 million and the par interest rate per annum was based on the sum of a benchmark rate plus a basic spread. The benchmark rate was the one-year time deposit rate published by the PBOC and the initial basic spread was 2%. If the Company does not exercise the early redemption option, an extra premium of 100BP will apply to the basic spread on a year-on-year basis from the 11th interest payment year. As of 28 December, 2006, the proceeds from the RMB4,300 million hybrid capital bonds, net of expenses of issue, were fully credited to the account of the Company and this issue of bonds was thus completed. According to applicable rules, these proceeds of RMB4,300 million were fully accounted as supplementary capital.

Pursuant to the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2009] No.8) and the approval by the CBRC (Yin Jian Fu [2009] No.16), the Company issued a maximum of RMB5,000 million hybrid capital bonds for a term of 15 years through a public offering in the interbank bond market. Subject to the approval by the CBRC, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the tenth year but before the maturity of the bonds. The bonds comprised fixed rate bonds and floating rate bonds. The fixed rate bonds, amounting to RMB3,325 million, were issued at an initial interest rate of 5.70% and the interest rate for the remaining five years will increase by 300BP (100BP equals to 1%) on top of the initial interest rate applicable

Changes In Share Capital and Information on Shareholders

to the first ten years if the Company does not exercise any redemption option. The floating rate bonds amounted to RMB1,675 million and the par interest rate per annum was based on the sum of a benchmark rate plus a basic spread. The benchmark rate was the one-year time deposit rate published by the PBOC and the initial basic spread was 3%. If the Company does not exercise the early redemption option, an extra premium of 300BP will apply to the basic spread on a year-on-year basis from the 11th interest payment year. As of 26 March, 2009, proceeds from the RMB5,000 million hybrid capital bonds, net of expenses of issue, were fully credited to the account of the Company and this issue of bonds was thus completed. According to applicable rules, these proceeds of RMB5,000 million were fully accounted as supplementary capital.

V. Shareholders

(I) The table below sets out the top ten shareholders of the Company and their shareholdings:

Particulars of shareholdings of the top ten shareholders					(Unit: shares)
Name of shareholders	Type of shareholder	Shareholdings	Shares	Shares subject to restriction on sales	
HKSCC Nominees Limited	/	15.29%	3,404,599,000	290,201,000	
New Hope Investment Co., Ltd.	Domestic legal person	4.99%	1,111,322,354	—	
China Life Insurance Co., Ltd. – Traditional – Common Insurance Products–005L– CT001, SH	Domestic legal person	4.31%	959,422,762	—	
China Shipowners Mutual Assurance Association	Domestic legal person	3.39%	754,803,754	—	
Orient Group Incorporation	Domestic legal person	3.33%	740,808,520	—	
China SME Investment Co., Ltd.	Domestic legal person	2.76%	614,962,526	—	
China Oceanwide Holdings Group Co., Ltd.	Domestic legal person	2.62%	582,449,263	—	
Fuxin Group Co., Ltd.	Domestic legal person	2.16%	481,542,700	—	
Sichuan South Hope Industrial Co., Ltd.	Domestic legal person	2.09%	465,405,782	—	
Bank of Communications-EFUND 50 Securities Investment Fund	Domestic legal person	1.12%	249,586,326	—	

Changes In Share Capital and Information on Shareholders

Shareholdings of top ten holders of shares not subject to restriction on sales		
Shareholders	Shares not subject to restriction on sales	Classes of shares
HKSCC Nominees Limited	3,114,398,000	Overseas listed foreign invested shares (H shares)
New Hope Investment Co., Ltd.	1,111,322,354	Ordinary shares denominated in RMB
China Life Insurance Co., Ltd. — Traditional — Common Insurance Products—005L—CT001, SH	959,422,762	Ordinary shares denominated in RMB
China Shipowners Mutual Assurance Association	754,803,754	Ordinary shares denominated in RMB
Orient Group Incorporation	740,808,520	Ordinary shares denominated in RMB
China SME Investment Co., Ltd.	614,962,526	Ordinary shares denominated in RMB
China Oceanwide Holdings Group Co., Ltd.	582,449,263	Ordinary shares denominated in RMB
Fuxin Group Co., Ltd.	481,542,700	Ordinary shares denominated in RMB
Sichuan South Hope Industrial Co., Ltd.	465,405,782	Ordinary shares denominated in RMB
Bank of Communications-EFUND 50 Securities Investment Fund	249,586,326	Ordinary shares denominated in RMB
Statement on the related relationship or concert actions among the aforesaid shareholders	Both of New Hope Investment Co., Ltd. and Sichuan South Hope Industrial Co. Ltd. are controlled by New Hope Group Co., Ltd. The Company is not aware of any other related relationship between the shareholders.	

Note: The number of shares held by H-share holders was recorded in the Register of Members as kept by the H-Share Registrar of the Bank.

Changes In Share Capital and Information on Shareholders

(II) Substantial shareholders' and other persons' interests or short positions in the shares and underlying shares under Hong Kong laws and regulations

As at 31 December, 2009, the following persons (other than the Directors, Supervisors and chief executives of the Company) had interests and/or short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of substantial Shareholders	Class of shares	Long/ short position	Capacity	No. of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage of all the issued shares (%)
New Hope Group Co., Ltd.	A	Long	Interest held by the corporation controlled by this substantial shareholder	1,576,728,136	1 & 4	8.38	7.08
Li Wei	A	Long	Interest held by the corporation controlled by the spouse of this substantial shareholder	1,576,728,136	2 & 4	8.38	7.08
Liu Chang	A	Long	Interest held by the corporation controlled by this substantial shareholder	1,576,728,136	3 & 4	8.38	7.08
UBS AG	H	Long	Beneficial interest	234,000			
		Long	Security interest in the shares	2,476,500			
		Long	Interest held by the corporation controlled by this substantial shareholder	15,877,500	5		
				18,588,000		0.54	0.08
		Short	Beneficial interest	11,403,805			
		Short	Interest held by the corporation controlled by this substantial shareholder	15,350,000	5		
				26,753,805	6	0.78	0.12

Changes In Share Capital and Information on Shareholders

Notes:

1. The 1,576,728,136 A shares comprised 465,405,782 A shares directly held by Sichuan South Hope Industrial Co., Ltd. and 1,111,322,354 A shares directly held by New Hope Investment Co., Ltd. Sichuan South Hope Industrial Co., Ltd. was wholly-owned by New Hope Group Co., Ltd., while New Hope Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and Sichuan New Hope Agri-Business Co., Ltd. respectively. New Hope Group Co., Ltd. held 45.70% of the issued share capital of Sichuan New Hope Agri-Business Co., Ltd.

According to the SFO, New Hope Group Co., Ltd. was deemed to have interests in the 465,405,782 A shares held by Sichuan South Hope Industrial Co., Ltd. and in the 1,111,322,354 A shares held by New Hope Investment Co., Ltd. Meanwhile, Sichuan New Hope Agri-Business Co., Ltd. was also deemed to have interests in the 1,111,322,354 A shares held by New Hope Investment Co. Ltd.

2. Ms. Li Wei is the spouse of Mr. Liu Yonghao (a Non-executive Director of the Company). According to the SFO, Ms. Li was deemed to have interests in the 1,576,728,136 A shares of the Company in which Mr. Liu Yonghao had interests (Mr. Liu Yonghao's interests in shares is disclosed in this annual report in the section headed "Interests or short positions of Directors, Supervisors and chief executives in the securities of the Company or its associated corporations under Hong Kong laws and regulations").
3. Ms. Liu Chang held 36.35% of the issued share capital of New Hope Group Co., Ltd. (see note (1) above). According to the SFO, Ms. Liu was deemed to have interests in the 1,576,728,136 A shares in the Company. Ms. Liu Chang is the daughter of Mr. Liu Yonghao (a Non-executive Director of the Company).
4. The interests that New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang had in the 1,576,728,136 A shares, as set out in the above table, were the same block of shares.
5. By virtue of the 100% control over the following corporations, UBS AG was deemed to have interests and/or short positions in the shares and underlying shares in the Company held by these corporations:

Controlled corporation	Shares	
	Long position	Short position
UBS Securities LLC	15,350,000	15,350,000
UBS Global Asset Management (Japan) Ltd	527,500	—
Total:	15,877,500	15,350,000

6. The short position of UBS AG in 2,616,724 H shares of the Company related to physically settled derivatives (off exchange).

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December, 2009 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

(III) Share pledge and lock-up in respect of shares held by shareholders with 5% or more equity in the Company

As at 31 December, 2009, no shareholder holds shares of the Company of 5% or more (other than HKSCC Nominees Limited).

(IV) Controlling shareholder/ultimate controller

The Company does not have any controlling shareholder or ultimate controller.

(V) Shareholders with 5% or more equity in the Company

As at 31 December, 2009, no shareholder holds shares of the Company of 5% or more (other than HKSCC Nominees Limited).

Directors, Supervisors, Senior Management and Employees

I. Directors, Supervisors and Senior Management

(I) Basic information

Name	Gender	Year of Birth	Position	Term of office	Shares held at beginning of the period (share)	Shares held at end of the period (share)	Aggregate remunerations before tax received during the reporting period (RMB'000)	Remuneration paid by shareholders' companies or other related companies
DONG Wenbiao	M	1957	Chairman & Executive Director	23.3.2009-23.3.2012	—	—	6,545.8	No
ZHANG Hongwei	M	1954	Vice Chairman & Non-executive Director	23.3.2009-23.3.2012	—	—	860.0	Yes
LU Zhiqiang	M	1951	Vice Chairman & Non-executive Director	23.3.2009-23.3.2012	—	—	865.0	Yes
LIU Yonghao	M	1951	Vice Chairman & Non-executive Director	23.3.2009-23.3.2012	—	—	612.5	Yes
WANG Yugui	M	1951	Non-executive Director	23.3.2009-23.3.2012	—	—	760.0	Yes
CHEN Jian	M	1958	Non-executive Director	23.3.2009-23.3.2012	—	—	690.0	Yes
WONG Hei	F	1962	Non-executive Director	23.3.2009-23.3.2012	—	—	777.5	Yes
SHI Yuzhu	M	1962	Non-executive Director	23.3.2009-23.3.2012	—	—	710.0	Yes
WANG Hang	M	1971	Non-executive Director	23.3.2009-23.3.2012	—	—	820.0	Yes
WANG Junhui	M	1971	Non-executive Director	23.3.2009-23.3.2012	—	—	565.0	Yes
LIANG Jinquan	M	1940	Independent Non-executive Director	23.3.2009-23.3.2012	—	—	—	No
WANG Songqi	M	1952	Independent Non-executive Director	23.3.2009-23.3.2012	—	—	925.0	No
Andrew WONG	M	1957	Independent Non-executive Director	23.3.2009-23.3.2012	—	—	1,120.0	No
QIN Rongsheng	M	1962	Independent Non-executive Director	9.9.2009-23.3.2012	—	—	230.0	No
WANG Lihua	M	1963	Independent Non-executive Director	9.9.2009-23.3.2012	—	—	197.5	No
HAN Jianmin	M	1969	Independent Non-executive Director	9.9.2009-23.3.2012	—	—	215.0	No
HONG Qi	M	1957	Executive Director, President of the Bank	23.3.2009-23.3.2012	—	—	6,268.3	No
LIANG Yutang	M	1958	Executive Director, Vice President of the Bank	23.3.2009-23.3.2012	—	—	4,876.5	No
QIAO Zhimin	M	1952	Chairman of the Supervisory Board, Employee Supervisor	23.3.2009-23.3.2012	—	—	5,784.2	No
XING Jijun	M	1964	Vice Chairman of the Supervisory Board	23.3.2009-23.3.2012	—	—	762.0	Yes
LU Zhongnan	M	1955	Supervisor	23.3.2009-23.3.2012	—	—	660.0	Yes
ZHANG Disheng	M	1955	Supervisor	23.3.2009-23.3.2012	—	—	622.5	Yes
XU Rui	F	1945	External Supervisor	23.3.2009-23.3.2012	—	—	685.0	No
WANG Liang	M	1942	External Supervisor	23.3.2009-23.3.2012	—	—	667.5	No
CHEN Jinzhong	M	1960	Employee Supervisor	23.3.2009-23.3.2012	—	—	3,863.2	No
WANG Lei	F	1961	Employee Supervisor	23.3.2009-23.3.2012	—	—	3,707.6	No
SHAO Ping	M	1957	Vice President of the Bank	23.3.2009-23.3.2012	—	—	4,249.0	No
ZHAO Pinzhang	M	1956	Vice President of the Bank	23.3.2009-23.3.2012	—	—	4,249.0	No
MAO Xiaofeng	M	1972	Vice President of the Bank, Board Secretary	23.3.2009-23.3.2012	—	—	4,249.0	No
WU Touhong	F	1959	Chief Financial Officer	23.3.2009-23.3.2012	—	—	4,259.9	No
Tow Heng Tan	M	1955	Non-executive Director of the 4 th session of Board of Directors	16.7.2006-23.3.2009	—	—	195.0	Yes
Wu Zhipan	M	1956	Independent Non-executive Director of the 4 th session of Board of Directors	16.7.2006-23.3.2009	—	—	220.0	No
Gao Shangquan	M	1929	Independent Non-executive Director	23.3.2009-9.9.2009	—	—	652.5	No
Zhang Ke	M	1953	Independent Non-executive Director	23.3.2009-9.9.2009	—	—	807.5	No
Eddie Wang	M	1949	Executive Director of the 4 th session of Board of Directors, President of the Bank	16.7.2006-23.3.2009	—	—	2,527.6	No
Huang Diyan	M	1930	Chairman of the 4 th session of the Supervisory Board	15.1.2007-23.3.2009	—	—	5,002.5	No
Li Yu	M	1974	Supervisor of the 4 th session of the Supervisory Board	15.1.2007-23.3.2009	—	—	185.0	Yes

Directors, Supervisors, Senior Management and Employees

Note:

1. On 23 March, 2009 the 5th session of the Board of Directors was elected at the 1st Extraordinary Shareholders' Meeting in 2009, and 17 directors were elected. They were Dong Wenbiao, Zhang Hongwei, Lu Zhiqiang, Liu Yonghao, Wang Yugui, Chen Jian, Wong Hei, Shi Yuzhu, Wang Hang, Wang Junhui, Gao Shangquan, Zhang Ke, Andrew Wong, Wang Songqi, Liang Jinquan, Hong Qi, and Liang Yutang;
2. On 23 March, 2009 the 5th session of the Supervisory Board was elected at the first extraordinary shareholders' meeting in 2009, and 8 Supervisors were elected, including 5 Shareholder-nominated Supervisors and external Supervisors, and 3 Supervisors elected by the working committee of the Labor Union. They were Qiao Zhimin, Xing Jijun, Lu Zhongnan, Zhang Disheng, Xu Rui, Wang Liang, Chen Jinzhong, and Wang Lei;
3. On 23 March, 2009, at the 1st meeting of the 5th session of the Board of Directors, Hong Qi was appointed as the President of the Company, Liang Yutang, Shao Ping, Zhao Pinzhang and Mao Xiaofeng as the Vice Presidents of the Company, Mao Xiaofeng as the board secretary, and Wu Touhong as the Chief Financial Officer;
4. On 22 July, 2009 the Company announced written resignations report of Gao Shangquan and Zhang Ke from Independent Non-executive Directors of the Company, who had served as Independent Non-executive Directors for successive terms of 6 years and applied to resign from the positions of Independent Non-executive Directors and positions in relevant specialised committees under the Board as required by the Guiding Opinions on Establishment of Independent Directors System by Listed Companies (關於在上市公司建立獨立董事制度的指導意見) of the CSRC and the Articles of Association of the Company.
5. On 9 September, 2009, Wang Lihua, Qin Rongsheng and Han Jianmin were elected as the Independent Non-executive Directors of the 5th session of the Board of Directors on the 3rd Extraordinary General Meeting of the Company in 2009. The qualifications of Wang Lihua, Qin Rongsheng and Han Jianmin were approved by the CBRC.
6. Liang Jinquan, an Independent Non-executive Director of the Company, is a government official under direct management of central government ("中管幹部"). In accordance with the 2008 No.22 Circular issued by Central Commission for Discipline Inspection of the Communist Party of China ("中紀委") and based on his personal request, Liang Jinquan has waived his director's remuneration for 2009.
7. As at the end of the reporting period, the Company had not implemented any incentive share option scheme.

(II) Major working experience of current Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Dong Wenbiao, has been an Executive Director since 30 April, 2000. He is also the Chairman of the Board and the chairman of Strategic Development and Investment Management Committee under the Board. Mr. Dong is also a member of the Tenth and Eleventh Chinese People's Political Consultative Conference ("CPPCC"). Since 2007, Mr. Dong has been a vice chairman of the Committee for Economic Affairs of the CPPCC, a member of the All-China Federation of Industry and Commerce ("ACFIC") and the vice chairman of the All-China General Chamber of Industry and Commerce. Mr. Dong joined the Company as a vice president at the establishment of the Company and has been an executive Director since April 2000. Mr. Dong was the President of the Company from April 2000 to July 2006, and became the Chairman in July 2006. Mr. Dong is an independent director of Fortis Haitong Investment Management Co. Ltd. Prior to joining the Company, Mr. Dong was the chairman and president of Haitong Securities Co., Ltd. from 1993 to 1995, a director of the Bank of Communications from 1992 to 1995, the general manager and secretary of the party committee of the Zhengzhou branch of the Bank of Communications from 1991 to 1994 and a deputy director of Henan Finance and Management College from 1988 to 1991. Mr. Dong has over 28 years of experience in banking management and the financial and securities industries. Mr. Dong obtained a master's degree in economics from Xiamen University in 1993 and is a senior economist.

Directors, Supervisors, Senior Management and Employees

Mr. Hong Qi, has been an Executive Director since 8 January, 2004. He is also the President and a member of Strategic Development and Investment Management Committee and Nomination Committee under the Board. Mr. Hong is the vice president of China Chamber of International Commerce, a committee member of China Society for Finance and Banking, an executive committee member of China Society for International Finance and Banking, a council member of Financial Planning Standard Council of China, and a part-time professor of China Financial Academy. Mr. Hong was a Vice President of the Company from 2000 to March 2009 and became the President in March 2009. He was a director of the Business Department, Head Office of the Company from January, 1996 to September 1996. Mr. Hong acted as the vice general manager of our Beijing Administrative Department from September 1996 to April 1998 and promoted to the general manager from 1998 to 2000. Prior to joining the Company, Mr. Hong was the managing director and secretary of the party committee of the Beihai branch of the Bank of Communications from 1994 to 1995, a deputy director of the securities research institute of the Renmin University of China from 1993 to 1994, and a section chief at the headquarters of the People's Bank of China ("PBOC") from 1985 to 1991. Mr. Hong has over 24 years of experience in banking management and finance. Mr. Hong obtained his doctorate in economics from Renmin University of China in 1996.

Mr. Liang Yutang, has been an Executive Director since 23 March, 2009. He is also the Vice President and a member of Related Party Transactions Supervision Committee, Compensation and Remuneration Committee and Risk Management Committee under the Board. Mr. Liang joined the Company as a deputy general manager of the funds planning department at the establishment of the Company and was the general manager of the funds planning department and the general manager of the financial institutions department of the Company from 1996 to 2002. Mr. Liang was an assistant to our President from 2003 to 2005, the general manager of the Beijing Administrative Department of the Company from 2002 to 2007 and became our Vice President in February 2005. Before joining the Company, Mr. Liang was the manager of the integrated planning department of the Bank of Communications from 1994 to 1995, and the general manager of Yutong Real Estate Development and Investment Company of the Bank of Communications, Zhengzhou branch from 1992 to 1994. Mr. Liang was the deputy head of the academic secretariat of Henan Finance and Management College from 1991 to 1992, and the deputy director, director of the management teaching and researching department of Henan Finance and Management College from 1985 to 1991. Mr. Liang has over 28 years of experience in finance. Mr. Liang obtained a master's degree in banking and finance from Xiamen University in 1993 and is a senior economist.

Directors, Supervisors, Senior Management and Employees

Non-executive Directors

Mr. Zhang Hongwei, has been a Vice Chairman of the Board of the Company since 30 April, 2000. Mr. Zhang is a Non-executive Director and also a member of Strategic Development and Investment Management Committee and Nomination Committee under the Board. Mr. Zhang is the chairman of the board of Orient Group Industrial Co., Ltd., Orient Group Incorporation (listed on the Shanghai Stock Exchange (SSE: 600811)), Jinzhou Port Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600190/900952)) and United Energy Group Limited (listed on The Stock Exchange of Hong Kong Limited (stock code: 0467)) and a director of China Minzu Securities Co., Ltd. Mr. Zhang is also a member of the CPPCC, and the vice chairman of the All-China General Chamber of Industry and Commerce. Mr. Zhang was a vice chairman of the ACFIC from 1997 to 2007. Mr. Zhang was previously a member of the Standing Committee of the 10th CPPCC. Mr. Zhang obtained a master's degree in economics from Harbin Institute of Technology in 1997 and is a senior economist.

Mr. Lu Zhiqiang, has been a Vice Chairman of the Board of the Company since 16 July, 2006. Mr. Lu is a Non-executive Director and also a member of Strategic Development and Investment Management Committee and Compensation and Remuneration Committee under the Board. Mr. Lu had been a Director since the establishment of the Company until June 2003 and was re-elected as a Director in 2006. Mr. Lu is the chairman of the board and president of Oceanwide Group Co. Ltd. and China Oceanwide Holdings Group Co., Ltd., the chairman of Oceanwide Investment Co., Ltd., Oceanwide Real Estate Group Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000046)) and the vice chairman of Minsheng Life Insurance Co., Ltd., and a director of Haitong Securities Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600837)). Mr. Lu is also a member of the Standing Committee of the CPPCC and a vice chairman of the ACFIC. Mr. Lu was the Chief Supervisor of the Company from June 2003 to December 2004 and a deputy Chief Supervisor of the Company from December 2004 to June 2006. Mr. Lu obtained a master's degree in economics from Fudan University in 1995 and is a research fellow.

Mr. Liu Yonghao, has been a Vice Chairman of the Board of the Company since 23 March, 2009. Mr. Liu is a Non-executive Director, a member of Strategic Development and Investment Management Committee under the Board and a substantial shareholder of the Company and was previously our Vice Chairman of the Board since the establishment of the Company until 2006. Mr. Liu is currently the chairman of the board of New Hope Group Co., Ltd, Sichuan New Hope Agri-Business Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000876)), New Hope Investment Co., Ltd. and Shandong Liuhe Group Co., Ltd., and the chief supervisor of Minsheng Life Insurance Co., Ltd. Mr. Liu has been a member of the CPPCC since 1993 and a vice chairman of Committee for Economic Affairs of the CPPCC since 2003. Mr. Liu was previously the vice president of the China Society for Promotion of the Guangcai Program and a vice chairman of the ACFIC.

Directors, Supervisors, Senior Management and Employees

Mr. Wang Yugui, was appointed on 3 December, 1995 and has been a Non-executive Director since the establishment of the Company. Mr. Wang is also a member of Risk Management Committee and Nomination Committee under the Board. He is the managing director of China Shipowners Mutual Assurance Association, an executive member of China Maritime Law Association and the China Association of Trade in Services, a director of Minsheng Securities Co., Ltd., and an arbitrator of the maritime arbitration committee of the China Council for the Promotion of International Trade. Mr. Wang has previously served as a director and as a supervisor of China Everbright Bank, a supervisor of Haitong Securities Co., Ltd., and a part-time lawyer of Beijing Jingwei Law Firm. Mr. Wang graduated from the English department of Beijing Second Foreign Language Institute in 1977 and is a senior economist.

Mr. Chen Jian, was appointed on 3 December, 1995 and has been a Non-executive Director since the establishment of the Company. Mr. Chen is also a member of Compensation and Remuneration Committee under the Board. Mr. Chen is the vice chairman of the board of China SME Investment Co. Ltd., the chairman of Beijing Maoyuanyuan Real Estates Development Company Limited. Mr. Chen was previously the chairman of Beijing Huamao Entertainment Co., Ltd., a director of Hunan Laodie Agricultural Technology Co. Ltd., an editor of the Institute of Agricultural Economics of Chinese Academy of Agricultural Sciences, a reporter of the agricultural department of the People's Daily, a deputy secretary-general of China Foundation for Poverty Alleviation, and a director of the State Council's research office. Mr. Chen obtained a master's degree in administration of agricultural economics from the graduate school of Chinese Academy of Agricultural Sciences in 1985.

Ms. Wong Hei, has been a Non-executive Director of the Company since 16 June, 2003. Ms. Wong is also a member of Audit Committee and Related Party Transactions Supervision Committee under the Board. Ms. Wong is the legal representative and chairman of the board of Fuxin Group Co., Ltd. and G-First OEIC Co., Ltd.. Ms. Wong was previously the financial controller of Xiamen Fuxin Property Co., Ltd. and Fuxin Group Co., Ltd. Ms. Wong graduated from the Jimei Teachers College in 1982.

Mr. Shi Yuzhu, has been a Non-executive Director of the Company since 16 July, 2006. He is also a member of Audit Committee and Related Party Transactions Supervision Committee under the Board. Mr. Shi is the chairman of the board of Giant Investment Co., Ltd and Shanghai Giant Network Science Technologies Co., Ltd., the chairman of the board and the CEO of Giant Interactive Group Inc. (listed on New York Stock Exchange (NYSE: GA)), an executive director of Stone Group Holdings Limited, a director of Shanghai Zhengtu Information Technology Co., Ltd. and the ultimate controller of Shanghai Giant Lifetech Co., Ltd.. Mr. Shi was previously the chief executive officer of Stone Group Holdings Limited from 2004 to 2007. Mr. Shi obtained his bachelor's degree in mathematics from Zhejiang University in 1984. He was also a research student from Shenzhen University in software science in 1990.

Directors, Supervisors, Senior Management and Employees

Mr. Wang Hang, has been a Non-executive Director of the Company since 16 July, 2006. He is also a member of Compensation and Remuneration Committee, Risk Management Committee and Nomination Committee under the Board. Mr. Wang is a director and vice president of New Hope Group Co., Ltd., a director of Sichuan South Hope Enterprises Co. Ltd. and the general manager of Beijing Shouwang Asset Management Co. Ltd.. Mr. Wang has been a non-executive director of Hebei Baoshuo Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600155)) since 29 December, 2009. Mr. Wang was previously a civil servant at the general office of the PBOC, the chairman of the board of Kunming O-Park Co., Ltd., the consultant and chief operating officer of the corporate finance department of New Hope Group Co., Ltd. and the vice chairman of the board of Union Trust & Investment Ltd.. Mr. Wang has a master's degree in economics from Peking University.

Mr. Wang Junhui, has been a Non-executive Director of the Company since 23 March, 2009. He is also a member of Strategic Development and Investment Management Committee and Related Party Transactions Supervision Committee under the Board. Mr. Wang has been the vice president of China Life Asset Management Company Limited since 2007. He has also been the Director of China Life Franklin Asset Management Company Limited since 2009. Prior to this, Mr. Wang was the assistant to the president of China Life Asset Management Company Limited from 2004 to 2007, and an assistant to fund manager, a fund manager, director of investment department and assistant chief executive at Harvest Fund Management Co., Ltd. From 2000 to 2004. Mr. Wang was a committee member of the 10th All-China Youth Federation and the 9th Beijing Youth Federation. Mr. Wang obtained his doctorate in finance from Research Institute for Fiscal Science, Ministry of Finance in 2008.

Independent Non-executive Directors

Mr. Liang Jinquan, has been an Independent Non-executive Director of the Company since 16 July, 2006. He is also a member of Related Party Transactions Supervision Committee and Compensation and Remuneration Committee and the chairman of Nomination Committee under the Board. Mr. Liang is a member of the Standing Committee of the CPPCC, vice chairman of China Soong Ching Ling Foundation, and the secretary general of Promoting Peaceful Reunification of China. Mr. Liang previously worked at the Chinese Academy of Sciences, the Central Party School, the Organization Department of the Communist Party of China ("CPC") Central Committee, the Publicity Department of the CPC Central Committee, the Secretariat of the Central Committee, and the CPC Central Committee General Office. Mr. Liang was also the deputy director of Organization Department of the Party Committee for Organs Directly under the CPC, the chairman of the research office of the Party Committee for Organs Directly under CPC, a member of the standing committee of Party Committee for Organs Directly under the CPC, a member of the standing committee, the head of the publicity department and the deputy secretary, of the Party Committee of Yunnan Province, the deputy secretary general and member of the party committee of the 8th and 9th CPPCC, the secretary of the party committee and the first deputy chairman of ACFIC, the deputy general director of the United Front Work Department of CPC Central Committee and the vice chairman of China Overseas Friendship Association. Mr. Liang graduated from the leaders' class of Party School of the Central Committee of CPC.

Directors, Supervisors, Senior Management and Employees

Mr. Wang Songqi, has been an Independent Non-executive Director of the Company since 16 July, 2006. He is also a member of Strategic Development and Investment Management Committee and Audit Committee and the chairman of Risk Management Committee under the Board. Mr. Wang is a deputy director of the Finance Research Center of the Chinese Academy of Social Sciences, the chairman of Beijing Venture Capital Association, a member of the standing committee of China Society for Finance and Banking, an independent director of Dalian United Venture Guarantee Co., Ltd. and an independent director of Bank of Communication's Schroder Fund Management Co., Ltd.. Mr. Wang obtained his doctorate from Renmin University of China in 1989 and is currently a supervisor for doctorate candidates at the Chinese Academy of Social Science.

Mr. Andrew Wong, has been an Independent Non-executive Director of the Company since 16 July, 2006. He is also a member of Audit Committee, Risk Management Committee and Nomination Committee and the Chairman of Compensation and Remuneration Committee under the Board. Mr. Wong is a director of Henderson China Properties Limited and the senior advisor to Mr. Lee Ka Kit who is the vice chairman of the board of Henderson Land Development Company Limited. Mr. Wong is also an external director of Yantian Port Group Co., Ltd. and an independent non-executive director of New York Life Insurance Worldwide Ltd.. Mr. Wong held various senior positions at the Royal Bank of Canada, including the assistant representative for China operations, representative of southern China, the branch manager of the Shanghai branch. Mr. Wong also held various positions at the Union Bank of Switzerland, including head of China desk and an executive director of debt capital markets. Mr. Wong previously also served as a director of China of Citicorp International Limited, a merchant banking arm of Citibank. Further, Mr. Wong was the head of Greater China business of Hang Seng Bank Limited and the managing director of corporate and investment banking —Greater China of DBS Bank Limited, Hong Kong. Mr. Wong has been a member of the CPPCC Shenzhen Committee since 2002.

Mr. Qin Rongsheng, has been an Independent Non-executive Director of the Company since 9 September, 2009. He is also a member of Compensation and Remuneration Committee and Nomination Committee and the chairman of Audit Committee and Related Party Transactions Supervision Committee under the Board. Mr. Qin is a professor of the Beijing National Accounting Institute, the vice president of the China Audit Society and the vice president of the China Association of Chief Financial Officers, as well as a member of the examination committee of Chartered Public Accountants of the Ministry of Finance, the Accounting Standards Committee of China, the Accounting Technique Consultation Committee of China and the Auditing Technique Consultation Committee of China. Mr. Qin is also an independent director of Aisino Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600271)), Poly Real Estate Group Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600048)), China International Marine Containers (Group) Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000039)) and Changjiang Securities Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000783)). He is also a part-time professor of Tsinghua University, Renmin University of China, Zhongnan University of Economics and Law, Jiangxi University of Finance and Economics, Soochow University, Macau University of Science and Technology and the Australian National University, as well as a part-time supervisor for doctorate candidates at the Renmin University of China. Mr. Qin was previously a member of the examination committee

Directors, Supervisors, Senior Management and Employees

for security issuance under the CSRC and a member of the Examination Committee for Major Restructurings of Listed Companies of China, as well as an independent director of Tsinghua Tongfang Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600100)), China National Software and Service Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600536)), UFIDA Software Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600588)), Huaxia Bank Co., Ltd. (listed on the Shanghai Stock Exchange (SSE:600015)) and Industrial Securities Co., Ltd.. Mr. Qin obtained his doctorate from Renmin University of China in 1995 and a master's degree from Zhongnan University in finance and economics in 1992.

Mr. Wang Lihua, has been an Independent Non-executive Director of the Company since 9 September, 2009. He is also a member of Related Party Transactions Supervision Committee, Compensation and Remuneration Committee and Nomination Committee under the Board. Mr. Wang is currently the managing partner of Beijing Tian Yuan Law Firm and executive councillor of the All China Lawyers Association. He is also an adviser of the consultant group to the Beijing Municipal Government and the Affiliate of International Chamber of Commerce in China, a member of the 2nd session of the new series examination committee for mergers, acquisitions and restructurings of listed companies under the CSRC, and an independent director of Xinjiang Chalkis Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE:000972)). Mr. Wang was previously the director of the research office of the law school of Peking University, the vice president of the 7th session Beijing Lawyers Association, a member of the 7th and 8th sessions examination committee for security issuance under CSRC and a member of the 3rd and 4th sessions (the 1st session of the new series) examination committee for mergers, acquisitions and restructurings of listed companies under CSRC. Mr. Wang obtained a master's degree in economic law from Peking University in 1993.

Mr. Han Jianmin, has been an Independent Non-executive Director of the Company since 9 September, 2009. He is also a member of Audit Committee, Related Party Transactions Supervision Committee, Compensation and Remuneration Committee and Nomination Committee under the Board. Mr. Han is currently a director and managing partner of Ascenda (Beijing) Accounting Firm, member of the 1st examination committee for security issuance on the growth enterprise board under the CSRC, external accountant and independent member of loan committee of China Development Bank and independent director of Beijing Mainstreets Investment Group Corporation (listed on the Shenzhen Stock Exchange (SHE:000609)) and Shandong Polymer Bio-Chemicals Co. Ltd.. Mr. Han has previously served in the Mudanjiang branch of the Bank of China, and a director and deputy accountant-in-chief of Beijing Zhongzhou Accounting Firm, a part-time supervisor of Industrial and Commercial Bank of China commissioned by Finance Commission of China, and a director and partner of Beijing Zhongzhou Guanghua Accounting Firm. Mr. Han obtained a master's degree in business administration from Peking University in 2008, and is a senior accountant, certified public accountant in PRC, certified public asset appraiser in PRC and certified tax agent in PRC.

Directors, Supervisors, Senior Management and Employees

Supervisors

Mr. Qiao Zhimin, has been an employee Supervisor since 15 January, 2007. Mr. Qiao is the Chairman of the Supervisory Board. He is also the convenor of the Supervisory Committee and a member of the Nomination and Remuneration Committee under the Supervisory Board. Mr. Qiao was previously the Vice Chairman of the 4th session of the Supervisory Board. Mr. Qiao was the director of the finance and accounting department of the CBRC, leader of the PBOC regulation team for the Industrial and Commercial Bank of China (director general level official) and served concurrently as a deputy director general of the regulatory department I of the PBOC, a deputy director general and an assistant inspector of the accounting department of the PBOC, a deputy general manager of the general planning department of the head office of the Bank of China, a deputy managing director, an assistant managing director and a division director of the Bank of China Luxemburg branch, and a deputy division director of the finance and accounting department of the head office of Bank of China. Mr. Qiao obtained a master's degree and is a senior accountant.

Mr. Xing Jijun, has been our Supervisor since 23 March, 2009. Mr. Xing is the Vice Chairman of the Supervisory Board of the Company. He is a member of the Supervisory Committee and the Nomination and Remuneration Committee under the Supervisory Board. Mr. Xing is also the president of Orient Group Incorporation (listed on the Shanghai Stock Exchange (SSE: 600811)), a director of Harbin Investment Group Co., Ltd., and a director of Founder Securities Co., Ltd.. Mr. Xing was previously a Director of the Company. He was also the chairman and general manager of Harbin Hatou Investment Co., Ltd., the chairman of Hafa Heat Company, Harbin Hua'er Chemical Co., Ltd., Harbin Taiping Heat Supply Co., Ltd., Harbin HI Heat Supply Co., Ltd. and Heilongjiang Shirble Electric-Heat Co., Ltd., the vice chairman of Harbin Electric-Heat Co., Ltd., a deputy general manager and an assistant manager of Harbin Investment Group Company, a deputy director of the general office and the director of rules and regulation inspection department of the Municipal Land and Resources Bureau of Harbin. Mr. Xing obtained a doctorate and is a senior economist.

Mr. Lu Zhongnan, has been a Supervisor of the Company since 15 January, 2007. He is a member of the Supervisory Committee and the Nomination and Remuneration Committee under the Supervisory Board. Mr. Lu is currently the vice Chairman and president of China Minzu Securities Co., Ltd. Prior to that, Mr. Lu was the independent director and director of New China Life Insurance Co., Ltd. from 2001 to 2008, and was a director of Orient Group Industrial Co., Ltd. from 2001 to 2005, and served at various positions at the Heilongjiang, Harbin and Shenyang branches of the PBOC from 1979 to 2001. Mr. Lu graduated from the class of graduate course for advanced studies in economics management and is a senior economist.

Mr. Zhang Disheng, has been a Supervisor of the Company since 15 January, 2007. He is a member of the Nomination and Remuneration Committee of the 5th Session of the Supervisory Board. Mr. Zhang is currently the chief operation officer and an executive director of Stone Group Holdings Limited. Prior to that, Mr. Zhang was the deputy executive officer and vice president of Stone Group Company from 1994 to 2000. Mr. Zhang is a director of Fairchild Investment Limited, a company listed on the NEX board of Toronto Stock Exchange venture market in Canada. Mr. Zhang obtained a master's degree from Ryutsu Keizai University in Japan and is a senior economist.

Directors, Supervisors, Senior Management and Employees

Ms. Xu Rui, has been an external Supervisor of the Company since 15 January, 2007. She is also the convenor of the Nomination and Remuneration Committee and a member of the Supervisory Committee of the 5th Session of the Supervisory Board. Ms. Xu was a consultant at the operation center of China Everbright Bank from 2006 to 2007, the chairman of the board of supervisors of China Everbright Bank from 2004 to 2006, the general manager of the internal audit department of China Everbright Holdings Company Limited from 2000 to 2004, and the head of the legal department of China Everbright Holdings Company Limited from 2000 to 2001. Prior to that, Ms. Xu served at Bank of China, Jiangsu branch from 1978 to 1999 and served as president of Bank of China, Nanjing branch from 1992 to 1999. Ms. Xu obtained a bachelor's degree in English Language and Literature from Nanjing University in 1969 and is a senior economist.

Mr. Wang Liang, has been an external Supervisor of the Company since 23 March, 2009. He is also a member of the Supervisory Committee and the Nomination and Remuneration Committee under the Supervisory Board. Mr. Wang is currently a director of Dongguan Fenggang Yantian Corporate Development Co., Ltd.. Prior to that, Mr. Wang was a Supervisor of the Company from 3 December, 1995 to 22 March, 2009. Mr. Wang was the chairman of Guangzhou Xinlian Co., Ltd., and Guangzhou Shanghui Economic Development Corporation and vice chairman of the Guangzhou Federation of Industry and Commerce from 1993 to 2003. Mr. Wang also served as vice dean of the Guangzhou Academy of Economic Research from 1991 to 1993. Mr. Wang obtained a bachelor's degree in accounting from Beijing School of Posts and Telecommunications (now Beijing Jiaotong University) in 1968. Mr. Wang is a senior accountant and a certified public accountant.

Mr. Chen Jinzhong, has been an employee Supervisor of the Company since 15 January, 2007. He is also a member of the Supervisory Committee under the Supervisory Board. Mr. Chen joined the Company in 2000 and served as a division director, an assistant to the director, a deputy director and the director of the general office of the Company from 2000 to 2007. Since 2007, Mr. Chen has been the general manager of our Beijing Administrative Department. Prior to that, Mr. Chen served as assistant branch manager at the Baoding branch of the PBOC from 1996 to 1998, and as deputy director of the finance department and director of the general office of the Baoding Finance College from 1987 to 1996. Mr. Chen obtained his doctorate in economics and is a senior economist and an associate professor.

Ms. Wang Lei, has been an employee Supervisor of the Company since 15 January, 2007. She is also a member of the Supervisory Committee under the Supervisory Board. Ms. Wang is currently a credit assessment officer at the Eastern China Credit Approval Center of the Bank. Ms. Wang joined the Company in 1997, starting as a deputy section chief of the internal audit department at the Shanghai branch of the Company. Since then, Ms. Wang served as assistant to the branch manager at the Hongqiao and Huangpu branches of the Company in Shanghai from 1999 to 2000, general manager of the risk management department of the Shanghai branch of the Company from 2000 to 2001, general manager of the Shixi sub-branch of the Company in Shanghai from 2001 to 2003. Ms. Wang then served at the Credit Assessment Department of the Company in 2003 and has been a credit assessment officer at the Eastern China credit approval center of the Company since 2004. Prior to joining the Company, Ms. Wang worked at the Urumqi branch of the Bank of Communications from 1993 to 1996. Ms. Wang completed the class of graduate course in finance of East China Normal University in February 2001.

Directors, Supervisors, Senior Management and Employees

Senior Management

Mr. Hong Qi is an Executive Director and the President of the Company. Please refer to his biography under the paragraph "Directors – Executive Directors".

Mr. Liang Yutang is an Executive Director and a Vice President of the Company. Please refer to his biography under the paragraph "Directors – Executive Directors".

Mr. Shao Ping, is a Vice President since his appointment in January, 2005 and the chairman of the Risk Management Commission of the Company. Mr. Shao joined the Company in 1995, and served as a deputy director, deputy general manager and general manager of our Corporate Banking Department from 1996 to 2000. He acted as managing director of our Shanghai branch and an assistant to our President from December 2000 to February 2005. Before joining the Company, Mr. Shao was deputy general manager of the Federation of Urban Credit Cooperatives of Weifang (Shandong) from 1993 to 1995, and general manager of the Urban Credit Cooperative of Weicheng District, Weifang City, Shandong Province from 1988 to 1993. He has been in banking management for over 21 years. He holds a doctorate degree in economics from Fudan University in Shanghai in 2008 and is a senior economist.

Mr. Zhao Pinzhang, is a Vice President of the Company, appointed in April 2008. Mr. Zhao is also the chairman of our Asset and Liability Management Commission. Mr. Zhao was previously an assistant to our President from 2005 to 2008, the Chief credit officer and a Supervisor of the Company from 2003 to 2007, the general manager of the Credit Assessment Department of the Company from 2001 to 2007, a deputy general manager of the Risk Management Department of the Company from 2000 to 2001, and the deputy general manager of our Beijing Administrative Department from 1998 to 2000. Prior to joining the Company, he was a deputy managing director of Liaoyuan branch of Bank of Communications, and a section chief of the Liaoyuan center sub-branch of China Construction Bank. Mr. Zhao has over 25 years of experience in banking management. Mr. Zhao obtained a master's degree in business and administration and is a senior economist.

Mr. Mao Xiaofeng, is a Vice President of the Company, appointed in April 2008. Mr. Mao is also the chairman of our Retail Banking Management Commission, the Board Secretary and one of the Joint Company Secretaries of the Company. Mr. Mao joined the Company as a deputy director of the general office of the Company in 2002 and has been the Board Secretary and Company Secretary of the Company since June 2003 and March 2004, respectively. Prior to joining the Company, Mr. Mao was a director of the general office of the Central Committee of Youth League Central Committee from 1999 to 2002, a deputy secretary of the Party Committee of the Zhijiang Dongzu Autonomous County of Hunan Province from 1995 to 1996, an assistant to the governor of the Zhijiang Dongzu Autonomous County of Hunan Province from 1994 to 1995 and the executive vice chairman of the All-China's Students Federation from 1992 to 1993. Mr. Mao obtained a master's degree in industrial and foreign trade from Hunan University in 1995, a doctorate in management from Hunan University in 1998, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University in the U.S.A. in 2000.

Ms. Wu Touhong, is the Chief Financial Officer of the Company. Ms. Wu is also the secretary of the Discipline Committee of the Communist Party of the Company. Ms. Wu joined the Company as a deputy general manager of the Human Resources Department at the establishment of the Company and became our Chief Financial Officer in June 2003. Ms. Wu was previously the head of the Discipline Monitoring Department of the Company and deputy director of

Directors, Supervisors, Senior Management and Employees

the Discipline Committee of the Company from 2002 to 2003, the director of the general office of the Company from 1998 to 2000 and the general manager of our Beijing Administrative Department from October 2000 to January 2002, and the deputy general manager of the human resources department from January, 1996 to June 1998. Prior to joining the Company, she was a deputy general manager of the Beijing securities business department of the Industrial and Commercial Bank of China Trust and Investment Company from 1994 to 1995, and a section chief and a deputy director of the education department of the Industrial and Commercial Bank of China from 1983 to 1994. She worked at the Science and Education Bureau of the PBOC from 1981 to 1983. Ms. Wu has over 25 years of experience in banking management. Ms. Wu graduated from Hunan College of Finance and Economics in 1982 and is an economist.

Joint Company Secretaries

Mr. Mao Xiaofeng is the Board Secretary and the Joint Company Secretary of the Company. Please refer to his biography under the paragraph "Senior Management".

Ms. Soon Yuk Tai, aged 44, is the Joint Company Secretary of the Company, appointed on 2 November, 2009. Ms. Soon is a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Prior to joining Tricor Group in 2002, she was a senior manager of company secretarial services at Ernst & Young and Tengis Limited in Hong Kong. Ms. Soon is a chartered secretary and an associate of both the Institute of Chartered Secretaries and Administrators in United Kingdom and the Hong Kong Institute of Chartered Secretaries. Ms. Soon has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many listed companies.

(III) Directors, Supervisors and Senior Management resigned in the reporting period and the reasons therefor

Mr. Tow Heng Tan, Mr. Wu Zhipan and Mr. Eddie Wong ceased to act as Directors of the Company when their terms of office were expired on 23 March, 2009.

Mr. Gao Shangquan and Mr. Zhang Ke ceased to act as Independent Non-executive Directors of the Company when their terms of office expired on 9 September, 2009. They have served as Independent Non-executive Directors of the Company for six consecutive years and were required to resign from the Board of Directors of the Company and its specialised committees in accordance with the Guiding Opinions on Establishment of Independent Directors System by Listed Companies issued by the CSRC and the Articles of Association of the Company.

Mr. Huang Diyan and Mr. Li Yu ceased to act as Supervisors of the Company when their terms of office of the 4th session of the Supervisory Board were expired on 23 March, 2009.

(IV) Service contracts of Directors and Supervisors

In accordance with Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into contracts with its Directors and Supervisors in respect of compliance with the relevant laws and regulations, the Articles of Association of the Company and the provisions of arbitration. Except as disclosed above, the Company has not intended and does not intend to enter into any service contract with its Directors or Supervisors in respect of their services of Directors or Supervisors (excluding the service contracts which are determinable by the Group within one year without payment of compensation, other than statutory compensation).

Directors, Supervisors, Senior Management and Employees

II. Employees

As of the end of the reporting period, the Company had 26,039 employees, divided by their professional specialties, 2,800 were in the management, 12,729 in the marketing team, and 10,510 specialists or technicians, divided by majors. The Company had 23,698 employees with degrees of diploma and above, accounting for 91%. In addition, there were 32 retired employees in the Company.

The guiding principles of the Company's remuneration policy in 2009 were to determine and allocate remuneration and resources with an aim to strengthen protection of major strategic assets, enhance capital control, streamline business structure and enhance the core values of the Company and to reinforce cost-effective management of operations according to the strategies of the Company, as well as to provide full protection and incentives to staff under the Company's welfare policy by further improving the welfares and protections of staff and developing and exploring more new benefit policies so as to establish an integrated, all-round, multi-level, short-term and long-term combined welfare and protection system.



The Company attaches high importance to employee training. With an aim to enhance capability and career development of its employees through training, the Company has been increasing the investment in employee training, improving quality and effectiveness of the trainings and perfecting the "3 horizontal and 1 vertical (三橫一縱)" training system throughout the Company, which effectively resulted in a closer link between the values of the employees and the Company. In 2009, the Company has held 2,471 training programs with 129,877 attendances, achieving a 100% coverage rate in a total of 7,587 days of training.

III. Business Network

As at the end of the reporting period, the Company had set up 29 tier-one branches in 29 cities across China, as well as one representative office in Hong Kong, with 434 banking outlets in total.

In the reporting period, Changchun, Hefei and Nanchang Branches were successfully established and Shantou Sub-branch was upgraded to branch level.

Directors, Supervisors, Senior Management and Employees

Major entities of the Company as at the end of the reporting period are shown as follows:

Name of entity	Number of outlets	Headcount	Total assets (excluding deferred income tax assets) (RMB million)	Address
Head Office	1	8,428	481,644	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Beijing Administrative Department	48	1,976	304,967	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Shanghai Branch	44	1,880	213,063	No. 100, Pudong Nan Road, Pudong New Area, Shanghai
Guangzhou Branch	28	1,272	76,677	Yueneng Building, No. 45, Tianhe Road, Yuexiu District, Guangzhou
Shenzhen Branch	31	994	78,929	CMBC Building, 11 th Xinzhong Street, Futian District, Shenzhen
Wuhan Branch	21	862	47,349	No. 20, Jianghan Road, Jiang'an District, Wuhan
Taiyuan Branch	17	796	52,827	No. 2, Bingzhou Bei Road, Taiyuan
Shijiazhuang Branch	19	664	39,563	No. 10, Xidajie, Shijiazhuang
Dalian Branch	14	520	28,401	No. 28, Yan'an Road, Zhongshan District, Dalian
Nanjing Branch	21	933	68,114	No. 20, Hongwu Bei Road, Nanjing
Hangzhou Branch	20	846	71,238	Yuanyang Building, No. 25, Qingchun Road, Hangzhou
Chongqing Branch	16	664	36,145	Tongjuyuanjing Building, No. 9, Jianxin Bei Road, Jiangbei District, Chongqing
Xi'an Branch	14	536	30,198	CMBC Building, No. 78, Erhuan Nanlu Xiduan, Xi'an
Fuzhou Branch	14	542	20,078	China Travel Service Plaza, No. 173, Hudong Road, Fuzhou
Jinan Branch	13	627	35,415	No. 229, Leyuan Street, Jinan
Ningbo Branch	11	425	20,009	No. 166–168, Zhongshan Xi Road, Ningbo
Chengdu Branch	17	623	37,537	No. 2, Remin Nan Road 3 Duan, Chengdu
Tianjin Branch	12	488	25,941	1/F, Tianxin Building, No. 125, Weidi Road, Hexi District, Tianjin
Kunming Branch	11	322	19,287	Chun Tian Yin Xiang Building, No. 331, Huancheng Nan Road, Kunming
Quanzhou Branch	9	264	8,435	Kai Xiang Building, No. 336, Fengze Street, Quanzhou
Suzhou Branch	8	434	22,879	No. 200, Xinghai Street, Suzhou Industrial Park
Qingdao Branch	9	346	22,813	Zhong Gang Plaza, No. 18, Fuzhou Nan Road, Shi Nan District, Qingdao
Wenzhou Branch	7	311	12,322	No. 335, Xincheng Dadao, Wenzhou
Xiamen Branch	8	302	12,964	Lixin Plaza, No. 90, Hubin Nan Road, Xiamen
Zhengzhou Branch	4	161	20,628	CMBC Building, No. 1, CDB Shangwu Waihuan Road, Zhengdong New District, Zhengzhou
Changsha Branch	4	218	14,219	No. 669, Furong Zhong Road 1 Duan, Changsha
Changchun Branch	2	114	17,101	Ji Xin Building, No. 500, Changchun Street, Nanguan District, Changchun
Hefei Branch	2	120	9,656	Tian Qing Building, No. 135, Bozhou Road, Hefei
Nanchang Branch	2	129	5,470	No. 237, Xiangshan Bei Road, Dong Hu District, Nanchang
Shantou Branch	6	232	8,001	1-3/F, Huajing Plaza, No. 17, Hanjiang Road, Shantou
Hong Kong Representative Office	1	10	—	Room 07084, 32/F, Bank of American Tower, 12 Harcourt Road, Central, Hong Kong
Inter-regions adjustment			-440,949	
Total	434	26,039	1,400,921	

Note:

- The number of outlets takes into account all types of banking establishments, including the head office, tier-one branches, business departments of branches, tier-two branches, sub-branches and representative offices.
- Total headcount of the Head Office is the total number of the employees in 11 SBUs, including the E-Banking Department, the Credit Card Center, the Trade Finance Department, the Investment Banking Department, the Financial Market Department, the SME Finance SBU, the Private Banking SBU, the Energy Finance SBU, the Metallurgy Finance SBU, the Transportation Finance SBU, and the Real Estate Finance SBU.
- Inter-region adjustments arise from the reconciliation and elimination of inter-region balances.

Corporate Governance

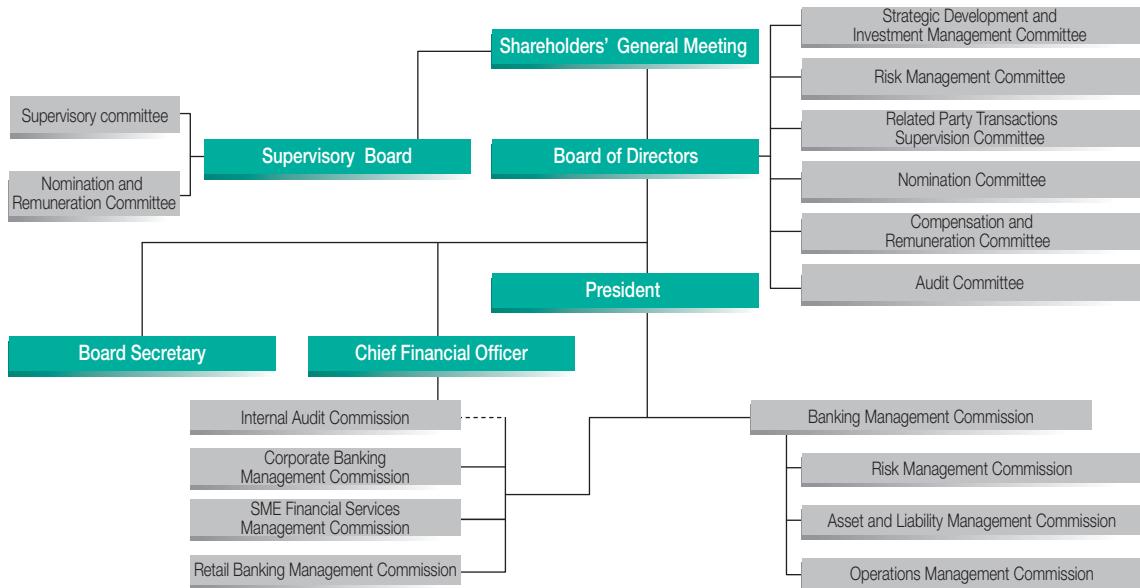


Corporate Governance



Corporate Governance

I. Corporate Governance Structure



II. Corporate Governance Overview

During the reporting period, the Company focused on establishing a transparent and efficient corporate governance system and achieved significant progress in system building, directors training, internal control and risk management. Details are as follows:

1. During the reporting period, the Company had coordinated and prepared a total of 74 meetings, including 4 Shareholders' General Meetings, 11 Board meetings, 41 meetings of the specialised committees of the Board (8 Strategic Development and Investment Management Committee meetings, 5 Risk Management Committee meetings, 5 Audit Committee meetings, 13 Related Party Transactions Supervision Committee meetings, 4 Compensation and Remuneration Committee meetings and 6 Nomination Committee meetings), 9 meetings of the Supervisory Board and 9 meetings of the specialised committee of the Supervisory Board (4 Nomination and Remuneration Committee meetings and 5 Supervisory Committee meetings). Over 100 resolutions such as the Company's periodical reports, working reports of the Board of Directors and the Supervisory Board, working reports of the President, financial budgets and final accounts, profit distribution proposals, major related-party transactions and the write-off of large amount of bad debts were approved in these meetings.

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2. During the reporting period, the Company successfully completed the election of the new session of the Board of Directors and the Supervisory Board and the appointment of the new session of Senior Management. Composition of various Board committees was also adjusted to better perform their functions with an aim to improve the coordination, efficiency and transparency of the Board.
3. With reference to the domestic and overseas regulatory requirements, the Company has amended the Articles of Association, Management Rules on Remuneration of Senior Management (高級管理人員薪酬管理制度), Administrative Measures on Related Party Transactions of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司關聯交易管理辦法) and Operating Procedures of Nomination and Remuneration Committee under the Supervisory Board of China Minsheng Banking Corp., Ltd. (Revised) (中國民生銀行股份有限公司監事會提名與薪酬委員會工作細則 (修訂案)), and formulated the Detailed Rules of Internal Transaction of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司內部交易實施細則), Annual Report Preparation Guidelines for Audit Committee under the Board of Directors of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事會審計委員會年報工作規程), Capital Allocation and Evaluation of the Board of China Minsheng Bank (中國民生銀行董事會資本分配與考核管理辦法) and Provisional Measures on Performance Appraisal of Supervisors of China Minsheng Bank (中國民生銀行監事履職評價試行辦法) to further improve the corporate governance system.
4. The regulations and rules of Provisional Measures on Performance Appraisal of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員盡職考評試行辦法) provided guidelines for evaluating the performance of Senior Management appointed by the Board and regulating the incentive and restriction mechanism to maintain a systematic, standard and specific performance evaluation system for the Senior Management.
5. The laws and regulations applicable to H shares were provided to Directors, Supervisors and Senior Management in forms of trainings and briefings to explain their responsibilities and rights and allow the Board of Directors and the Supervisory Board to fully understand the most recent economic conditions and operations of the Company in a timely manner.
6. During the reporting period, the Company has disclosed all material information in a timely, accurate, true and complete manner and continued to enhance the transparency of the Company, ensuring all shareholders have equal opportunity to access the information of the Company.
7. During the reporting period, the Company has organized various investor events to effectively improve communications with investors and consolidate the Company's status and influence in capital market. The Senior Management has also paid visits to institutional investors to further enhance the transparency of the Company.
8. During the reporting period, the Company has studied its internal control system and reported and evaluated the findings of the study and proposed improvements. The Company has also supervised, directed and implemented the rationalization of internal control system. The improvement of the internal control system has enhanced its internal control standard and paved way for the implementation of the Basic Standard for Enterprise Internal Control (企業內部控制基本規範).

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9. During the reporting period, the Company was seizing the opportunity of the listing of H shares, implemented the Administrative Measures of Related Party Transactions of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司關聯交易管理辦法) to strengthen the management of related-party transactions. The Company enhances the completeness of the information of the related parties database by organizing the declaration, collection and verification of related parties information; enhances the transparency of related-party transactions through strict regulations of the declaration, verification, evaluation, reporting and disclosure process; prevents irregularities of related-party transactions through annual examination and review; and improves the management efficiency through prompt communication.
10. A total of 12 issues of Newsletters from the Board of Directors (董事會工作通訊), 50 issues of Internal Circulars (內部參考) and 14 issues of Newsletter from the Supervisory Board (監事會信息通報) were published during the reporting period, serving as a convenient and effective communication platform of corporate governance between, the Board of Directors, the Supervisory Board and the Senior Management, and as well as all Directors and Supervisors.
11. In order to improve risk management process and enhance our risk management capability and standard, the Company has formulated the Guidelines on Risk Management of China Minsheng Bank in 2009 (中國民生銀行2009年度風險管理指導意見) in early 2009, which fully reflected the sophistication and innovativeness of the Company's corporate governance. During the reporting period, the Company has formulated the Risk Reporting System of the Board (董事會風險報告制度) and Administrative Measures of the Board on Approval of Business with Excessive Risk (董事會超風險限額業務審批管理辦法) to improve the communication of risk information by the Board and further enhance the management of major risk exposures.
12. During the reporting period, in order to clearly define the responsibilities and to adopt an innovative model to improve the effectiveness of performance evaluation, the Supervisory Board has further regulated and improved the performance evaluation procedures and has continuously carried out the performance appraisal of Directors, Supervisors and Senior Management. The Supervisory Board formulated Report of Performance Appraisal of Directors and Senior Management of 2009 by the Supervisory Board (監事會對董事、高級管理人員2009年度履職評價報告) and Report of Performance Appraisal of Supervisors of 2009 (2009年度監事履職情況的評價報告) respectively. In addition, the Supervisory Board has conducted thorough investigation and research pursuant to the general operations and major operating activities of the Company and submitted certain management proposals to the Board and management, which ensured the compliance of our operation and facilitated healthy development of the Company.

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13. During the reporting period, Mr. Dong Wenbiao, Chairman of our Company, was awarded 2009 CCTV Annual Chinese Economic Figures (2009年CCTV中國經濟年度人物). The Company won the Best Board of Directors (最佳董事會獎) in the 5th Gold Round Table Awards for the Boards of Directors of Chinese Listed Companies (中國上市公司第五屆董事會金圓桌獎) in the second consecutive year and Mr. Dong Wenbiao, Chairman of our Company, and Mr. Zhang Ke, a former Independent Non-executive Director, were named as the Most Strategically-Minded Chairman (最具戰略眼光董事長) and Most Influential Independent Director (最具影響力獨立董事), respectively. The Company ranked 13th of China's Top 100 Listed Companies of 2008 (2008年度中國上市公司百強榜) in the 9th China's Top 100 Listed Companies Forum (第九屆中國上市公司百強高峰論壇) organized by China Center for International Economic Exchanges, Warton Business School and Economy Shanghai (上海經濟). Mr. Dong Wenbiao, our Chairman, and Mr. Hong Qi, our President, were both awarded as Top 100 Entrepreneurs (百強企業領袖獎) while Mr. Mao Xiaofeng, the Board secretary was awarded as the Best Secretary to the Board of Directors (最佳董秘獎). Furthermore, the Company was awarded China's Top 100 Golden Bull Award of Listed Companies (上市公司百強金牛獎) in the 11th Golden Bull Listed Companies Forum (第11屆金牛上市公司高峰論壇) organized by China Securities Journal. The Company was also recognized as one of the top 10 companies of China's Top 100 Listed Private Companies of 2009 (2009年中國上市民營企業百強排行榜) by China Europe International Business School.



The Company has conducted a thorough internal inspection and was not aware of any non-compliance between the Company's corporate governance and regulations regarding corporate governance of listed companies promulgated by the CSRC. There were no irregularities of corporate governance and no information has been provided to substantial shareholders or beneficial owner before such information being published.

The Company has fully complied with the provisions of the Code of Corporate Governance Practices set out in Appendix 14 of the Hong Kong Listing Rules and has been dedicated to maintaining a high standard of corporate governance.

III. Board of Directors

The Board is an independent decision-making body of the Company, responsible for execution of the resolutions passed by the shareholders' general meetings; devising the Company's major principles, policies and development plans; deciding on the Company's operating plans, investment proposals and the establishment of internal management units; preparing annual financial budgets, final accounts and profit distribution plans; and appointing members of Senior Management. The Company's management team shall operate the Company independently and the Board of Directors shall not interfere with the daily operation and management of the Company.

Corporate Governance

(I) Composition of the Board

As at 31 December, 2009, the Board of the Company has 18 members, of which 9 are Non-executive Directors, 3 are Executive Directors and 6 are Independent Non-executive Directors. All Non-executive Directors held key positions in renowned enterprises and are experienced in management, banking and finance, while the 3 Executive Directors have been engaged in banking operation and management for a long time with extensive professional experience. The 6 Independent Non-executive Directors are experts in economic, finance, treasury, law and human resources. One of the Independent Non-executive Directors is from Hong Kong and has been familiar with the IFRS and practices of the Hong Kong capital market.

The members of the Board are professional and independent and have different experiences which help to ensure that the Board can make decision in a rational manner.

The Directors of the Company and their profiles are shown in the chapter titled "Directors, Supervisors and Senior Management" of this report. Among the members of the Board of the Company, Mr. Liu Yonghao is the chairman and substantial shareholder of New Hope Group Co., Ltd; Mr. Wang Hang is a director and the vice president of New Hope Group Co., Ltd. as well as a Director of Sichuan South Hope Industrial Co., Ltd. New Hope Group Co., Ltd. holds 100% equity interests of Sichuan South Hope Industrial Co., Ltd. Save for the above, the members of the Board are not related, including in terms of finance, business, family or other material relations or relevant relations. The status of Independent Non-executive Director has been indicated clearly in all communication of the Company which lists the name of Directors to comply with the provisions of the Hong Kong Listing Rules.

(II) Responsibilities and duties of the Board

The Board of the Company may exercise the following functions and powers:

1. to convene shareholders' general meetings and to report its performance to shareholders;
2. to implement the resolutions passed at the shareholders' general meetings;
3. to decide on the Company's operational plans and investment plans;
4. to formulate the Company's proposed annual budget and annual final accounts;
5. to formulate the Company's profit distribution plans and plans for recovery of losses;
6. to formulate proposals for increases or reductions of the Company's registered share capital, issuance of bonds or other securities and listing plans;
7. to formulate proposals for material acquisitions, the purchase of the Company's shares, merger, division, dissolution and change of Company form;
8. to decide on external investments, purchases and sales of assets, pledges of assets, material guarantees, and related-party transaction matters within the scope authorized by the Company's shareholders' general meetings;
9. to decide on the establishment of the Company's internal management structure;

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10. to appoint or remove the Company's President and Chief Financial Officer based on the recommendation of the Nomination Committee; to appoint or remove Board Secretary based on the recommendations of the Chairman of the Board; to appoint or remove the Senior Management, such as Vice Presidents and financial officers based on the recommendations of the President and to decide on matters relating to their remunerations and the imposition of any disciplinary measures;
11. to approve the appointment or dismissal of President, Vice Presidents and other Senior Management of branches whose qualifications had been accredited by the CBRC;
12. to establish the Company's basic management system;
13. to formulate proposals for any amendment to the Company's Articles of Association;
14. to manage the Company's disclosure of information;
15. to propose at the shareholders' general meetings for the appointment or replacement of the Company's accounting firms for audit purpose;
16. to review working reports of the President of the Company and to examine the President's performance;
17. the Board shall establish a supervisory system to ensure that the management body will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;
18. the Board shall establish an information reporting system that requires the Senior Management to report to the Board and Directors the operational issues of the Company regularly, and the reporting system shall cover provisions for the following issues: the scope of the information reported to the Board and Directors and the lowest reporting standards, the reporting frequency, the reporting method, the responsible body and liabilities arising from delayed or incomplete reporting and the confidentiality requirements; and
19. to exercise any other powers prescribed by the applicable laws, administrative regulations and departmental rules, as well as any other powers conferred by the Company's Articles of Association.

After the election by shareholders of the Company, the current office term of Mr. Qin Rongsheng, Mr. Wang Lihua and Mr. Han Jianmin in the Board of Directors of the Company became effective from 9 September, 2009 and will expire on 23 March, 2012. The current term of office of other current Directors of the Company became effective from 23 March, 2009 and will expire on 23 March, 2012.

(III) Board meetings and contents of resolutions

During the reporting period, 11 board meetings have been held by the Board of Directors (including 8 on-site meetings and 3 by way of written resolutions) to consider and approve major resolutions in relation to strategies, policies, finance and operation of the Company.

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Meeting	Date	Resolutions	Publication	Date of disclosure
25 th Meeting of the 4 th session of the Board	23 February, 2009	Resolution on Re-election of the Board and Nomination of Directors (關於董事會換屆選舉並徵集董事候選人的決議).	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	24 February, 2009
26 th Meeting of the 4 th session of the Board	6 March, 2009	Resolution on Early Re-election of the Board; Resolution on the List of the Candidates for Directors of the 5 th session of the Board; Resolution on Amendment to Certain Provisions of the Articles of Association; Resolution on Granting Related-party Consolidated Credit to Shenzhen Ping An Bank Co., Ltd; Resolution On Convening the 1 st Extraordinary General Meeting of the Company in 2009.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	7 March, 2009
1 st Meeting of the 5 th session of the Board	23 March, 2009	Resolution on Electing Chairman and Vice Chairmen of the 5 th session of the Board; Resolution on the Composition of the Specialised Committees under the 5 th session of the Board; Resolution on Appointing President of the Company; Resolution on Appointing Vice Presidents of the Company, Resolution on Appointing the Board Secretary of the Company, Resolution on Appointing Chief Financial Officer of the Company.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	24 March, 2009

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Meeting	Date	Resolutions	Publication	Date of disclosure
2 nd Meeting of the 5 th session of the Board	21 April, 2009	2008 Annual Report of the Company (Text and Abstract); 2008 Report on Final Accounts of the Company (Draft); Proposal on 2008 Profit Distribution of the Company; 2009 Financial Budget Report of the Company (Draft); 2008 Self-Evaluation Report on Internal Control of the Company; 2008 Report on Social Responsibilities of the Company; 2008 Working Report of the Board (Draft); 2008 Working Report of the President; Resolution on Continuing to Appoint Accounting Firms in 2009 and the Remunerations; Guiding Opinion on Risk Management in 2009; Annual Report Preparation Guidelines for the Audit Committee under the Board of China Minsheng Banking Corp., Ltd. (中國民生 銀行股份有限公司董事會審計委員會年 報工作規程); Resolution on Issuance of Financial Bonds and Subordinated Bonds of the Company in 2009–2011; Resolution on Amendment to Certain Provisions of the Articles of Association (Draft for Revision), 2009 Q1 Report of the Company, Resolution on Convening the 2008 Annual General Meeting ("AGM") of the Company.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	23 April, 2009

Corporate Governance

Meeting	Date	Resolutions	Publication	Date of disclosure
3 rd Meeting of the 5 th session of the Board	5 June, 2009	Resolution on Issuance and Listing of H Shares; Resolution on the Issuance and Listing Plan of H Shares; Resolution on Conversion of the Company from Joint Stock Limited Company into Overseas Listing Joint-Stock Company Limited; Resolution on the Usage of Proceeds from Previous Funds Raising; Resolution on the Usage of Proceeds and Investment Plan of Proceeds from Listing of H Shares; Resolution on the Proposal to the Shareholders' Meeting for Approval of the Valid Terms of the Resolutions on the Issuance and Listing of H Shares; Resolution on the Proposal to the Shareholders' Meeting to Authorize the Board and Persons Authorized by the Board to Handle Issuance and Listing of H Shares; Resolution on Determining the Person Authorized by the Board; Resolution on Amendment to the Draft Articles of Association (H share) of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司章程草案 (H股)); Resolution on the Distribution of Accumulated Profit prior to the Issuance of H Shares; Resolution on Amendment to the Administrative Measures on Proceeds of the Bank (中國民生銀行股份有限公司募集資金管理辦法); Resolution on Adjusting Certain Units of the Head Office; Resolution on Convening the 2 nd EGM of the Company in 2009.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	6 June, 2009

Corporate Governance

Meeting	Date	Resolutions	Publication	Date of disclosure
4 th Meeting of the 5 th session of the Board	29 June, 2009	Resolution on Write-off of Bad Debts and Reduction of Non-performing Loans of the Company; Resolution on Renewal of Liability Insurance for Directors, Supervisors and Senior Management; Resolution on the Establishment of Shanghai Songjiang Minsheng Township Bank Co., Ltd.; Resolution on establishment of SME Financial Service Units at Branch Level.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	1 July, 2009
5 th Meeting of the 5 th session of the Board	17 August, 2009	2009 Interim Report (Text and Abstract); Resolution on By-election of Independent Non-executive Directors; Resolution on Capital Management Policy of the Company; Risk Reporting Mechanism of the Board; Resolution on Increasing Investment in Shanghai Minsheng Building; Resolution on Liability Insurance of Prospectus of H Share IPO; Resolution on Convening the 3 rd EGM in 2009.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	19 August, 2009
1 st Extraordinary Meeting of the 5 th session of the Board	26 August, 2009	Resolution on China Oceanwide Holdings Group Co., Ltd.'s Inheritance of the Company's Loans.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	29 August, 2009
2 nd Extraordinary Meeting of the 5 th session of the Board	28 September, 2009	Proposal on Adjusting the Composition of the Specialised Committees of the 5 th session of the Board.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	29 September, 2009

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Meeting	Date	Resolutions	Publication	Date of disclosure
6 th Meeting of the 5 th session of the Board	20 October, 2009	2009 Q3 report of the Company; Resolution on Profit Forecast Report of the Company and its Subsidiaries for 2009; Resolution on Change of Name of Office of Labor Union to Party-Public Relationship Office.	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	21 October, 2009
7 th Meeting of the 5 th session of the Board	25 December, 2009	Resolution on 2009-2011 Plan of Comprehensive Risk Management System (中國民生銀行2009－2011年全 面風險管理體系建設規劃); Resolution on Implementation Proposal of New Basel II Accord (中國民生銀行新資本協議實施 工作方案); Resolution on Administrative Measures of the Board on Approval of Business with Excessive Risk (中國民生銀 行董事會超風險限額業務審批管理辦法); Resolution on Revising the Management Rules on Remuneration of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行高級管理人員 薪酬管理制度); Resolution on Formulating Risk Fund Plan for Senior Management; Resolution on Related-Party Loan to Beijing Junhua Real Estate Development Co., Ltd. (see announcement on relate- party transactions for details); Resolution on Capital Allocation and Evaluation of the Board of China Minsheng Bank (中國民生 銀行董事會資本分配與考核管理辦法).	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	26 December, 2009

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In the above meetings, approximately 70 resolutions in respect of 4 periodical reports, working reports of the Board of Directors, working reports of the President, financial budgets and final account reports, profit distribution proposals, major related-party transactions and the write-off of large amount of bad debts were approved.

The following table sets out the attendance records of Directors in the meetings of the Board in 2009:

Directors	Attendance/Number of Meetings
Dong Wenbiao	11/11
Zhang Hongwei	10/11
Lu Zhiqiang	11/11
Liu Yonghao	9/9
Wang Yugui	11/11
Chen Jian	11/11
Wong Hei	11/11
Shi Yuzhu	11/11
Wang Hang	11/11
Wang Junhui	9/9
Liang Jinquan	11/11
Wang Songqi	11/11
Andrew Wong	11/11
Qin Rongsheng	3/3
Wang Lihua	3/3
Han Jianmin	3/3
Hong Qi	11/11
Liang Yutang	9/9
Gao Shangquan	8/8
Zhang Ke	8/8
Tow Heng Tan	2/2
Wu Zhipan	2/2
Eddie Wang	2/2

Note: Due to the re-election of the Board of Directors and by-election of Independent Non-executive Directors, Liu Yonghao, Wang Junhui, Qin Rongsheng, Wang Lihua, Han Jianmin, Liang Yutang, Gao Shangquan, Zhang Ke, Tow Heng Tan, Wu Zhipan and Eddie Wang were appointed or resigned during the year and were not counted in the quorum of all the 11 board meetings.

(IV) Implementation of the resolutions of the Shareholders' General Meetings by the Board of Directors

- According to the Resolution on 2008 Profit Distribution (關於2008年度利潤分配的決議) considered and approved at 2008 AGM, the 2008 profit distribution plan of the Company was as follows: appropriation of 10% of the after-tax profit as stated in the financial report, or RMB783 million, as statutory surplus reserve; appropriation of RMB2,200 million for general reserve pursuant to the Administrative Measures on Loan Loss Provisioning of Financial Enterprises (金融企業呆賬準備提取管理辦法) (Cai Jin [2005] No.49) and Circular concerning Issues relating to Provision for Bad Debts (關於呆賬準備提取有關問題的通知) (Cai Jin [2005] No.90) stipulated by the

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Ministry of Finance. The Profit distributable to shareholders was RMB5,956 million as stated in the financial report. The Company distributed a cash dividend of RMB0.8 (before tax) for every 10 shares of the 18,823,001,989 issued shares as at close of the market on 31 December, 2008, for a total of RMB1,506 million. The above dividends distribution plan has been implemented by Board of the Company.

2. According to the Resolution on Issuance and Listing of H shares (關於公司發行H股股票並上市的決議) considered and approved at the 2nd Extraordinary General Meeting in 2009, the Board of the Company has allowed the management to deal with the matters relating to the listing of H shares.

(V) Performance of Independent Non-executive Directors

The Board of the Company comprises 6 Independent Non-executive Directors. The qualification, number and proportion of Independent Non-executive Directors are in compliance with the provisions of the CBRC, CSRC, and the Listing Rules of the Shanghai Stock Exchange and Hong Kong Stock Exchange. During the reporting period, these Independent Non-executive Directors have fully performed their duties by maintaining communication with the Company through various means, such as on-site visits and conferences, attending the Board meetings and meetings of the specialised committees conscientiously, making suggestions actively and emphasizing on minority shareholders' interests.

1. On-duty policy for Independent Non-executive Directors

To better perform the duties of Independent Non-executive Directors and improve the effectiveness of the Board, the Board of the Company has adopted an on-duty policy since March 2007 pursuant to which Independent Non-executive Directors are required to work in the Bank for 1 to 2 days per month. The Company shall provide offices and facilities for Independent Non-executive Directors. All Independent Non-executive Directors had complied with the on-duty policy. The main duties carried out by the Independent Non-executive Directors while they are on duty are: to study work issues of their respective committees; to consider and determine the proposals put forwarded by the committees; to review work reports of the Senior Management or various departments of the head office; and to discuss and determine any relevant policy. During the reporting period, the Independent Non-executive Directors had worked in the Bank for 34 days in aggregate, had 13 meetings with the management and the relevant department staff and made more than 40 proposals. It is an innovative policy of the Company to allow the Independent Non-executive Directors to conduct professional study and provide professional advice to the Board, which help improve the rationality and independence of decision-making process of the Board.

2. Rules Governing Independent Non-executive Directors' Work on Annual Reports

To further improve the corporate governance of the Company and have Independent Non-executive Directors closely involved in information disclosure to ensure the truthfulness, accuracy, completeness and timeliness of the information disclosed in the Annual Report of the Company, the Resolution on Involvement of Independent Non-executive Directors in the Preparation of Annual Report of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司獨立董事年報工作制度) was considered and approved at the 16th Meeting of the 4th session of the Board on 29 February, 2008.

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Pursuant to such resolution, Independent Non-executive Directors are required to perform their responsibilities and duties diligently in the process of preparation and disclosure of the Annual Report of the Company. The management of the Company shall report the operating results and material issues to the Independent Non-executive Directors within 60 days after the end of each financial year. The Independent Non-executive Directors may conduct investigation on certain issues if necessary. The Independent Non-executive Directors shall assess the qualification of the accounting firms and the certified public accountants responsible for the audit of the Annual Report of the Company. Upon formulation of the preliminary audit opinion, the Independent Non-executive Directors shall hold at least one meeting with the auditor to discuss the issues found during the audit process before a Board meeting is convened to review the annual report.

Pursuant to such resolution, Independent Non-executive Directors have performed their responsibilities and duties diligently and comply with the relevant provisions of the Company and regulatory authorities strictly in preparation and disclosure of the 2009 Annual Report of the Company. Independent Non-executive Directors have reviewed reports of operating results and material issues in 2009 from the management, maintained communication with the accounting firm in respect of the annual audit and reviewed audit plans, pre-auditing and auditing progress report from the accounting firm, and examined the actual operating results of the Company.

3. Other duties of Independent Non-executive Directors

The Independent Non-executive Directors shall give independent opinion on the following issues at the Board meetings or shareholders' general meetings:

- (1) Nomination, appointment and removal of Directors;
- (2) Appointment or removal of Senior Management;
- (3) Remuneration of Directors and Senior Management;
- (4) Major and very substantial related-party transactions between the shareholders, ultimate controllers and their respective related companies and the Company, and whether the Company has taken effective measures to collect outstanding payments;
- (5) Issues that Independent Non-executive Directors considered may damage the interests of minority shareholders;
- (6) Other issues stipulated in the Articles of Association of the Company.

The Independent Non-executive Directors of the Company also play important roles in various specialised committees of the Board. They act as convener in the Nomination Committee, Compensation and Remuneration Committee, Audit Committee, Related Party Transactions Supervision Committee. At least one Independent Non-executive Director in each of the Audit Committee and Related Party Transactions Supervision Committee has professional accounting experience.

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4. Attendance of the Independent Non-executive Directors of the meetings during the reporting period:

All Independent Non-executive Directors were responsible and diligent in attending the Board meetings during the reporting period.

Attendance record of the Independent Non-executive Directors to the Board meetings in 2009

Directors	Number of meetings	Attendance in person	Attendance by proxy	Remarks
Liang Jinquan	11	9	2	Gao Shangquan, Director, was appointed as a proxy to attend the 25 th meeting of the 4 th session of the Board. Gao Shangquan, Director, was appointed as a proxy to attend the 3 rd meeting of the 5 th session of the Board.
Wang Songqi	11	8	3	Zhang Ke, Director, was appointed as a proxy to attend the 25 th meeting of the 4 th session of the Board. Andrew Wong, director, was appointed as a proxy to attend the 3 rd meeting of the 5 th session of the Board. Liang Jinquan, director, was appointed as a proxy to attend the 7 th meeting of the 5 th session of the Board.
Andrew Wong	11	11	—	
Qin Rongsheng	3	2	1	Han Jianmin, director, was appointed as a proxy to attend the 7 th meeting of the 5 th session of the Board.
Wang Lihua	3	3	—	
Han Jianmin	3	3	—	
Gao Shangquan	8	8	—	
Zhang Ke	8	7	1	Liang Jinquan, director, was appointed as a proxy to attend the 2 nd meeting of the 5 th session of the Board.
Wu Zhipan	2	—	2	Gao Shangquan, director, was appointed as a proxy to attend the 25 th meeting of the 4 th session of the Board. Zhang Ke, director, was appointed as a proxy to attend the 26 th meeting of the 4 th session of the Board.

Note: Due to the by-election of Independent Non-executive Directors, Qin Rongsheng, Wang Lihua, Han Jianmin, Gao Shangquan, Zhang Ke and Wu Zhipan were appointed or resigned during the year and were not counted in the quorum of all the 11 board meetings.

Corporate Governance

(VI) Chairman of the Board and President

The roles and duties of the Chairman of the Board and the President are performed by different persons with clearly defined responsibilities as provided by the Hong Kong Listing Rules. The Chairman of the Board, Mr. Dong Wenbiao, is responsible for leading the Board and acting as the Chairman of Board. He shall ensure that all Directors are well informed of the issues to be discussed during the Board meetings. He is also responsible for the management of the operation of the Board and ensures that the Board shall discuss all major and relevant issues in a timely and constructive manner. In order to allow the Board to discuss all major and relevant issues in time, the Chairman of the Board maintains close contact with relevant Senior Management to ensure that the Directors can promptly receive appropriate, complete and reliable information for their consideration and review.

Mr. Hong Qi is the President of the Company. He is responsible for business operation of the Company and implementation of the strategies and business plans of the Company.

(VII) Securities transactions by Directors, Supervisors and relevant employees

The Company has adopted its own code of conduct regarding Directors' and Supervisors' dealings in the securities on terms no less exacting than the Model Code as set out in the Appendix 10 of the Hong Kong Listing Rules. The Company has made specific enquiries to all Directors and Supervisors who have confirmed that they have complied with the above-mentioned Code for the year ended 31 December, 2009. The Company also formulates guidelines on dealings in securities of the Company by employees, which are no less strict than the Model Code. The Company is not aware of any non-compliance with these guidelines by the relevant employee.

(VIII) Responsibility statement of Directors regarding preparation of account

All directors of the Company had committed their responsibilities to the preparation of the Company's account for the year ended 31 December, 2009.

IV. Specialised Committees of the Board

Members, functions and powers of the 6 specialised committees of Board and their works in 2009 are as follow:

(I) Strategic Development and Investment Management Committee

1. Composition of the Strategic Development and Investment Management Committee and meetings in 2009

The re-election of Strategic Development and Investment Management Committee was completed successfully. The Strategic Development and Investment Management Committee of the 4th session of the Board had 9 members. The Strategic Development and Investment Management Committee of the 5th session of the Board had 7 members. According to the Resolution on Adjusting the Composition of the Specialised Committees of the 5th Session of the Board ("關於調整公司第五屆董事會專門委員會組成成員的議案") passed at the 2nd extraordinary meeting of the 5th session of the Board, the Chairman of the Committee is Dong Wenbiao and the members are Zhang Hongwei, Lu Zhiqiang, Liu Yonghao, Wang Junhui, Wang Songqi and Hong Qi upon completion of the adjustment of composition.

Corporate Governance

A total of 8 meetings were convened by the Strategic Development and Investment Management Committee in 2009, 2 of which were convened by the Strategic Development and Investment Management Committee of the 4th session of the Board and 2 proposals were discussed. The Strategic Development and Investment Management Committee of the 5th session of the Board convened 6 meetings and discussed 30 resolutions. The attendance record is as follows:

Members	Attendance/Number of Meetings
Non-Executive Directors	
Zhang Hongwei	7/8
Lu Zhiqiang	8/8
Liu Yonghao	6/6
Wang Hang	2/2
Wang Junhui	6/6
Executive Directors	
Dong Wenbiao (Chairman of the committee)	8/8
Hong Qi	6/6
Eddie Wang	2/2
Independent Non-executive Directors	
Wang Songqi	7/8
Andrew Wong	7/7
Zhang Ke	6/6
Tow Heng Tan	2/2

Note: Liu Yonghao, Wang Hang, Wang Junhui, Hong Qi, Eddie Wang, Andrew Wong, Zhang Ke and Tow Heng Tan were appointed or resigned during the year and were not counted in the quorum of all the 8 meetings.

2. Major achievements of the Strategic Development and Investment Management Committee in 2009

(1) Promotion of the revision of the Five-year Development Outline (五年發展綱要)

The Strategic Development and Investment Management Committee proactively revised the Five-Year Development Outline after internal and external studies and discussion with experts. The first draft of revision has been completed.

(2) Capital management

It formulated Three-Year Capital Management Plan of China Minsheng Bank (中國民生銀行三年資本管理規劃) and Three-Year Financing Plan of China Minsheng Bank (中國民生銀行三年融資規劃), and amended the Capital Management Measures of China Minsheng Bank (中國民生銀行資本管理辦法), all of which were considered and approved by the Board of Directors and have been implemented. Administrative Measures on Capital Allocation and Evaluation of the Board of China Minsheng Bank (中國民生銀行董事會資本分配與考核管理辦法) formulated by the Committee was also considered and approved by the Board of Directors.

(3) Establishment of subsidiaries in rural areas

Shanghai Songjiang Minsheng Township Bank Co., Ltd. was established by the Company, in which the Company holds majority equity interest.

Corporate Governance

(4) Management of affiliated entities

The Committee assisted the affiliated entities to formulate medium to long-term development plans and establish appropriate corporate governance structures for each of them. The Committee also strengthened the risk management and human resources development of affiliated entities. Provisional Measures on Remuneration of Affiliated Entities of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司附屬機構薪酬管理辦法(暫行)), Provisional Measures on Remuneration of Seconded Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司派出高級管理人員薪酬管理辦法(暫行)) and Provisional Measures on Performance Appraisal for Seconded Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司派出高級管理人員考核辦法(暫行)) have been formulated.

(II) Nomination Committee

1. Composition of the Nomination Committee and meetings in 2009

The re-election of Nomination Committee was completed successfully. The Nomination Committee of the 4th session of the Board had 8 members while the Nomination Committee of the 5th session of the Board has 9 members. According to the Proposal on Adjusting the Composition of the Specialised Committees of the 5th Session of the Board (關於調整公司第五屆董事會專門委員會組成成員的議案) considered and approved in the 2nd extraordinary meeting of the 5th session of the Board, the Chairman of the Nomination Committee is Liang Jinquan and the members are Zhang Hongwei, Wang Yugui, Wang Hang, Andrew Wong, Qin Rongsheng, Wang Lihua, Han Jianmin and Hong Qi upon completion of the adjustment of composition.

The Nomination Committee convened 6 meetings in 2009. The Nomination Committee of the 4th session of the Board convened 3 meetings and discussed 5 proposals. The Nomination Committee of the 5th session of the Board convened three meetings and discussed 8 proposals. The attendance record is as follows:

Members	Attendance/Number of Meetings
Non-executive Directors	
Zhang Hongwei	5/6
Wang Yugui	6/6
Wang Hang	3/3
Executive Directors	
Eddie Wang	3/3
Hong Qi	3/3
Independent Non-executive Directors	
Gao Shangquan	5/5
Zhang Ke	5/5
Liang Jinquan (Chairman of the Committee)	6/6
Andrew Wong	6/6
Qin Rongsheng	1/1
Wang Lihua	1/1
Han Jianmin	1/1
Wu Zhipan	2/3

Note: Wang Hang, Eddie Wang, Hong Qi, Gao Shangquan, Zhang Ke, Qin Rongsheng, Wang Lihua, Han Jianmin and Wu Zhipan were appointed or resigned during the year and were not counted in the quorum of all the 6 meetings.

Corporate Governance

2. Nomination procedures and process adopted by the Nomination Committee during the year

(1) Nomination procedures for the nomination of Director candidates by the Nomination Committee

General procedures for the nomination of director candidates

Method of election of the Company's Directors: after soliciting the opinions of the shareholders, the former Board of Directors will submit a written proposal at the shareholder's general meeting containing the biographies and basic information of the candidates in accordance with the relevant provisions of the Company's Articles of Association. The Nomination Committee of the Board of Directors is responsible for soliciting the opinions of shareholders, collecting the nomination proposals and examining the qualifications of the candidate to determine whether they comply with the qualification requirements for a director of a commercial bank under the Company Law, Commercial Banks Law and relevant laws, administrative regulations and departmental rules. After the review, the Nomination Committee will submit the proposal to the Board of Directors for their deliberation, after which the Board of Directors will submit a proposal at shareholders' general meeting for determination. The prior consent of each nominee shall be obtained prior to the nomination. A Nomination Committee meeting shall be convened to examine whether the candidates meet the qualifications for a Director. If a shareholder or the Supervisory Board raises an objection to the list of Director candidates, he or it may submit a new proposal in accordance with the Articles of Association of the Company, pursuant to which the Nomination Committee shall examine the qualification of relevant candidates and submit the proposal to the Board of Directors for their determination as to whether the proposal should be further submitted at the shareholders' general meeting.

Special procedures for nomination of Independent Non-executive Director candidates

In accordance with the provisions of relevant laws, regulations and the Articles of Association of the Company, shareholders individually or jointly holding 1% or more of the issued shares of the Company, the Board of Directors or the Supervisory Board may nominate Independent Non-executive Director candidates for appointment via election by the shareholder's general meeting. The prior consent of each nominee for Independent Non-executive Director shall be obtained prior to the nomination. The nominating party shall be fully aware of the occupation, education background, title, detailed work experience and all part-time positions held by the nominee, and shall provide an opinion on the qualification and independence of the respective nominee to assume the position of Independent Non-executive Director. The nominee shall give a public declaration indicating that there is no relationship between him and the Company which would affect his independent judgment. A nominee shall possess the requisite qualification and independence under the Articles of Association of the Company. Before any shareholders' general meeting for the election of the Independent Non-executive Director is held, the Board of Directors shall disclose the above mentioned information in accordance with relevant requirements.

Prior to the date of the shareholders' general meeting at which the Independent Non-executive Directors will be elected, The Company shall submit relevant materials in connection with all of its nominees for Independent Non-executive Directors to the CSRC, the local office of the CSRC where the Company is located, the stock exchanges at which the shares of the Company are listed, and the CBRC. Where the Board of Directors raises any objection in respect of any nominee, its written opinion shall also be submitted to the above authorities. Where the CSRC raises any objection in respect of any nominee, such nominee may not serve as a candidate for Independent Non-executive Director, but he may serve as a Director candidate. During the shareholders' general meeting to elect the Independent Non-executive Director, the Board of Directors shall provide a statement on whether the CSRC raised any objection in respect of each candidate.

Corporate Governance

(2) Nomination process

The terms of office of the 4th session of the Board expired in 2009. In accordance with the requirements of the Articles of Association of the Company and relevant laws and regulations, the Nomination Committee has convened 2 special meetings in respect of the specific arrangements of the re-election. The meetings discussed the plan (included principles of re-election, structure and number of directors) and procedures, coordinated on the method of election, identified candidates of director, reviewed qualification and information of the nominees, expressed opinions and prepared relevant documents for submission to the Board. These helped to guarantee a smooth run of re-election.

(3) Criterion and standard of selection and recommendation of director candidates

Directors shall possess knowledge, experiences and qualification to perform his/her duties with sound professional ethic, and passed the qualification review of the regulatory and management authority of the banking industry.

Independent Non-executive Director shall possess the following basic requirements:

- (i) obtains qualifications to serve as directors of listed commercial banks in accordance with the laws, administrative regulations and other relevant provisions;
- (ii) obtains a bachelor degree or above with relevant middle professional qualifications;
- (iii) fulfills the independence requirement specified in the Articles of Association;
- (iv) is equipped with a basic knowledge of the operation of listed commercial banks, and is familiar with relevant laws, administrative regulations, rules and regulations; and is able to read, understand and analyze commercial bank's credit statistics and financial statements;
- (v) has more than five years of legal, economic, commercial banking or other working experience favorable for fulfilling responsibilities of independent non-executive directors;
- (vi) obtains other qualifications to serve as directors specified in the Articles of Association; and
- (vii) meets the requirements of the Hong Kong Listing Rules regarding the qualifications of independent non-executive directors.

3. Major achievements of the Nomination Committee in 2009

In 2009, the Nomination Committee performed the duties under the Terms of Reference of the Nomination Committee (提名委員會工作細則) and assisted the re-election of the Board by giving full play to the professional role of the committee. The Nomination Committee has tried out the performance assessment of Directors and completed the assessment of the performance of Senior Management. Improvements were also made in the recruitment and internal training of talents of the Company to enable a stable and healthy development of the Company.

The major achievements of the Nomination Committee in 2009 were:

Corporate Governance

(1) Assisting in the re-election of the Board

The re-election of the Board of the Company was completed successfully pursuant to the Articles of Association in the year. To prepare for the re-election, the Nomination Committee had discussed the details of the plan and procedures of the re-election of the Board, which included the principles of re-election, composition and number of Directors, reviewed the qualification and particulars information of the nominees, offered advice, prepared relevant documents for submission to the Board, and discussed the method of election to ensure a smooth run of the re-election.

(2) Assisting in by-election of Independent Non-executive Directors

According to the Articles of Association, the “term of office of an Independent Non-executive Director shall not exceed six consecutive years”. The terms of office of two Independent Non-executive Directors of the Company were due to expire in July 2009. In order to guarantee normal operation of the Board, the Nomination Committee was highly concerned about the by-election of Independent Non-executive Directors. The Nomination Committee had sought for qualified candidates and carefully examined their competence through interviews. The relevant professional qualifications and experience of the candidates were carefully considered to ensure they are capable to perform the duties with sufficient ability and energy.

(3) Assessment of qualification of Senior Management

In 2009, the Nomination Committee performed its duties under the Terms of Reference of Nomination Committee. The Nomination Committee examined the qualifications of presidents, vice presidents of branches and Senior Management of head office. The Committee has examined the qualifications of 28 candidates during the year to secure the stable operation of the Company.

(4) Annual appraisal of Senior Management

In 2009, the Nomination Committee assessed the performance of Senior Management of head office and presidents of the branch offices in 2008 in accordance with the Terms of Reference of Nomination Committee and Provisional Measures on Performance Appraisal of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員盡職考評試行辦法) and prepared a comprehensive assessment report.

(5) Improvement in recruitment and training system

In order to maintain the Company’s leading position of competitiveness for human resources in the banking industry of China and to improve the quality, expertise and management skills of our staff, the Nomination Committee coordinated with the relevant departments of the Company to further improve the existing talent recruitment and training system in 2009. As global talent flow was caused by the financial crisis, the Committee took the chance to develop a comprehensive system and channels to recruit talents from overseas and expand and strengthen the professional team. The Committee also devised scientific, systematic and customized training plans according to the change in market environment and duties of staff to maximize the effectiveness of training.

Corporate Governance

(III) Compensation and Remuneration Committee

1. Composition of the Compensation and Remuneration Committee and meetings in 2009

The Compensation and Remuneration Committee has completed re-election successfully. The Compensation and Remuneration Committee of the 4th session of the Board had 8 members while the Compensation and Remuneration Committee of the 5th session of the Board has 9 members. According to the Proposal on Adjusting the Composition of the Specialised Committees of the 5th Session of the Board (關於調整公司第五屆董事會專門委員會組成成員的議案) considered and approved at the 2nd extraordinary meeting of the 5th session of the Board, the Chairman of the Compensation and Remuneration Committee is Andrew Wong and the members are Lu Zhiqiang, Wang Hang, Chen Jian, Liang Jinquan, Qin Rongsheng, Wang Lihua, Han Jianmin and Liang Yutang upon completion of the adjustment of composition.

The Compensation and Remuneration Committee convened 4 meetings in 2009, in which the Compensation and Remuneration Committee of the 4th session of the Board did not convene any meeting as at the end of the year. The Compensation and Remuneration Committee of the 5th session of the Board convened 4 meetings and reviewed 11 proposals. The attendance record is as follows:

Members	Attendance/Number of Meetings
Non-executive Directors	
Lu Zhiqiang	3/4
Chen Jian	2/4
Wang Hang	4/4
Executive Director	
Liang Yutang	4/4
Independent Non-executive Directors	
Gao Shangquan	3/3
Zhang Ke	3/3
Liang Jinquan	4/4
Andrew Wong (Chairman of the Committee)	4/4
Qin Rongsheng	1/1
Wang Lihua	1/1
Han Jianmin	1/1

Note: Qin Rongsheng, Wang Lihua, Han Jianmin, Gao Shangquan and Zhang Ke were appointed or resigned during the year and were not counted in the quorum of all the 4 meetings.

2. Major achievements of the Compensation and Remuneration Committee in 2009

In 2009, the Compensation and Remuneration Committee of the Board performed duties under the Terms of Reference of Compensation and Remuneration Committee (薪酬與考核委員會工作細則) according to the Board's annual working plan. The Committee further improved the remuneration and evaluation system of management, conducted evaluation of performance of Senior Management, formulated the risk fund plan for Senior Management and pushed forward the improvement of corporate governance of the Company.

Corporate Governance

The major achievements of the Compensation and Remuneration Committee in 2009 were:

(1) Determination of benchmarks of key performance indicators (KPI) for Senior Management in 2009

In accordance with the Management Rules on Remuneration of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員薪酬管理制度), the performance remuneration of the Senior Management is pegged to their KPIs. With reference to the 2009 Financial Budget Report of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司2009年度財務預算報告), the Compensation and Remuneration Committee set the benchmarks of KPIs in 2009. This provided a rational and effective basis for the year-end performance evaluation and remuneration distribution for Senior Management.

(2) Determination of annual remunerations of Directors and Senior Management

In compliance with the Rules on Remuneration of Directors and Supervisors of China Minsheng Bank (2008 Revised) (中國民生銀行股份有限公司董事、監事薪酬制度(2008修訂案)), the Compensation and Remuneration Committee evaluated the performances of the Directors and Supervisors in 2008 to determine their annual remunerations for 2008. In compliance with the Management Rules on Remunerations of Senior Management of the China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員薪酬管理制度) and on the basis of the 2008 business operation indicators, the Compensation and Remuneration Committee evaluated the performances of the Senior Management appointed by the Board in 2008 and determined their annual performance— based remunerations for 2008.

(3) Compliance review of remuneration of Directors, Supervisors and Senior Management

The Committee reviewed the information on remunerations of Directors, Supervisors and Senior Management as disclosed in the 2009 annual report and confirmed its compliance with relevant rules on remuneration management of the Company.

(4) Organization of annual assessment of performance of Senior Management

In 2009, the Compensation and Remuneration Committee assessed the performance of Senior Management of head office and presidents of the branch offices in 2008 in accordance with the Provisional Measures on Performance Appraisal of Senior Management of China Minsheng Banking Corp., Ltd and prepared a comprehensive assessment report.

(5) Maintenance of liability insurance of Directors, Supervisors and Senior Management for the H-share prospectus

In order to secure the Company, and Directors, Supervisors and other Senior Management of the Company from relevant liability risk arising from the issuance of the Company's H shares, the Compensation and Remuneration Committee has reviewed the proposal of liability insurance for Directors, Supervisors and Senior Management for the H share prospectus to ensure the effectiveness of such insurance.

Corporate Governance

(6) Further revise the Management Rules on Remuneration of Senior Management of China Minsheng Banking Corp., Ltd.

The Compensation and Remuneration Committee further revised the Management Rules on Remuneration of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員薪酬管理制度) in this year to strengthen the ties of interests between shareholders and Senior Management and enhance overall operation efficiency of the Company. It adjusted the benchmarks of annual performance indicators and added the indicator of return on capital after risk adjustment to the existing five annual performance indicators. Weightings of the indicators were also adjusted. Through such revision and adjustment of the weightings of efficiency and risk management assessment, the assessment results reflected the long-term potential development of the Bank. The assessment is more comprehensive and reasonable and better support the strategic development of the Bank.

(7) Establishment of a venture fund plan for Senior Management of the Bank

In order to strengthen the ties of interests between shareholders and Senior Management and reinforce the internal risk control mechanism, the Compensation and Remuneration Committee has considered the establishment of a venture fund plan for Senior Management in the year taking into account of the deferred nature of risks in financial industry. Such venture fund plan for Senior Management will not only tightly link and tie up the interests between shareholders and Senior Management, but also reflect the commitment and long-term control of risk liability of the Company in the compensation package of the Senior Management.

(IV) Risk Management Committee

1. Composition of the Risk Management Committee and meetings in 2009

The Risk Management Committee has completed re-election successfully. The 4th session of the Risk Management Committee comprised of 5 members. The 5th session of the Risk Management Committee comprised of 5 members. According to Proposal on Adjusting the Composition of the Specialised Committees of the 5th Session of the Board, which was considered and approved by the 2nd extraordinary meeting of the 5th session of the Board, the Chairman of the committee is Mr. Wang Sonqi, and the members of the committee are Mr. Wang Yugui, Mr. Wang Hang, Mr. Andrew Wong and Mr. Liang Yutang upon the completion of the adjustment of the composition.

Major duties of the Risk Management Committee are as follows: to opine on overall risk management of the Company, to supervise and assess the risk management of the Company, to conduct research and plan risk management and other issues authorized by the Board.

Corporate Governance

The Risk Management Committee convened 5 meetings and reviewed 16 proposals in 2009. The 1st meeting in 2009 reviewed 2 proposals, the 2nd meeting in 2009 reviewed 4 proposals, the 3rd meeting in 2009 reviewed 2 proposals, the 4th meeting in 2009 reviewed 7 proposals and the 5th meeting in 2009 reviewed 1 proposals. The attendance of the meetings is as follows:

Members	Attendance/Number of Meetings
Non-executive Directors	
Wang Yugui	3/5
Wang Hang	5/5
Executive Directors	
Liang Yutang	5/5
Independent Non-executive Directors	
Wang Songqi (Chairman of the Committee)	5/5
Andrew Wong	4/5

2. Major achievements of the Risk Management Committee in 2009

In 2009, the Risk Management Committee considered and approved resolutions such as Risk Control Guidelines of the Board (董事會風險指導意見), Risk Assessment Report of the Board (董事會風險評估報告), Risk Reporting System of the Board (董事會風險報告制度), Administrative Measures of Board on Approval of Business with Excessive Risk (董事會超風險限額業務審批管理辦法), and Opinion on the Prevention of Negative Effects of “Loan Provision” and Strengthening of Credit Management (關於防範《貸款儲備》負面效應，加強信貸管理的意見). The Risk Management Committee also considered and approved the resolutions of 2009–2011 Plan of Comprehensive Risk Management System of China Minsheng Bank (中國民生銀行2009–2011年全面風險管理體系建設規劃) and Implementation Proposal of New Basel II Accord of China Minsheng Bank (中國民生銀行新資本協議實施工作方案) proposed by the management. In addition, the Committee conducted quarterly research on risk management and studied risk management reports from the management. The Committee has also reviewed the Mid to Long-term Incentive and Performance Evaluation Measures of the Bank (中國民生銀行中長期激勵考核辦法) and reports on collection and settlement of non-performing loans. The Committee has also studied the risk management of the board of commercial banks, major mid-term risk indicators and its trend and impact on business development under inflation expectation.

(V) Audit Committee

1. Composition of the Audit Committee and meetings in 2009

According to the Resolution on Adjusting the Composition of the Specialised Committees of the 5th Session of the Board (關於調整公司第五屆董事會專門委員會組成成員的決議) passed in the 2nd extraordinary meeting of the 5th session of the Board, the Audit Committee of the 5th session of the Board comprises of 6 members, in which 4 are Independent Non-executive Directors and 2 are shareholders directors. The Chairman of the Committee is Qin Rongsheng, and the members are Wong Hei, Shi Yuzhu, Andrew Wong, Wang Songqi and Han Jianmin, upon adjustment.

Corporate Governance

The Audit Committee of the Board convened 5 meetings and reviewed 12 proposals in 2009.

Members	Attendance/Number of Meetings
Non-executive Directors	
Shi Yuzhu	2/5
Wong Hei	5/5
Independent Non-executive Directors	
Wang Songqi	3/5
Andrew Wong	5/5
Qin Rongsheng (Chairman of the Committee)	2/2
Han Jianmin	2/2
Zhang Ke	3/3

Note: Qin Rongsheng, Han Jianmin and Zhang Ke were appointed or resigned during the year and were not counted in the quorum of all the 5 meetings.

2. Major achievements of the Audit Committee in 2009

The Audit Committee of the Board of the Company is responsible for reviewing the annual, interim and quarterly financial reports of the Company to be submitted to the Board; providing opinions on the accuracy and reasonableness of the financial reports; reviewing the financial budgets, final accounts and substantial write-off of non-performing assets; evaluating the audit work of external auditors and providing recommendations on the engagement of auditors and their remunerations; supervising and directing the internal audit of the Company, evaluating the effectiveness of the internal control system of the Company and procuring the continuous improvement of the internal control system of the Company.

In 2009, under the direction of the annual plan of the Board, the Audit Committee performed its duties in a prudent, independent and objective manner to ensure the internal and external audit can be conducted efficiently and publish complete and accurate financial information in time. The major achievements of the Audit Committee in 2009 were as follows:

(1) Coordination and supervision of the audit of the 2009 financial statements

According to the Terms of Reference of Audit Committee (審計委員會工作細則) and Annual Report Preparation Guidelines of Audit Committee under the Board of Directors (審計委員會年報工作規程), the Audit Committee carefully directed and supervised the audit of 2009 financial statements. At the beginning of the audit, the Audit Committee discussed with PricewaterhouseCoopers Zhong Tian CPAs Limited Company about the schedule and rules of the audit. The Committee has reviewed annual operation reports and supervised the preparation of financial statements. During the audit process, it maintained close contact with the statutory auditor to sort out any problems encountered in the audit process and to ensure that the audit report can be submitted in time. After the audit firm has issued its preliminary opinion, the Committee reviewed the working report of the auditor and the financial statements of the Company and forwarded its voted written opinion to the Board for consideration. These processes successfully ensured the disclosure of relevant information of the annual financial report.

Corporate Governance

(2) Supervision and guidance of the establishment of internal control system

The Audit Committee performed its duties under the Articles of Association to supervise and guide the establishment and operation of internal control system. In 2009, the Audit Committee coordinated and reviewed the annual internal audit plan and conducted the quarterly internal audit. It also carried out site inspections of internal audit and the establishment of internal control systems in branches and offered opinion and advice accordingly.

(3) Organization of self-evaluation of internal control

As a model listed company (樣本股公司) in relation to corporate governance of the Shanghai Stock Exchange, the Audit Committee procured the Company to conduct self-evaluation of its internal control system. The committee also supervised and coordinated the Company to compile the report on self-evaluation of internal control and verification report. This facilitates the Company to effectively disclose the relevant information of internal control and audit.

(4) Review of relevant financial statements of the Company

In 2009, the Audit Committee held 5 special meetings and reviewed the annual financial statements of the Company for 2008, financial budget, quarterly financial report, interim report and annual report of the Company for 2009. The Committee also issued the budget report under the New Basal Capital Accord and supervised the financial control of the Company. The Committee has implemented measures to ensure the truthfulness, accuracy and completeness of financial information.

(5) Supervision on major asset disposals

The Committee supervised the write-off of bad debts in a prudent manner. In 2009, the Audit Committee has reviewed the disposal of each material asset to safeguard the Company's assets.

(6) Evaluation and engagement of external auditor for annual audit

The Audit Committee evaluated the performance of auditors of their annual audit and proposed recommendations on the appointment of external auditors.

(VI) Related Party Transactions Supervision Committee

1. Composition of the Related Party Transactions Supervision Committee and meetings in 2009

According to the Resolution on Adjusting the Composition of the Specialised Committees of the 5th Session of the Board passed in the 2nd extraordinary meeting of the 5th session of the Board, the 5th Related Party Transactions Supervision Committee of the Board, upon adjustment, comprises 8 members, including 4 Independent Non-executive Directors, 3 shareholder directors and 1 executive director. Qin Rongsheng was appointed as the Chairman of the Committee. Wong Hei, Shi Yuzhu, Wang Junhui, Liang Jinquan, Wang Lihua, Han Jianmin and Liang Yutang were appointed as members of the Committee.

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In 2009, 13 meetings were convened and 25 proposals were reviewed by the Related Party Transactions Supervision Committee. The attendance record is as follows:

Members	Attendance/Number of Meetings
Non-executive director	
Wang Yugui	4/4
Wong Hei	12/13
Shi Yuzhu	9/13
Wang Junhui	8/9
Executive director	
Hong Qi	4/4
Liang Yutang	9/9
Independent non-executive director	
Zhang Ke	10/10
Tow Heng Tan	2/4
Wu Zhipan	3/4
Qin Rongsheng (Chairman of the Committee)	3/3
Liang Jinquan	9/9
Wang Lihua	3/3
Han Jianmin	3/3

Note: Wang Yugui, Wang Junhui, Hong Qi, Liang Yutang, Zhang Ke, Tow Heng Tan, Wu Zhipan, Qin Rongsheng, Liang Jinquan, Wang Lihua and Han Jianmin were appointed or resigned during the year and were not counted in the quorum of all the 13 meetings.

2. Major achievements of the Related Party Transactions Supervision Committee in 2009

In 2009, the Related Party Transactions Supervision Committee strengthened the management of related party transaction to control risk, monitored the compliance of related party transactions and standardized the management of connected transactions. In 2009, the Related Party Transactions Supervision Committee:

(1) Reviewed related-party items on a strict basis

The committee reviewed credit lines to related parties in strict compliance with the approval procedures and the Terms of Reference of the Related Party Transactions Supervision Committee (關聯交易控制委員會工作細則). In 2009, the committee held 13 meetings and reviewed 22 credit lines to related party.

(2) Updated and completed databases of related parties

According to the rules on related party transaction/connected transaction of the CBRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, the Committee procured the related parties/connected persons to report the relevant information promptly, update and verify the databases of related parties in order to maintain the completeness of the databases.

(3) Conducted compliance examination on related party transactions

In order to ensure the compliance of related party transactions, the committee identified and eliminated defects and weakness of management to control potential risks of related party transactions. The committee also organized the Internal Audit Department to examine the compliance of related party transactions in this year.

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(4) Supervised the information disclosure of related party transaction

Through enhancing the reporting system, the Committee ensured the prompt report and disclosure of related party transactions by the relative departments in accordance with the requirements of the regulatory authorities.

V. The Supervisory Board

The Supervisory Board is the supervisory organization of the Company, which executes its powers and functions in accordance with the laws and regulations, such as the Company Law, applicable regulatory provisions and the Articles of Associations to ensure the lawful operations and stable development of the Company and safeguard interests of the Company and investors. The Supervisory Board shall be accountable to the shareholders' general meetings.

(I) Composition of the Supervisory Board

As at 31 December, 2009, the Supervisory Board of the Company comprised 8 members, including 3 Shareholder Supervisors, 2 External Supervisors and 3 Employee Supervisors. The 2 external Supervisors are experts in economic, finance and management; the 3 shareholder Supervisors are major persons in charge in renowned companies in the PRC with extensive management experience and professional knowledge in finance; and the 3 Employee Supervisors have been engaged in management in banks for a long period of time, possessing extensive experiences.

The Supervisory Board is well structured. The Supervisors are independent and professional, which enables the Supervisory Board to fully perform its supervisory functions.

The list of Supervisors and their profiles are set out in the Chapter titled "Directors, Supervisors and Senior Management". The members of the Supervisory Board are not related (in terms of finance, business, family or other material relations or relevant relations).

(II) The functions and duties of the Supervisory Board

According to the Articles of Association, the Supervisory Board shall exercise the following powers:

1. to review the regular reports of the Company by the Board and opine on the reports in writing;
2. to examine and supervise financial activities of the Company, and may (if necessary) engage another accounting firm to conduct independent auditing on financial status in the name of the Company;
3. to oversee the compliance of Directors, President, Vice Presidents, Chief Financial Officer and Board Secretary of the Company in performing their duties;
4. to demand any Director, President, Vice Presidents, Chief Financial Officer and Board Secretary of the Company rectify his/her conduct when such conduct is prejudicial to the interests of the Company, and report such conduct to shareholders' general meetings or relevant regulatory authorities of the State if necessary; and make proposals to remove any Directors and Senior Management if they breach any applicable laws, administrative regulations, the Articles of Association and resolutions of shareholders' general meetings;
5. to conduct audit over the issues in connection with the operation and decision making, risk management and internal control of the Company as and when necessary;

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6. to make a departure audit, if required, in respect of any resigning director or member of Senior Management;
7. to issue opinions on the engagement of an accounting firm by the Company;
8. to propose to convene extraordinary shareholders' general meetings, and, if the Board fails to convene or chair such a meeting as required under the Articles of Association, to convene or chair the shareholders' general meetings;
9. to propose to convene an extraordinary board meeting and submit proposals to the shareholders' general meeting;
10. to bring actions against Directors and Senior Management according to Article 152 of the Company Law of the PRC;
11. to investigate any irregularities in the operations of the Company if necessary, and may engage accounting firms, law firms or other professional firms to assist its work at the costs of the Company; and
12. to exercise the other powers prescribed by the Articles of Association, and powers conferred by the shareholders' general meeting.

Members of the Supervisory Board may be present at meetings of the Board and are entitled to voice their opinions at the meetings.

(III) The Supervisory Board meetings and contents of resolutions

During the reporting period, 9 meetings have been held by the Supervisory Board (including 6 on-site meetings and 3 by way of written resolutions), the details and contents of the meetings are as follow:

Meeting	Date	Resolutions	Publication	Date of Disclosure
The 14 th Meeting of the 4 th session of the Supervisory Board	15 January, 2009	Considered and approved the Resolution on the Work Plan for the Supervisory Board of 2009 (關於2009 年監事會工作計劃的決議)	Shanghai Securities News, China Journal, Securities Times and Financial Times	16 January, 2009
The 15 th Meeting of the 4 th session of the Supervisory Board	23 February, 2009	Considered and approved the Resolution on the Re-election of the Supervisory Board and the Nomination of Candidates for Shareholder Supervisors and External Supervisors (關於監事會換屆及徵集股 東監事、外部監事候選人的決議)	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	24 February, 2009

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Meeting	Date	Resolutions	Publication	Date of Disclosure
The 16 th Meeting of the 4 th session of the Supervisory Board	6 March, 2009	Considered and approved the Resolution on the Early Re-election of the Supervisory Board (關於公司監事 會提前換屆的決議) and the Resolution on the Candidates for Shareholder Supervisors and External Supervisors of the 5 th session of Supervisory Board (關於公司第五屆監事會股東監 事、外部監事候選人名單的決議)	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	7 March, 2009
The 1 st Meeting of the 5 th session of the Supervisory Board	23 March, 2009	Considered and approved the Resolution on the Elections of Chairman and Vice Chairman of the 5 th Session of the Supervisory Board (關於選舉第五屆監事會主席、副主 席的決議) and the Resolution on the Members of Specialised Committees of the 5 th Session of Supervisory Board (關於公司第五屆監事會專門委 員會組成成員的決議)	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	24 March, 2009
The 2 nd Meeting of the 5 th session of the Supervisory Board	21 April, 2009	Considered and approved the Resolution on the 2008 Annual Report of the Company (full text and abstract) (關於《公司2008年年度報告 (正文及 摘要)》的決議), the Resolution on the Work Plan of Supervisory Board of 2008 (Draft) (關於監事會2008年度工 作報告 (草案) 的決議), the Resolution on the Self-assessment Report regarding the Internal Control of the Company by the Board of Directors of China Minsheng Banking Corp., Ltd. (關於《中國民生銀行股份有限公司董 事會關於公司內部控制的自我評估報 告》的決議) and the Resolution on the Q1 Report of the Company of 2009 (關於《公司2009年第一季度報告》的 決議)	Shanghai Securities News, China Securities Journal, Securities Times and Financial Times	23 April, 2009

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Meeting	Date	Resolutions	Publication	Date of Disclosure
The 3 rd Meeting of the 5 th session of the Supervisory Board	17 August, 2009	Considered and approved the Resolution on the Interim Report of the Company of 2009 (full text and abstract) (關於《公司2009年半年度報告(正文及摘要)》的決議) and the Resolution on the Provisional Measures on Performance Appraisal of Supervisors of China Minsheng Banking Corp., Ltd. (關於《中國民生銀行股份有限公司監事履職評價試行辦法》的決議)	Shanghai Securities News, China Securities Journal, Times and Financial Times	19 August, 2009
The 4 th Meeting of the 5 th session of the Supervisory Board (by way of written resolutions)	19 September, 2009	Considered and approved the Resolution on the Departure Audit Report regarding Resignation of Mr. Gao Shangquan, Independent Non-executive Director of China Minsheng Banking Corp., Ltd. (關於《中國民生銀行股份有限公司獨立董事高尚全先生的離任審計報告》的決議) and the Resolution on the Departure Audit Report regarding Resignation of Mr. Zhang Ke, Independent Non-executive Director of China Minsheng Banking Corp., Ltd. (關於《中國民生銀行股份有限公司獨立董事張克先生的離任審計報告》的決議)	Shanghai Securities News, China Securities Journal, Times and Financial Times	22 September, 2009

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Meeting	Date	Resolutions	Publication	Date of Disclosure
The 5 th Meeting of the 5 th session of the Supervisory Board (by way of written resolutions)	20 October, 2009	Considered and approved the Resolution on the Q3 Report of the Company of 2009 (關於公司2009年第 三季度報告的決議)	(Exempted from announcement requirement according to relevant provisions)	
The 6 th Meeting of the 5 th session of the Supervisory Board (by way of written resolutions)	14 December, 2009	Considered and approved the Resolution on the Terms of Reference of the Nomination and Remuneration Committees under the Supervisory Board of China Minsheng Banking Corp., Ltd. (Revised) (關於中國民生銀 行監事會提名與薪酬委員會工作細則 (修訂案) 的決議)	Shanghai Securities News, China Securities Journal, Times and Financial Times	15 December, 2009

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(IV) The attendance record of each Supervisor in 2009:

Supervisor	Attendance/Number of meetings
Qiao Zhimin	9/9
Xing Jijun	6/6
Lu Zhongnan	9/9
Zhang Disheng	9/9
Xu Rui	9/9
Wang Liang	9/9
Chen Jinzhong	9/9
Wang Lei	9/9
Huang Diyan	3/3
Li Yu	3/3

Note: Xing Jijun was appointed during the year and Huang Diyan and Li Yu ceased to act as Supervisors when their terms of office of the 4th session of the Supervisory Board were expired and were not counted in the quorum of all the 9 meetings.

VI. Specialised Committees under the Supervisory Board

The Supervisory Board of the Company comprises Nomination and Remuneration Committee and Supervisory Committee. Members, powers and functions of such committees and their works in 2009 are as follow:

(I) Nomination and Remuneration Committee

According to the Resolution on the Amendment to Certain Provisions of the Articles of Association (關於修改<公司章程>個別條款的決議) approved by the 1st 2009 EGM, the Nomination Committee under the Supervisory Board is renamed as Nomination and Remuneration Committee. The Nomination and Remuneration Committee under the 4th session of the Supervisory Board comprised 6 members. According to the Resolution on the Composition of the specialised Committees of the 5th Session of the Supervisory Board (關於公司第五屆監事會專門委員會組成成員的決議) considered and approved by the 1st Meeting of the 5th session of the Supervisory Board, the 5th session of the Nomination and Remuneration Committee shall comprise 6 members. The convener of the Committee is Xu Rui, and the members include Qiao Zhimin, Xing Jijun, Wang Liang, Lu Zhongnan and Zhang Disheng.

The major duties of the Nomination and Remuneration Committee under the Supervisory Board include: making recommendations to the Supervisory Board on the size and composition of the Supervisory Board; reviewing standards and procedures for election of Supervisors and making recommendations to the Supervisory Board; identifying qualified candidates of Supervisors; carrying out preliminary examination on qualification of the candidates of Supervisors nominated by shareholders and making recommendations; studying and formulating remuneration policy and budget of Supervisors and submitting reports to the shareholders' general meeting for approval after the same being considered and approved by the Supervisory Board; and performing other duties conferred by the Supervisory Board.

In 2009, the Nomination and Remuneration Committee under the 4th session of Supervisory Board convened 2 meetings and reviewed 3 proposals. The Nomination and Remuneration Committee under the 5th session of Supervisory Board convened 2 meetings and reviewed 2 proposals.

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The attendance of each member in the committee meetings is as follows:

Member	Attendance/Number of Meetings
Xu Rui	4/4
Qiao Zhimin	4/4
Xing Jijun	2/2
Wang Liang	2/2
Lu Zhongnan	4/4
Zhang Disheng	4/4
Huang Diyan	2/2
Li Yu	2/2

Note: Xing Jijun, Wang Liang, Huang Diyan and Li Yu were appointed or resigned during the year and were not counted in the quorum of all the 4 meetings.

In 2009, based on the work plan of the Supervisory Board, the Nomination and Remuneration Committee under the Supervisory Board actively performed its duties and functions conferred by the Articles of Association and Terms of Reference of Nomination and Remuneration Committee under the Supervisory Board (監事會提名與薪酬委員會工作細則), assisted in and organized the re-election of the Supervisory Board, studied and formulated the Provisional Measures on Performance Appraisal of Supervisors (監事履職評價試行辦法), carried out performance assessment and evaluation of all Supervisors and more effectively performed the functions of the Committee. The major achievements of the Nomination and Remuneration Committee in 2009 were as follows:

1. Assisting in the re-election of the Supervisory Board

According to the relevant provisions of the Articles of Association, the re-election of the Supervisory Board was initiated in 2009. In accordance with the work plan of the re-election, the Nomination and Remuneration Committee held meetings to discuss proposals in relation to the re-election of the Supervisory Board (including principle and structure of the re-election, number of Supervisors and nomination procedures), examined the qualifications and profiles of nominees and nominators and prepared the proposals and documents to be submitted to the Supervisory Board, which ensured and facilitated the smooth implementation of the re-election.

2. Revising the Terms of Reference of Nomination and Remuneration Committee under the Supervisory Board (Revised) (監事會提名與薪酬委員會工作細則 (修訂案))

According to the Resolution on the Amendment to Certain Provisions of the Articles of Association (關於修改<公司章程>個別條款的決議) approved by the 1st 2009 EGM, the Nomination Committee under the Supervisory Board was renamed as the Nomination and Remuneration Committee and scope of duties of the Committee had been expanded. In order to meet the requirements of the Articles of Association, regulate the operating procedures of the Committee and enhance the quality and efficiency of the Committee in performing its duties, on the basis of Terms of Reference of Nomination Committee under the Supervisory Board (Revised), the Committee revised the Terms of Reference of

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Nomination and Remuneration Committee under the Supervisory Board (Revised Draft). Such operating procedures were considered and approved by the 1st Meeting of the 5th session of the Nomination and Remuneration Committee under the Supervisory Board on 23 October, 2009, and were considered and approved by the 6th Meeting of the 5th session of the Supervisory Board.

3. Carrying out performance assessment and evaluation of Supervisors in 2009

According to the provisions of the Provisional Measures on Performance Appraisal of Supervisors (監事履職評價試行辦法), on the basis of the statistics and analyses of the Nomination and Remuneration Committee under the Supervisory Board in respect of the attendance of each Supervisor, and their attendance of the Supervisory Board meetings and specialised committee meetings, the attendance of the meetings as an observer and participation in investigation and training activities, as well as the cross-assessment and self-assessment results of all Supervisors, the Committee made performance assessment of all Supervisors in 2009. All Supervisors were able to perform their duties in accordance with relevant requirements and the assessment results of all Supervisors reached the level of “competent” or above.

4. Organizing trainings for Supervisors

The Nomination and Remuneration Committee under the 5th session of the Supervisory Board actively arranged and organized all Supervisors to participate in training courses of Directors and Supervisors held by Beijing Municipal Bureau of the CSRC and to pass the examinations. The attendance rate of Supervisors was 100%. The committee also arranged some Supervisors to participate in other training activities organized by social training organizations in order to expand and enhance the professional knowledge and skills of the Supervisors. The Committee also arranged Supervisors to participate in training activities organized by the Supervisory Board and Board of Directors. Taking account of the changes of macro-economic policy and the actual situation of the Company, the Committee enhanced special studies and investigation, prepared investigation reports and made recommendations on the development and reforms of the Company.

(II) Supervisory Committee

The Supervisory Committee under the 4th session of the Supervisory Board comprised 8 members. According to the Resolution on the Composition of Specialised Committees of the 5th Session of the Supervisory Board considered and approved by the 1st meeting of the 5th session of the Supervisory Board, the Supervisory Committee under the 5th session of the Supervisory Board shall comprise 7 members. Qiao Zhimin was appointed as the convener of the Committee and Xing Jijun, Xu Rui, Wang Liang, Lu Zhongnan, Chen Jinzhong and Wang Lei were appointed as the member of the Committee.

The major duties of the Supervisory Committee under the Supervisory Board include: formulating proposals on the examination and supervision on the financial activities of the Company; formulating proposals on the departure audit of any resigning Director or member of Senior Management; formulating proposals on the examination and supervision on the operational decisions, risk management and internal control of the Company; and performing other duties conferred by the Supervisory Board.

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In 2009, the Supervisory Committee under the 5th session of the Supervisory Board convened 5 meetings and reviewed 6 proposals. The attendance of record of each member is as follows:

Member	Attendance/Number of Meetings
Qiao Zhimin	5/5
Xing Jijun	5/5
Xu Rui	5/5
Wang Liang	5/5
Lu Zhongnan	4/5
Chen Jinzhong	5/5
Wang Lei	5/5

In 2009, based on the work plan of the Supervisory Board, the Supervisory Committee under the Supervisory Board actively performed the duties and functions conferred by the Articles of Association and Terms of Reference of Supervisory Committee under the Supervisory Board (監事會監督委員會工作細則). In particular, the Supervisory Committee carried out explorative supervision over and assessment on performance of Directors and Senior Management in 2009 and accumulated extensive experience, which facilitated the supervision work of the Supervisory Board. The major achievements of Supervisory Committee in 2009 were as follows:

1. Organizing on-site investigations

In 2009, the Supervisory Committee arranged Supervisors to conduct on-site investigations in 7 branches in Shanghai, Nanjing, Fuzhou and Changchun, to understand the operation and management of organizations at the basic level and identify existing problems, and prepared the reports of investigations and submitted to Board of Directors and Senior Management. The Supervisory Committee also supervised and implemented the relevant rectifications.

2. Conducting departure audits in respect of any resigning Director and Senior Management

According to the relevant regulatory requirements and the provisions of the Articles of Association, taking account of the re-election of the Board of Directors and the management of the Company and the arrangement of the Supervisory Board, the Supervisory Committee conducted departure audits in respect of Mr. Eddie Wang, the former President, Mr. Hong Qi, the former Vice President, Mr. Gao Shangquan and Mr. Zhang Ke, the former Independent Non-executive Directors in 2009 and prepared audit reports accordingly.

3. Conducting special examination on related party transactions

Based on the circumstance of the Company, and as required by the CBRC Beijing Bureau, the Supervisory Committee performed special examinations on related party transactions of the Company in 2009 according to the arrangements of the Supervisory Board. According to the investigation reports issued by intermediaries, the Committee submitted 4 suggestions to the Supervisory Board for their referral to the Board and the management for discussion, including "further enhancing the management of related party transactions and controlling risks of related party transactions".

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4. Further reinforcing the supervision and evaluations on Directors and Senior Management

According to the provisions of the Provisional Measures on Performance Appraisal of Directors and Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行監事會對董事、高級管理人員履職監督試行辦法), the Supervisory Committee made performance assessment of Directors and Senior Management, prepared a performance assessment report in respect of Directors and Senior Management in 2009 and submitted such report to the Supervisory Board for consideration.

5. Reviewing regular financial reports of the Company

The Supervisory Committee communicated with the auditor of annual audit regularly and closely monitored and supervised the truthfulness and completeness of the financial reports of the Company to ensure the preparation and the information disclosure of such reports in compliance with the laws and regulations. In 2009, the Supervisory Committee reviewed the Company's annual report of 2008, and quarterly reports and interim reports of 2009 so as to supervise the financial operation of the Company and ensured the truthfulness, accuracy and completeness of the Company's financial information.

VII. The Decision-Making System of the Company

The supreme authority of the Company is the Shareholders' General Meeting, which manages and supervises the operations of the Company through the Board of Directors and the Supervisory Board. The President is appointed by the Board of Directors and is responsible for the daily operations and management of the Company. The Company adopts a tier-one legal person system. Branches are all non-independent accounting entities, operating under the authorization of the Head Office and report to the Head Office.

The Company has no controlling shareholders and is totally independent from its major shareholders in terms of business, personnel, assets, organizations and finance. The Company maintains independence and integrity in managing its own business and operations, and its Board of Directors, the Supervisory Board and internal department also operate independently.

VIII. Performance Evaluation and Incentive Mechanism for Senior Management

In accordance with the Management Rules on Remuneration of Senior Management of China Minsheng Banking Corp., Ltd (中國民生銀行股份有限公司高級管理人員薪酬管理制度), the performance remuneration of the Senior Management is pegged to their KPIs. With reference to the 2009 Financial Budget of China Minsheng Banking Corp., Ltd. Report (中國民生銀行股份有限公司2009年度財務預算報告), the Compensation and Remuneration Committee of the Board set the KPIs for 2009 and the Board determined the performance remuneration of Senior Management for 2009 based on their five KPI results, including the net profit and the non-performing assets ratio. In accordance with the requirement of the regulators, the Company set up venture funds for Senior Management since the year of 2009, which is accrued by a certain proportion of key management's annual bonus but not yet distributed.

According to the Provisional Measures on Performance Appraisal of Senior Management (中國民生銀行股份有限公司高級管理人員盡職考評試行辦法), the Board of Directors carried out annual evaluation of the performance of Senior Management. The establishment and implementation of performance assessment are instrumental for the Board of Directors to fully understand the performance of the Senior Management in discharging their duties and to help them improve their competence, and for building an adequate incentive environment for Senior Management.

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(I) Remuneration policy for Senior Management

The remuneration policy for Senior Management of the Company is implemented to facilitate the accomplishment of development strategy and business target and reflects the principles of human resources management strategy and guidelines of the Company. The Company evaluated performance on the basis of the remuneration policy of Senior Management and their operation results so as to encourage Senior Management to develop together with the Company; formulated a fair and consistent remuneration policy for Senior Management with reasonable structure and market competitiveness; set up incentive and punishment system for Senior Management with simple and clear classification, and assessment of duties and performance evaluation; and remunerated Senior Management according to their duties, ability and contribution to operation result.

(II) Remuneration policy for Directors

The Company pays remuneration to all Directors in accordance with the Rules on Remuneration of Directors and Supervisors of China Minsheng Bank (2008 Revised draft). The remuneration of Directors comprises of annual fee, allowance for specialised committees, reimbursement for attending meetings and reimbursement for investigation.

IX. Appointment of accounting firm

According to the resolution adopted by the AGM, the Company continues to engage PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the auditors of the Company's 2009 annual financial statements prepared under CAS and IFRS.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company has been the auditor of the Company for 10 years. The remuneration paid in 2009 (including, but not limited to miscellaneous expenses such as traveling expenses, accommodation expenses and communication expenses) amounted at RMB11.55 million.

Remuneration paid	2009	2008
Remuneration for audits	6,600	5,300
Other expenses	4,950	1,820
Total	11,550	7,120

(Unit: RMB'000)

X. Internal Control and Internal Audit

(I) Adequacy, effectiveness and completeness of internal control

1. Overall structure of the internal control system

The Company attaches high importance to the establishment of internal control system. The Company operates in accordance with Basic Standard for Enterprise Internal Control (企業內部控制基本規範) promulgated by five ministries such as the Ministry of Finance, Guidelines for Internal Control of Commercial Banks of the CBRC (商業銀行內部控制指引), Guidelines for Internal Control of Listed Companies of Shanghai Stock Exchange (上海證券交易所上市公司內部控制指引), and other laws and regulations. It is to ensure the compliance of its operation activities with laws, the fulfillment of development strategies and business target and the truthfulness, accuracy and completeness of financial accounting

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and business records. The Company regards the establishment of a comprehensive internal control system as its long-term management plan for inclusion in its management schedule. The internal control system framework is formulated for development strategies, authorized organization system for different units, effective implementation of operation policy and risks management, etc. The internal control system covers five areas, namely environment control, ability to identify, monitor and assess risks, internal control measures, information exchange and feedback mechanisms and evaluation and rectification. In addition, the Company designates specific departments to take charge of the establishment, implementation and management of the internal control system. In compliance with the general arrangement of internal control and risk management systems, the Company puts great effort to coordinate the establishment of the internal control system with the 3-year plans of operation and risk management, and to implement the systems in phases.

2. Organization structure of internal control

The Company has established an independent internal control organization structure. The Shareholders' General Meeting, the Board of Directors, the Supervisory Board and the management led by the Board perform their respective duties. The supreme authority of the Company is the Shareholders' General Meeting. The Board of Directors is a decision-making body while the Supervisory Board is a supervisory unit. Six specialised committees are established under the Board of Directors for decision-making research units, including Strategic Development and Investment Management Committee, Audit Committee, Risk Management Committee, Nomination Committee, Compensation and Remuneration Committee and Related Party Transactions Supervision Committee. The President and the management are responsible for direction, coordination, management and supervision of the Company's daily operational activities according to decisions made by the Board of Directors.

The internal control management system works effectively under the robust legal person governance structure of the Company. The Board of Directors is responsible for ensuring the integrity and smooth implementation of the internal control system. The Audit Committee supervises and directs the establishment of the internal control system through review of internal control reports, inspection of internal control of each unit and self-evaluation on a regular basis. Risk Management Committee supervises risk status of the management by formulating annual risk management guidance and carries out evaluation and investigation on risk reports regularly. Through the investigations carried out by the Audit Committee and the Risk Management Committee, the Board of Directors grasps the general internal control condition, analyses and discusses related issues and suggests constructive ideas to the management. The management of the Company rigorously implements the instructions and work plans of the Board of Directors on internal control management to make comprehensive improvement on risk management. This includes improving the compliance with and authority of the internal control policies and procedures and improving the consistent implementation of internal control management, its involvement in processes and daily operations and its compliance with best practices. The Supervisory Board, as required under the Articles of Association, relevant laws and regulations and regulatory provision, supervises whether the performances of the Board of Directors, management and its members are in compliance with the laws and regulations to safeguard the interests of the Company and its investors. The Company has formed an effective and standard internal control and management system that incorporates education, early warning, prevention, and incentive and punitive functions, where each department has clearly defined responsibility and cooperates with one another under mutual restriction and supervision.

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In order to standardize the selection of executives and set up a talent pool for Senior Management and middle executives the Company has established a comprehensive talent selection and training system. The Company has also set up optimal training scheme and budget for trainings based on its development requirement to enhance employees' quality. In 2009, the Company held various types of training with a total of 129,877 attendees.

3. Internal control system

In compliance with Commercial Bank Law of the PRC (中華人民共和國商業銀行法), Guidelines for Internal Control of Commercial Banks (商業銀行內部控制指引) and other laws and regulations and regulatory rules, and for the purpose of risk prevention and prudent business operation, the Company has reviewed and improved the internal control system and has gradually formed a set of robust internal control policies. It has also formulated a series of internal management rules and internal control mechanisms for risk prevention, control, subsequent supervision and rectification to ensure stringent and controllable risk exposure management.

The internal control system covers corporate governance policies cored on the Articles of Association of the Company and the rules of procedures of Shareholders' General Meeting, the Board of Directors and its specialised committees and the Supervisory Board. It also covers operational systems that involve business regulation such as loans to corporate clients, corporate deposits, loans to individuals, personal deposits, other personal business, treasury, wealth management, trade finance, e-banking, credit card, investment banking and asset custody. Management systems are covered and they comprise regulations of accounting management, accounting and audit, financial management, information technology, computer system risk control, corporate culture establishment, organization position setting and definition of terms of reference, employment, qualification, leave entitlement, authority management, seal management, physical security, rewards and penalty systems of units and employees, supervision and inspection. The system also covers information control systems, in particular, the Information Disclosure Management System (信息披露管理制度) and the Operation Information Internal Reporting System (經營信息內部報告制度). The existing policies have been embedded into managerial departments, business departments, business processes and operating procedures and provide sound and effective protection against financial risks.

4. Culture of internal control

The Company attaches high importance to create and cultivate an outstanding corporate culture which conforms to requirements of modern commercial bank and has its own characteristics. Having reviewed, concluded, standardized and improved the existing corporate culture, the Company unified all operational management areas, such as internal control, marketing, risk management, incentives and assessment under the mission, vision and core concept set by the corporate culture and brand building. The Company has come up with operation philosophy, code of conduct and positive image of its own. The Company also addresses the establishment of corporate sub-culture focusing on business development and risk management, which has gradually evolved into a corporate culture system that is consistent to the core value, and helped to introduce all employees to proper business performance values, and prudent risk and compliance awareness.

5. Major internal control measures

During the reporting period, the Company strengthened its corporate governance structure and improved the regular communication between the three specialised committees of the Board with the management and check

Corporate Governance

and balance at decision-making process. It reinforced the authorization management of all businesses and adopted classified authorization and supervision mechanism that is in line with relevant rights and obligations. The Company improved internal control measures of all business processes and operation procedures by tightening business authorization, approval procedure and authority, and establishing internal control policies and procedures with rational labor division, clearly defined rights and obligations, check and balance and mutual supervision between different job position and organs. The Company standardized accounting settlement, made adequate financial resources allocation, and satisfied internal control requirements in terms of quality and structure of human resources in accordance with the new accounting standards so as to guarantee the truthfulness and integrity of the accounting information and the truthfulness, reliability and fairness of the financial statements. The Company set up and improved a financial budget management system, specifically defined the process control over the preparation, execution, usage and feedback mechanism of the financial budget, which has played an proactive role in cost control, resources allocation efficiency and reasonable usage of resources. The Company made timely identification and regular evaluation on operational risks and internal control status to ensure the compliance of all business operation and management activities as well as safety and integrity of assets under the principles of comprehensiveness, effectiveness and adaptivity. The Company reinforced the implementation of internal control policy and procedures by linking the execution of internal control with business performance of its organs, adopting strict accountability standards against ineffective internal control while maintaining effective incentive measures to ensure internal control measures in place for all procedures including decision-making, implementation, supervision and feedback.

During the reporting period, the Company refined and improved its internal control system by taking the following measures: Firstly, according to the requirements of the Basel II Accord and the CBRC, the Company launched the implementation of New Basel II Accord and overall risk management system to combine its internal control with overall risk management. Secondly, the Company proceeded with process-based banking construction by comprehensively optimizing the functions of middle and back office in light of the principle of separating front, middle and back offices and facilitating the back office to provide efficient services to the front office, in order to provide rational guarantee and support to business model changes in terms of organization structure, key process and governance mechanism. Thirdly, in order to provide technical support to the effective implementation of its internal control system, the Company continuously strengthened the construction of the new core system, streamlined all business processes by a customer-oriented approach, and infiltrated its internal control into system control procedures of all business process. Fourthly, the Company tightened the credit management for its group customers by launching group customer management measures to refine the centralized management of credit risks. Fifthly, the Company strengthened the inspection on effectiveness of its internal control and risk management. Through specific inspections on business lines including credit, financial and accounting and retail banking, and special activities concerning anti-money laundering and operational risk exposures, the Company further enhanced its supervision and rectification mechanism of risk management and internal control, and further improved the internal control level of the Company.

6. Supervision of internal control and self-evaluation activities

The internal audit department of the Company is responsible for supervision and regular evaluation on the establishment and implementation of internal control policies and procedure. It oversees and facilitates the revision and refinement of policies and procedures by branches and business departments in response to changes in the State's laws and regulations, the Company's organizational structure, business performance and market environment.

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During the reporting period, the Company continuously refined and advanced the evaluation system on internal control. The Company has formulated a general framework of the evaluation system on internal control by adopting five fundamental elements conducted in COSO framework, Guidelines for Internal Control of Commercial Bank (商業銀行內部控制指引) and Evaluation Measures on Internal Control of Commercial Bank (商業銀行內部評價辦法), namely internal control environment, risk identification and evaluation, internal control measures, information exchange and feedback and evaluation and rectification mechanism of supervision. The framework covers 700 risk areas in 15 business and management processes, including company management, comprehensive management, loans to corporate clients, accounting management and deposits, loans to individuals, trade finance, IT, wealth management, e-banking, other personal businesses and financial management. Evaluation targets include branches and SBUs, which has its own complete testing solution to provide technical supports to internal control evaluation. In addition to the annual evaluation on internal control of business units, the Company also conducts thorough evaluations on internal control of all business units every 3 years, and makes ratings to all units according to the evaluation result. The evaluation result consists of Grade 1, Grade 2, Grade 3, Grade 4 and Grade 5, and each grade is divided into three sub-grades. The rating results are linked with internal control evaluation results and the frequency of on-site examination carried out by the internal audit department.

In 2008, the Company launched the Evaluation Measures on Internal Control of China Minsheng Bank (中國民生銀行內部控制評價辦法), and completed the internal control evaluation of 8 branches. In 2009, the Company further refined the internal control evaluation system and continued to promote comprehensive internal control evaluation throughout its institutions, which included evaluations on 5 branches in Xi'an, Hangzhou, Chengdu, Shenzhen, Shantou, as well as evaluation on the Trade Finance Department. Since the implementation of the evaluation measures, the Company has conducted internal control evaluation on 14 branches with scopes covering all businesses and management procedures of each operational unit. As the result, it has inspected and rectified defects of key internal control procedures and accomplished comprehensive supervision and evaluation of all operational units by the internal audit department. In addition to the internal control evaluation, the Company has conducted integrated evaluations on internal control of branches, sub-branches and SBUs on a quarterly basis. The evaluation results have been linked with their performance evaluation. This has contributed to the effective utilization of internal control evaluation results and organic integration of internal audit evaluation with other risk management factors.

The internal control system of the Company has covered all existing organizations, departments and job positions, and is embedded into all business processes and operating activities, which is consistent with its strategy of prioritizing internal control to support business development. The system also demonstrates a high level of integrity, rationality and effectiveness in the process of improving internal control environment, increasing risk identification, monitoring and evaluation capability, enhancing risk control measures, completing information exchange and feedback mechanism, and strengthening supervision evaluation and rectification mechanism. It is able to provide rational guarantees to the implementation of national laws and regulations, banking rules and policies, fulfillment of strategic and business development objectives, stable and continuous growth of all lines of business, as well as timeliness, truthfulness and integrity of business records, financial information and other management information. The Company will continuously enhance the integrity, rationality and effectiveness of its internal control in accordance with the changes of national laws and regulations, regulatory requirements and the deepening management and development of the Company.

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(II) Internal audit

The Company has an internal audit organization — Internal Audit Department. Under the leadership of the Board and the Internal Audit Committee, the Company adopts an independent internal audit model with a vertical management structure topped by the head office. It has 4 regional internal audit centers in Northern China, Eastern China, Southern China and Mid-China, and sets up offices for designated internal audit commissioners in all branches and SBUs. The Internal Audit Department is responsible for performing independent examination and evaluation on all business operations and management activities of the Company, monitoring and examining effectiveness of its internal control and carrying out evaluation and advisory activities for its internal control independently and objectively. To ensure the effectiveness of the independent audit, material audit findings and internal control defects are directly reported by audit commissioners stationed at branches, regional audit centers and the Chief Audit Officer reported to senior executives and the Audit Committee of the Board. The Company has set up a standardized internal audit system and an integrated audit examination system comprising on-site audit and off-site audit, which covers all business lines and internal management procedures including corporate banking business, retail banking business, financial market, trade finance, credit card, financial accounting and risk management, etc..

In 2009, the Company performed supervision and examination on internal control of business units through on-site audits, off-site audits, daily monitoring sessions, special audits and departure audits, which included 67 on-site audits, 42 off-site special audits, 429 daily monitoring sessions and 96 departure audits. The Internal Audit Department issued 392 audit reports and special study reports and 28 risk warnings. The examinations covered various lines of business, including corporate credit, counter operations, personal credit, credit cards and IT risk management. The problems identified in the audit were tracked and urged to be rectified, the persons responsible for the problems were held accountable. Collaborations among head office, branches and business management departments in resolving problem were also strengthened. In addition to conducting examination on overall business and process risks, the Department has made remarkable contributions to the continuous improvement of the internal control system and the enhancement of management level across the Bank.

XI. Information Disclosure and Investor Relations

(I) Information disclosure

The Company discloses its information in strict compliances with the regulations of the securities regulatory authorities and publishes all sorts of regular reports and temporary reports to ensure the timeliness, accuracy, truthfulness and integrity of its information disclosure and ensure equal access to information for all shareholders. In 2009, the Company published four regular reports and over 60 temporary reports (including documents of shareholders' meetings) in the Shanghai Stock Exchange. The Company also published over 10 announcements (including listing documents and notices to shareholders) on the Hong Kong Stock Exchange.

To further improve the quality of information disclosure and protect investors' legal interest, the 9th meeting of the 5th session of the Board of Directors of the Company considered and approved the Administrative Measures of Insiders of the Company (公司内幕信息知情人管理制度) formulated by the Company. The confidentiality of the insider information of the Company is therefore enhanced and the fair principle of information disclosure is protected. The 9th meeting of the 5th session of the Board of Directors of the Company also considered and approved the Accountability System

Corporate Governance

for Material Errors of Annual Report Information Disclosure (年報信息披露重大差錯責任追究制度), according to which, punitive action will be imposed on the accountable person who does not discharge or incorrectly discharge his/her duty, resulting in misstatements or material omissions of information in annual reports. During the reporting period, there was no material error on information disclosure in the annual report. To enhance delivery and the management of usage of external information of the Company, the 9th meeting of the 5th session of the Board of the Company considered and approved the system of Administration of Delivery and Usage of External Information of the Company (公司外部信息報送和使用管理制度).

In the 8th China Corporate Governance Forum (第八屆中國公司治理論壇) hosted by the Shanghai Stock Exchange, the Company was nominated the “Information Disclosure Awards 2009 (2009年年度信息披露提名獎)”.

(II) Investor relations

The Company attaches high importance to investor relations. During the reporting period, the Company established the System for Promotion to and Reception of Investors (投資者推介和接待制度), which standardized reception of investors and document distribution. The Company also took various measures to strengthen investor relations under strict compliance with the regulatory requirements of information disclosure of listed companies.

During the reporting period, the Company met over 150 domestic and overseas investors, and the Chairman and the President met several investment institutions in person. The Company arranged delegations comprising Senior Management to visit institutional investors in Beijing, Shanghai, Guangzhou and Shenzhen. The Company also arranged several analysts and fund managers to conduct on-site inspection to Shenzhen Branch, Xiamen Branch, credit card centers and the core business system. Besides, the Company arranged fund managers to join financial dialogue program at the CCTV and the activity of “My Dream 2009” sponsored by the Company. In respect of the H share IPO, the Company held telephone conferences with investors and analysts worldwide and held global road shows in Europe, America and Southeast Asia. The management team had in-depth communications with investors through the above promotion campaigns and the transparency of the Company was thus increased. As for enquiries from small and medium shareholders made through emails and phone calls, the Company provided patient and prompt replies. The Company received over 500 incoming calls for enquiries in 2009.

The Company is the first listed company in China to publish special issue on investor relations. So far, over 100 volumes of its periodical, “Investors”, have been published, building a highly-efficient communication platform for the investors.

In the 3rd Session of Market Value Management Summit of China’s Listed Companies (第三屆中國上市公司市值管理高峰論壇) hosted by China Center for Market Value Management, the Company won the Best Innovation IR Award (最佳創新IR獎). In the Best Corporate Governance Award Selection (“金治理”評選活動) sponsored by Shanghai Securities News, the Company was awarded the Best Corporate Governance — Best Investor Relations Award (金治理投資者關係獎). The Company was also awarded the 2009 Listed Company of Best Investor Relations Award (2009年度最佳投者關係上市公司獎) in the 7th Session Financial and Economic Chart of the Year (第七屆財經風雲榜) jointly sponsored by institutions such as Hexun.com and the SEEC (中國證券市場研究設計中心).

Shareholders' General Meeting

I. Shareholders' General Meeting

(I) Annual General Meeting (AGM)

On 15 May, 2009, the 2008 AGM of the Company was convened in Beijing and attended in person. The resolutions reviewed and passed at this meeting included the followings: Resolution on the 2008 Work Report of the Board of Directors, Resolution on 2008 Work Report of the Supervisory Board, Resolution on 2008 Annual Financial Report, Resolution on 2008 Profit Distribution Plan, Resolution on the 2009 Financial Budget Report, Resolution on the Re-appointment of and Remuneration to the Accounting Firm in 2009, Resolution on Issuance of Financial Bonds and Subordinated Bonds of China Minsheng Bank in 2009–2011 and Resolution on Amendment to Certain Provisions of the Articles of Association. Please refer to China Securities Journal, Shanghai Securities News and Securities Times on 16 May, 2009 for details.

(II) Extraordinary General Meeting (EGM)

1. On 23 March, 2009, the 1st 2009 EGM was convened in Beijing and attended in person. The resolutions reviewed and passed at the meeting were as follows: the Resolution on Early Re-election of Board of Directors of the Company, Resolution on Election of the 5th Session of the Board of Directors of the Company, Resolution on Early Re-election of the Supervisory Board of the Company, Resolution on Election of the 5th session of the Supervisory Board of the Company and Resolution on Amendment to Certain Provisions of the Articles of Association. Please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 24 March, 2009 for details.
2. On 22 June, 2009, the 2nd 2009 EGM was convened in Beijing and both on-site voting and online voting were adopted. The resolutions reviewed and passed at the meeting were as follows: the Resolution on Issuance and Listing of H Shares of the Company, Resolution on Issuance and Listing Plan of H Shares, Resolution on Conversion of the Company into Overseas Listed Joint Stock Company Limited, Resolution on the Usage of Proceeds from Previous Funds Raising, Resolution on Usage and Investment Plan of Proceeds from Listing of H Shares, Resolution on the Proposal to the Shareholders' Meeting for Approval of the Valid Terms of Resolution on the Issuance and Listing of H Shares, Resolution on Proposal to the Shareholders' Meeting for Authorization to the Board of Directors and its Authorized Persons to Handle Issuance and Listing of H Shares, Resolution on Amendment to the Draft Articles of Association of China Minsheng Banking Corp., Ltd. (H Shares) and Resolution on Distribution of Accumulated Profits of the Company Prior to Issuance of H Shares. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 23 June, 2009 for details.
3. On 9 September, 2009, the 3rd 2009 EGM was convened in Beijing and attended in person. The resolutions reviewed and passed at the meeting were as follows: the Resolution on By-election of Independent Non-executive Directors, Resolution on Additional Investment in Minsheng Building in Shanghai and Resolution on Purchase of Prospectus Liability Insurance in respect of the Prospectus for H Shares. Please refer to China Securities Journal, Shanghai Securities News and Securities Times on 10 September, 2009 for details.

Shareholders' General Meeting

II. Election and Replacement of Directors, Supervisors and Senior Management

On 23 March, 2009, the 5th session of the Board of Directors was elected at the 1st EGM of the Company in 2009. 17 members of the 5th session of the Board were also elected at such meeting. The directors elected are: Dong Wenbiao, Zhang Hongwei, Lu Zhiqiang, Liu Yonghao, Wang Yugui, Chen Jian, Wong Hei, Shi Yuzhu, Wang Hang, Wang Junhui, Gao Shangquan, Zhang Ke, Andrew Wong, Wang Songqi, Liang Jinquan, Hong Qi and Liang Yutang.

On 23 March, 2009, 5 shareholder Supervisors and external Supervisors of the 5th session of the Supervisory Board were elected at the 1st 2009 EGM of the Company. In addition, 3 employee Supervisors were elected by the working committee of the Labour Union. In total, the 5th session of the Supervisory Board has 8 members, namely, Qiao Zhimin, Xing Jijun, Zhang Disheng, Lu Zhongnan, Wang Liang, Xu Rui, Chen Jinzhong and Wang Lei.

On 23 March, 2009, the 1st meeting of the 5th Session of the Board of Directors adopted the resolution to appoint Hong Qi as President of China Minsheng Bank for the same term as the 5th session of the Board of Directors. It was also resolved to appoint Liang Yutang, Shao Ping, Zhao Pinzhang and Mao Xiaofeng as Vice Presidents of China Minsheng Bank for the same term as the 5th session of the Board of Directors. Mao Xiaofeng and Wu Touhong were appointed as the Board Secretary and the CFO of China Minsheng Bank, respectively, for the same term as the 5th session of the Board of Directors.

On 22 July, 2009, the Company announced the written resignation of Gao Shangquan and Zhang Ke, the Independent Non-executive Directors of the Company, who had served as the Independent Non-executive Directors of the Company for six consecutive years. Pursuant to the provisions in the Guiding Opinions on Establishment of Independent Director Systems by Listed Companies promulgated by the CSRC (關於在上市公司建立獨立董事制度的指導意見) and the Articles of Association of the Company, they applied to resign from the positions of Independent Non-executive Directors and positions in the relevant specialised committees of the Board.

On 9 September 2009, Qin Rongsheng, Wang Lihua and Han Jianmin were elected as the Independent Non-executive Directors of the 5th session of the Board of Directors through the by-election of the 3rd EGM of the Company.

Report of the Board of Directors

I. Performance of Principal Business and Financial Results

Please refer to "Management Discussion and Analysis".

II. Profit Appropriation Plan

The audited after-tax profit of the Company for the year 2009 is RMB12,009 million. The Company has proposed its 2009 profit appropriation plan as follows: appropriation of 10% of the after-tax profit audited under the China Accounting Standards, being RMB1,201 million to the statutory surplus reserve, appropriation of RMB2,900 million for general reserve. The profit distributable to shareholders as at the end of the year is RMB12,358 million. The Company plans to distribute bonus shares and cash dividend to holders of A Shares and H Shares registered in the Company's register of members: a bonus issue of 2 shares for every 10 shares and a cash dividend of RMB0.5 (before tax) for every 10 shares. On the basis of 22,262,277,489 issued shares (including both A Shares and H Shares) as at the close of market on 31 December, 2009, a total of 4,452,455,498 bonus shares and cash dividend of approximately RMB1,113 million will be distributed. The cash dividend will be denominated and declared in Renminbi and the holders of A Shares will be paid in Renminbi whereas the holders of H Shares will be paid in Hong Kong dollars. The actual amount of dividend to be paid in Hong Kong dollars will be determined based on the basic rate of Renminbi against Hong Kong dollars as announced by the People's Bank of China as at the date of the 2009 AGM.

The above profit appropriation plan will be submitted at the AGM for approval. Subject to the approval, the bonus shares and the cash dividend will be paid to the shareholders whose names appear on the register of members of the Company as at Wednesday, 30 June, 2010. Details and expected payment date of the bonus shares and cash dividend will be announced by the Company separately.

III. Distribution of Cash Dividends during the Past 3 Consecutive Years

	(Unit: RMB million)		
	2008	2007	2006
Cash dividends	1,506	724	—
Net profit	7,831	6,335	3,758
Cash dividend payout ratio (%)	19.23	11.43	—

Note: Net profit is the net profit of the Company.

IV. Investments

(I) Use of proceeds from previous funds raising

The funds raised were primarily used to supplement the Company's core capital and to improve its capital adequacy ratio.

(II) Major investment projects

1. Investment in Shanghai Songjiang Minsheng Township Bank Co., Ltd. (上海松江民生村镇银行股份有限公司)

On 29 June, 2009, the 4th meeting of the 5th session of the Board of Directors of the Company resolved to establish Shanghai Songjiang Minsheng Township Bank Co., Ltd. and make a capital contribution in the amount of RMB35 million, representing 35% of the total share capital of such company. On 27 September, 2009, the CBRC Shanghai Office issued the Approval for the Establishment of Shanghai Songjiang Minsheng Township Bank Co., Ltd. (關於同意籌建上海松江民生村镇银行股份有限公司的批覆) (Hu Yin Jian Fu [2009] No.690), approving the establishment of Shanghai Songjiang Minsheng Township Bank Co., Ltd. On 24 December, 2009, the CBRC Shanghai Office issued the Approval for the Commencement of Operation of Shanghai Songjiang Minsheng Township Bank Co., Ltd. (關於同意上海松江

Report of the Board of Directors

民生村鎮銀行股份有限公司開業的批覆) (Hu Yin Jian Fu [2009] No.925), approving the commencement of operation of Shanghai Songjiang Minsheng Township Bank Co., Ltd. Shanghai Songjiang Minsheng Township Bank Co., Ltd. commenced operation on 29 December, 2009 with a registered capital of RMB100 million, in which the Company held 35% of its equity interests.

2. Investment in and establishment of a credit card company

On 28 January, 2008, the 15th meeting of the 4th session of the Board of Directors of the Bank resolved to approve the Proposal on the Establishment of Minsheng Credit Card Co., Ltd., a wholly-owned subsidiary of the Company registered in Beijing with a registered capital of RMB1,600 million. Currently, the relevant documents for the establishment of the credit card company have been submitted to the CBRC for review.

3. Shaanxi International Trust Co., Ltd

On 27 September, 2007, the 3rd EGM of the 4th session of the Board of Directors of the Company resolved to approve the Company's participation in the private placement of ordinary A shares of Shaanxi International Trust Co., Ltd. In view of the considerable changes in the domestic capital market, the Company decided to terminate this strategic cooperation.

V. Operations and Performances of Major Subsidiaries and Investee Companies

1. As at 31 December, 2009, Minsheng Financial Leasing Co., Ltd., a subsidiary of the Company, had total assets of RMB23,600 million and net assets of RMB3,454 million, and posted a net profit of RMB161 million in 2009.
2. As at 31 December, 2009, Minsheng Royal Fund Management Co., Ltd., a subsidiary of the Company, had total assets of RMB136 million and net assets of RMB126 million, and posted a net loss of RMB59.96 million in 2009.
3. As at 31 December, 2009, Pengzhou Minsheng Township Bank Co., Ltd., a subsidiary of the Company, had total assets of RMB394 million and net assets of RMB55.37 million, and posted a net profit of RMB1.74 million in 2009.
4. As at 31 December, 2009, Cixi Minsheng Township Bank Co., Ltd., a subsidiary of the Company, had total assets of RMB689 million and net assets of RMB100 million, and posted a net profit of RMB0.61 million in 2009.
5. Shanghai Songjiang Minsheng Township Bank Co., Ltd., a subsidiary of the Company, commenced operation on 29 December, 2009. As at 31 December, 2009, it had total assets of RMB1,773 million and net assets of RMB93 million, and posted a net loss of RMB6.58 million in 2009.
6. UCBH Holdings, Inc., of which the Company was an equity holder, engaged in its main business through United Commercial Bank ("UCB"), in which UCBH holds 100% equity interests. UCB was taken over by the Federal Deposit Insurance Corporation ("FDIC") on 6 November, 2009. Currently, the Company has made investments equivalent to approximately RMB887 million in aggregate, representing approximately 9.9% of the total share capital of UCBH. The Company has recognised its total investments in UCBH as loss.
7. As at 31 December, 2009, China UnionPay Co., Ltd., of which the Company was an equity holder, completed 6,940 million inter-bank bank card transactions amounting to RMB7,700,000 million, representing increases of 21.7% and 66.8% respectively from the same period of the previous year.

Report of the Board of Directors

VI. Equity Interests of the Company in Other Listed Companies and Financial Enterprises

(I) Listed companies in which the Company holds equity interests

1. Equity investment in UCBH Holdings, Inc. (USA)

United Commercial Bank Holdings, Inc. (Nasdaq code: UCBH), of which the Company was an equity holder, was engaged in its principal business through the United Commercial Bank (UCB), in which UCBH holds 100% equity interests. According to the announcement published in the website of the FDIC, UCB was closed by the Department of Financial Institutions in California on 6 November, 2009 and the FDIC was designated as the receiver. As at 31 December, 2009, the shares of UCBH held by the Company represented 9.9% of the total share capital of UCBH, and the investment was equivalent to approximately RMB887 million in aggregate. The Company has recognised to its total investments in UCBH as loss. The close of UCB will not adversely affect the operation and profit of the Company. For details, please refer to the announcement made by the Company on 10 November, 2009.

2. Equity interests in Haitong Securities Co., Ltd.

On 20 November, 2008, the Resolution on the Plan for Disposal of the Equity Interests in Haitong Securities was reviewed and approved at the 2nd EGM of the Company in 2008, and the Board of Directors was authorized to handle the relevant issues concerning the disposal of equity interests in Haitong Securities. After obtaining the approval and authorization from the shareholders' meeting, the Board of Directors authorized the management to implement the plan and carry out transactions permitted by the regulatory authorities in the marketplace. On 29 December, 2008, the restrictions on the Company's equity interests in Haitong Securities were removed. As at 22 June, 2009, the Company disposed of 380,914,014 shares of Haitong Securities at an average price of RMB14.33 per share, amounting to RMB5,458 million in total. To date, the Company has completed disposal of all of its equity interests in Haitong Securities.

3. Equity interests in Hubei Hongcheng General Machinery Co., Ltd. ("HBHC")

In the reporting period, the Company disposed of 770,074 shares of HBHC at an average price of RMB7.49 per share. To date, the Company has completed disposal of all of its equity interests in HBHC.

(II) Equity interests of the Company in non-listed financial enterprises

	Registered capital (RMB million)	Shareholding of the Company	Nature and scope of business	Place of registration
Minsheng Financial Leasing Co., Ltd.	3,200	81.25%	Leasing	Tianjin
Minsheng Royal Fund Management Co., Ltd.	200	60%	Offering and sale of funds	Guangdong
Pengzhou Minsheng Township Bank Co., Ltd.	55	36.36%	Commercial banking	Sichuan
Cixi Minsheng Township Bank Co., Ltd.	100	35%	Commercial banking	Zhejiang
Shanghai Songjiang Minsheng Township Bank Co., Ltd.	100	35%	Commercial banking	Shanghai

Report of the Board of Directors

VII. Directors' Interests in Competing Business

None of the Directors holds any interests in business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company.

VIII. Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations

(I) As at 31 December, 2009, the following Directors of the Company had the following interests in the shares of the Company:

Directors	Position	Class of shares	Long/ short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Liu Yonghao	Non-executive Director	A	Long	Interest held by the controlled corporation	1,576,728,136	1	8.38	7.08
Zhang Hongwei	Non-executive Director	A	Long	Interest held by the controlled corporation	740,808,520	2	3.94	3.33
Wong Hei	Non-executive Director	A	Long	Interest held by the controlled corporation	481,542,700	3	2.56	2.16
Lu Zhiqiang	Non-executive Director	A	Long	Interest held by the controlled corporation	582,449,263	4	3.09	2.62
Shi Yuzhu	Non-executive Director	A	Long	Interest held by the controlled corporation	95,700,000	5	0.51	0.43

Notes:

- The 1,576,728,136 A shares comprised 465,405,782 A shares directly held by Sichuan South Hope Industrial Co., Ltd. and 1,111,322,354 A shares directly held by New Hope Investment Co., Ltd. Sichuan South Hope Industrial Co., Ltd. was wholly-owned by New Hope Group Co., Ltd., while New Hope Investment Co. Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and Sichuan New Hope Agri-Business Co., Ltd., respectively. New Hope Group Co., Ltd. held 45.70% of the issued share capital of Sichuan New Hope Agri-Business Co., Ltd. According to the SFO, New Hope Group Co., Ltd. was deemed to be interested in the 465,405,782 A shares held by Sichuan South Hope Industrial Co., Ltd. and the 1,111,322,354 A shares held by New Hope Investment Co., Ltd.

As Mr. Liu Yonghao held 63.65% (in which 1.31% was personally held by his spouse, Ms. Li Wei) of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the 1,576,728,136 A shares held by New Hope Group Co., Ltd. according to the SFO. Such interests held by Mr. Liu Yonghao and the interests held by New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang were the same block of shares, the details of which are disclosed in the section headed "Substantial shareholders' and other persons' interests or short positions in shares and underlying shares under Hong Kong laws and regulations" in this annual report.

Report of the Board of Directors

2. The 740,808,520 A shares were directly held by Orient Group Incorporation. 27.98% of the issued share capital of Orient Group Incorporation was held by Orient Group Industrial Co., Ltd., of which 32.58% of its issued share capital was held by Mr. Zhang Hongwei.
3. The 481,542,700 A shares were held by Fuxin Group Co., Ltd., of which 51.03% of its issued share capital was held by Ms. Wong Hei.
4. The 582,449,263 A shares were held by China Oceanwide Holdings Group Co., Ltd., of which 96.7% of its issued share capital was held by Oceanwide Group Co., Ltd. Mr. Lu Zhiqiang held 65% of the issued share capital of Oceanwide Group Co., Ltd.
5. The 95,700,000 A shares were held by Shanghai Giant Lifetech Co., Ltd., of which 95.14% of its issued share capital was held by Giant Investment Co., Ltd. Mr. Shi Yuzhu held 95% of the issued share capital of Giant Investment Co., Ltd.

(II) As at 31 December, 2009, the following Director of the Company had the following interests in Pengzhou Minsheng Township Bank Co., Ltd (彭州民生村鎮銀行有限公司):

Name	Position	Long/ short position	Capacity	Interest in share capital	Note	Percentage of the total registered capital (%)
Liu Yonghao	Non-executive Director	Long	Interest held by the controlled corporation	RMB2,000,000	1	3.64

Note:

1. New Hope Group Co., Ltd. is interested in RMB2,000,000 of the registered capital of Pengzhou Minsheng Township Bank Co., Ltd. As Mr. Liu Yonghao held 63.65% (in which 1.31% was personally held by his spouse, Ms. Li Wei) of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the equity interest held by New Hope Group Co. Ltd. in Pengzhou Minsheng Township Bank Co., Ltd according to the SFO.

(III) As at 31 December, 2009, the following Director of the Company had the following interests in Shanghai Songjiang Minsheng Township Bank Co., Ltd. (上海松江民生村鎮銀行股份有限公司):

Name	Position	Long/ short position	Capacity	Interest in share capital	Note	Percentage of the total share capital (%)
Shi Yuzhu	Non-executive Director	Long	Interest held by the controlled corporation	RMB6,000,000	1	6.00

Note:

1. Shanghai Giant Lifetech Co., Ltd. is interested in RMB6,000,000 of the total share capital of Shanghai Songjiang Minsheng Township Bank Co., Ltd.. 95.14% of the issued share capital of Shanghai Giant Lifetech Co., Ltd was held by Giant Investment Co., Ltd, while Mr. Shi Yuzhu in turn held 95% of the issued share capital of Giant Investment Co., Ltd. Mr. Shi Yuzhu was deemed to be interested in the equity interest held by Shanghai Giant Lifetech Co., Ltd. in Shanghai Songjiang Minsheng Township Bank Co., Ltd. according to the SFO.

Save as disclosed above, as at 31 December, 2009, none of the Directors, Supervisors, or chief executive held or was deemed to hold any interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in the SFO) which were recorded in the register required to be

Report of the Board of Directors

kept under Section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted such rights.

IX. Major Connected Transactions

In the reporting period, the Company had no major connected transactions. For details of related transactions under relevant accounting principles as at the end of the reporting period, please refer to note 38 of the combined accounting statements.

X. Implementation of the Board of Directors' Risk Management Guidelines in 2009 and Guidelines for 2010

(I) Implementation of the Board of Directors' risk management guidelines in 2009

Considering the general economic development and the Company's risk management practices, the Board of Directors of the Company formulated the Risk Management Guidelines of China Minsheng Banking Corp., Ltd. in 2009 (中國民生銀行2009年度風險管理指導意見) (the "Guidelines") to further strengthen its risk management functions, effectively perform its duties of guiding and evaluating the risk management and promote the comprehensive risk management process. The Guidelines set out the guiding concepts, targets and priorities of risk management of the Company in 2009, as well as detailed requirements for its implementation and evaluation. The Guidelines formed the framework for the effective implementation of guiding and evaluating the risk management.

The Risk Management Committee under the Board of Directors is responsible for the consistent and overall implementation of the Guidelines. It monitors and evaluates its implementation every half year and reports the results to the Board of Directors for follow-up and feedback.

A leading group was established by the management to organize relevant departments to formulate the implementation plan, designate departments in charge of training, promoting and implementing the Guidelines, coordinate the overall arrangements, carry out practices and make timely reports. The management conducts self-inspection, self-evaluation and make conclusion on the learning, promotion and implementation of the Guidelines every half year and submits reports to the Risk Management Committee under the Board of Directors.

(II) Guidelines for 2010

In compliance with the relevant requirements of the regulatory authorities and considering the general economic development and the Company's risk management practices, the Board of Directors of the Company formulated the Risk Management Guidelines of China Minsheng Banking Corp., Ltd. in 2010 (中國民生銀行2010年度風險管理指導意見) (the "2010 Guidelines") to strengthen the Board of Directors' functions in guiding and evaluating the risk management and promote the comprehensive risk management process. The 2010 Guidelines set out the guiding concepts, targets and priorities of risk management of the Company in 2010, as well as detailed requirements for its implementation and evaluation, which is summarized as follows:

1. Comprehensive risk management and implementation of the New Basel II Accord

Firstly, the Company shall formulate a three-year plan for the risk management and the implementation of the New Basel II Accord, and fully promote the comprehensive risk management and implementation of the New Basel II Accord according to the specific requirements of the implementation proposal. Secondly, it shall steadily promote the implementation of key projects of 2010.

Report of the Board of Directors

2. Credit risk management

Firstly, the Company shall enhance and optimize the organization structure of credit risk management to establish an effective risk management structure at the head office level with reasonable allocation of functions, clearly defined duties and efficient process management. It shall streamline the risk control systems of front, middle and back offices to make the credit risk management structure and policy in line with its business strategies. Secondly, the Company shall establish and optimize its internal credit rating and application system and establish a credit rating system covering all legal person customers. It shall also facilitate the development of credit rating model for retail credit exposure, establish a risk dispersion system, and promote the application of internal rating results to risk management. Thirdly, the Company shall strengthen its capital constraint, establish a multidimensional and multi-layered risk control system, formulate administrative measures for the asset portfolio of the Bank, define the benchmarks of limit management, methods to be adopted and management procedures, develop a limit management system that covers industries, regions, customers and products as well as all businesses, entities and risks in order to achieve systematic and standardized limit management. Fourthly, the Company shall establish a differential credit approval policy and procedures to enhance approval efficiency based on the features of businesses and products. Fifthly, the Company shall strengthen the monitoring, early-warning and control of risks. Sixthly, the Company shall make further efforts to recover and settle problem assets.

3. Market risk management

Firstly, the Company shall formulate and optimize its market risk management policy to cover the whole process including identification, measurement, monitoring and control of market risks. It shall improve its classification of bank accounts and transaction accounts. Secondly, the Company shall adopt market risk limit management, set limits for various market risk and formulate associated authorization and accountability systems. Thirdly, the Company shall enhance its monitor and control on market risks and optimize the reporting system of market risk monitoring. Fourthly, the Company shall optimize its interest rate risk measuring system for bank accounts and strengthen the measurement and monitoring of interest rate risk for on and off-statement items and bank accounts denominated in local and foreign currencies. Fifthly, the Company shall establish an exchange rate risk measurement system covering bank accounts and transaction accounts. Sixthly, the Company shall initiate the construction of internal models for market risks. Seventhly, the Company shall integrate and upgrade its market risk management system to collect all operation and market data in a comprehensive, accurate and timely manner.

4. Operational risk management

Firstly, the Company shall optimize its management structure for operational risk, stipulate the principles, structure, management procedures and capital measurement of operational risk management and formulate an operational risk reporting system to form a clear operational risk management structure and reporting channels. Secondly, the Company shall establish a standard to categorize operational risks. In order to formulate a unified standard for categorizing operational risk classification, it shall establish classification criteria for the loss cases in relation to operational risks in terms of cause, impact, possibility and significance, thus form a consistent operational risk classification standard throughout the Bank. Thirdly, the Company shall adopt operational risk management techniques and tools, including establishing standards for operational risk and initiating operational risk management tools.

Report of the Board of Directors

5. Compliance risk management

Firstly, the Company shall implement a process-based management mechanism for its compliance system so that rules, regulations and policies are implemented in compliance with the procedures. Secondly, the Company shall effectively implement detailed compliance risk management, including regular review of compliance, improvement of compliance risk management database, establishment of a prompt and effective early-warning system, formulation of long-term compliance risk rectification system, stipulation of rectifying targets and formulation of rectification plans.

6. Liquidity risk management

Firstly, the Company shall strengthen the centralized management system of liquidity risk management in its headquarter, optimize its consolidated management of capital denominated in both domestic and foreign currencies, enhance the capability of its headquarter in overall allocation and control of capital denominated in domestic and foreign currencies, gradually achieve real-time monitoring of the source and utilization of capital to ensure the liquidity and normal payment capability. Secondly, the Company shall optimize its policies and procedures of liquidity risk management, specify the objectives, mechanism, methods and evaluation benchmarks for liquidity risk management, formulate liquidity stress test and contingency plan and submit liquidity risk management report on a regular basis. Thirdly, the Company shall optimize the limit management of liquidity risk, establish and optimize a series of liquidity risk ratio, set up risk limits and monitor the overall liquidity risk of the Company on a monthly basis. Fourthly, the Company shall optimize its contingency financing mechanism in case of low liquidity, set up scenario where domestic and foreign currencies are under liquidity pressure, assume cautious conditions and quantify its contingency financing capability of the existing projects in relation to assets and liabilities, including the feasibility of contingent realization of assets.

7. Other risks and management

(1) Reputation risk management

Firstly, the Company shall incorporate the reputation risk management into its corporate governance and comprehensive risk management system and establish a mechanism for identification, estimation, control, monitoring, reporting and evaluation of reputation risks to minimize the potential loss and adverse impact. Secondly, the Company shall regularly inspect, promptly identify and respond to material reputation events or actions that could cause significant reputation events.

(2) Information technology risk management

Firstly, the Company shall improve its information technology risk management structure, set up "three defense lines" for information technology risk management and further define the roles and duties of persons in charge of information technology risk management. Secondly, the Company shall formulate information technology strategies in line with its overall business planning and evaluate the risks on a regular basis. Thirdly, the Company shall prioritize, establish, approve and monitor its information technology projects properly to reasonably control the life cycle of its IT systems. Fourthly, the Company shall gradually establish an independent internal technology development team. Fifthly, the Company shall duly improve the follow-up works for the new core system and pay attention to the potential risks in relation to the operation of the system.

Report of the Board of Directors

(3) Internal audit

Firstly, the Company shall focus on incident prevention and control by tightening its monitoring on operational risks and increasing inspection frequency. Secondly, the Company shall emphasize its audit on systematic management policies and procedures of liquidity and other risks. Thirdly, the Company shall emphasize its audit on credit risks and orientation management upon restructuring. Fourthly, the Company shall evaluate the audit on the effectiveness of its compliance risk management. Fifthly, the Company shall initiate audit specifically for particular risks including regional risks, industry risks and risks relating to group customers.

(4) Inspection and examination

The Company shall strengthen the prevention of ethical risks regarding its employees, promote anti-corruption and consolidate their ethical value. It shall strengthen its inspection and penalty regarding violation of rules and regulations by its employees, emphasize accountability to its management staff and fully unleash the power of the established system.

XI. Disciplinary Measures and Penalties to the Company, the Board of Directors and Directors of the Company

In the reporting period, none of the Company, the Board of Directors or Directors of the Company was subject to any disciplinary measures or penalties.

XII. Opinions of the Auditors

The Company's 2009 financial statements prepared under the IFRS were audited by PricewaterhouseCoopers, which issued a standard auditors' report without qualified opinions.

XIII. Confirmation of the Independence of Independent Non-Executive Directors

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

XIV. Contractual Rights and Service Contracts of Directors and Supervisors

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

XV. Sufficiency of Public Float

According to the public information obtained by the Company and to the knowledge of the Directors of the Company, the Directors confirmed that the Company maintained sufficient public float during the reporting period as required by the Hong Kong Listing Rules.

Report of the Supervisory Board

I. Activities of the Supervisory Board

(I) Improvement of policies, rules and procedures

The Supervisory Board formulated and revised two procedures in 2009, including the Provisional Measures on Due Diligence Assessment of Supervisors of China Minsheng Banking Corp., Ltd. and the Detailed Procedures of the Nomination and Remuneration Committee under the Supervisory Board of China Minsheng Banking Corp., Ltd. (Revised).

(II) Departure audits and special investigations

1. From March to April 2009, the Supervisory Board engaged intermediaries to perform departure audits on Mr. Eddie Wang, former President and Mr. Hong Qi, former Vice President.
2. From August to September 2009, the Supervisory Board engaged intermediaries to perform departure audits on Mr. Gao Shangquan and Mr. Zhang Ke, former Independent Non-executive Directors of the Company.
3. In September 2009, the Supervisory Board engaged an intermediary to conduct special investigations in respect of related-party transactions of the Company.

(III) Performance of Supervisors

1. According to relevant requirements under the Articles of Association and the Provisional Measures on Supervision of Due Diligence of Directors and Senior Management by the Supervisory Board, the Supervisory Board conducted supervision on due diligence performance of Directors and Senior Management in 2009. The Supervisory Board attended the Board meetings and the meetings of Senior Management, organized questionnaire surveys on the due diligence of the Directors and Senior Management and arranged the review of due diligence records of the Directors and Senior Management. In addition, the Supervisory Board prepared a due diligence assessment report in respect of Directors and Senior Management in 2009.
2. According to the provisions of the Provisional Measures on Performance Appraisal of Supervisors, the Supervisory Board recorded and reviewed the attendance of every Supervisor at relevant meetings and the resolutions considered and the opinion expressed thereon by each of them, the participation of each Supervisor in the research, analysis special examinations and training activities organized by the Supervisory Board, as well as the involvement of each Supervisor in the supervision over the due diligence performance of Directors and Senior Management. With reference to the self-assessment and cross-assessment results of every Supervisor, the Supervisory Board assessed the due diligence of every Supervisor and issued an assessment report in 2009.

(IV) Onsite researches and inspections

1. In July 2009, the Supervisory Board designated two teams (6 members in total) to visit Fuzhou, Quanzhou branches and Nanjing, Shanghai branches, respectively. The purpose of such visit was to inspect the internal control, risk prevention, business scale and structure, asset quality and reform progress of such branches.
2. In November 2009, the Supervisory Board designated three teams (6 members in total) to visit new branches in Changsha, Changchun and Hefei, respectively. The purpose of such visit was to inspect their business expansion, business management and risk control.

Report of the Supervisory Board

(V) Recommendations on management

In the reporting period, the Supervisory Board made 13 recommendations to the Board and the management in respect of the issues observed in the course of the inspections. In particular, the Supervisory Board prepared a Recommendation on Facilitating Rapid Growth by Leveraging the Arising From the Construction of "Dual Centers" in Shanghai in respect of geographic development; the Supervisory Board also prepared two research reports, including the Report on the Reinforcement of Capital Management and Facilitation of Growth Potential and the Report on the Improvement of Risk Management and Enhancement of Core Competitiveness in response to the macro-economic policy changes and the operating conditions of the Company.

(VI) Improvement of the Supervisory Board

Firstly, in order to further improve the performance of the Supervisors, the Supervisory Board organized the Supervisors to attend the training courses and examinations held by the Beijing Office of the CSRC and the Company's external auditors were invited to give a seminar on "Analysis and Comparison of Major Operation Indices of Listed Banks". Secondly, a research and study was jointly organized by the Supervisory Boards of the Company, Shanghai Pudong Development Bank, Industrial Bank Co., Ltd. and China Everbright Bank to discuss the roles and practices of the supervisory boards in corporate governance of banking industry. Thirdly, the Supervisory Board had also reviewed regular audit reports prepared by the Company's external auditors and proposals on the improvement of risk control system submitted by the Risk Management Department to understand the financial positions and risk management of the Company. Fourthly, in order to facilitate effective communication, the Supervisors had attended 11 meetings of the Board of Directors and delivered their opinions on the matters discussed at the meetings. 14 issues of Newsletters were issued to all members of the Supervisory Board during the reporting period to allow the Supervisors to have full access to the operation and management information of the Company. Extracts of the newsletters were also presented to the Board of Directors and the management as well as the relevant authorities.

II. Independent Opinion of the Supervisory Board

(I) Lawful operation of Company

In the reporting period, the business operation of the Company complied with the requirements under the Company Law, Commercial Banking Law and the Articles of Association of the Company. All decision-making procedures were lawful and valid. The Supervisory Board is not aware of any of the director or Senior Management whose act in his/her capacity as director or Senior Management of the Company violated the applicable laws and regulations and the Articles of Association of the Company or was detrimental to the interests of the Company or shareholders.

(II) Authenticity of the financial statements

The annual financial statements of the Company had been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers in accordance with the CAS and IFRS, respectively. Standard unqualified auditors' reports had been issued accordingly. The 2009 annual financial statements of the Company reflect truthfully and fairly the Company's financial position and business performance for the reporting period.

Report of the Supervisory Board

(III) Use of proceeds from fund-raising activities

As at 26 November, 2009, the Company's shares were listed and traded on the Main Board of the Hong Kong Stock Exchange. A net proceeds of RMB26,750 million was raised after deduction of commission and SFC transaction levy, which will be used as supplementary capital.

The Supervisory Board will closely monitor the use of proceeds to ensure that the actual application is consistent with those set forth in the Prospectus and in compliance with the relevant laws and regulations.

(IV) Acquisitions and disposal of assets

In 2008, the Company acquired approximately 9.9% equity in UCBH Holdings, Inc. (Nasdaq code: UCBH), in which the Company has equity interest, engaged in its main business through United Commercial Bank (UCB), in which UCBH holds 100% equity interests. UCB was received by Federal Deposit Insurance Corporation of the United States on 6 November, 2009. The aggregate loss of this investment was approximately RMB887 million.

In the reporting period, the Company disposed of an aggregate of 380,914,014 shares in Haitong Securities with total amount RMB5,458 million. The Company completed the disposal of all the shares in Haitong Securities.

The Supervisory Board is of the opinion that, the equity investment in UCBH Holdings, Inc. complied with relevant laws and regulations and the Articles of Association of the Company. No breach of laws and regulations has been identified. Nevertheless, the Company shall learn from the lesson of its investment in UCBH Holdings, Inc. and shall enhance its analyzing skills towards international macro-economic and in-depth knowledge of relevant laws, regulatory policies and banking business in the countries where the investment targets are located. On the other hand, the Company shall make further study on the progress of its internationalization strategy and retain a professional team with international exposures. The due diligence review conducted by intermediaries shall also be closely monitored.

(V) Related-party transactions

In the reporting period, all the related-party transactions of the Company complied with relevant laws and regulations and the Articles of Association. The Supervisory Board is not aware of any related-party transaction that was detrimental to the interests of the Company and its shareholders.

(VI) Internal control system

In the reporting period, the Company established and implemented a comprehensive, practical and effective internal control system. No major defects are identified in respect of the Company's internal control or its implementation.

(VII) Implementation of resolutions adopted at the general meetings

The Supervisory Board raised no objection to the reports and proposals submitted by the Board of Directors to the shareholder's general meetings in the reporting period and supervised the implementation of the resolutions adopted at the general meeting. The Supervisory Board is of the opinion that the Board of Directors is capable of implementing such resolutions in an effective manner.

Report of the Supervisory Board

III. Major Tasks of 2010

In 2009, the 5th session of the Supervisory Board proactively explored the efficient supervision methods, improved the supervision work and effectively performed the supervisory duties. However, further improvements are required in the following areas: (i) The practices and measures for the performance of supervisory duties, in particular, the real-time supervision, on-site assessment and resources sharing, shall be further improved to promote the quality and efficiency of the supervision; (ii) The in-depth research and inspection is required. More frequent and extensive studies shall be conducted and improved to allow the Supervisors to identify any new problem and change of basic level branches in a timely manner and make proposals and recommendations accordingly; and (iii) The supervision system in respect of the performance of Directors and Senior Management shall be further improved and the practices of supervision shall be clearly defined.

In 2010, the Supervisory Board will maintain close communication with the Board of Directors and Senior Management of the Company and effectively perform its supervisory duties so as to improve the corporate governance. Major tasks of the Supervisory Board in 2010 include the following:

1. Convening meetings of the Supervisory Board and attending meetings of the Board of Directors and Senior Management. In 2010, the Supervisory Board will further improve the procedures and structure of the meetings of Supervisory Board and Supervisory Board Committees will be convened when necessary to review the regular financial reports of the Company, the work procedures and reports of the Supervisory Board. Supervisors will attend the meetings of the Board of Directors and Board Committees, and the management and shareholders' general meetings to supervise the compliance of the agendas, procedures and decision-making process of these meetings and make proposals when necessary.
2. Further improvement of the performance appraisal of directors and Senior Management. The Supervisory Board will further improve and standardize the existing performance appraisal system and procedure in respect of Directors and Senior Management. The Supervisory Board will proactively communicate with the Board of Directors and the management to supervise the effectiveness of capital management, risk control and related-party transaction management implemented by the Directors and the management.
3. Special research and inspection. In 2010, the Supervisory Board will focus on the supervision of the asset portfolio, internal control, management of mortgaged and pledged assets and management of funds, off-statement items and credit card business in accordance with the regulatory requirements of the authorities in Shanghai and Hong Kong. Special inspection and investigation will be conducted in respect of such matters when necessary. The Supervisory Board will also carry out on-site inspection of certain branches and sub-branches based on the needs of the overall business operation and existing problems. The purpose of such on-site visit is to capture the whole picture of the operation of the Company, identify the insufficiency and make proposals for further improvement, which will regulate the business operation, prevent the risks and increase the efficiency.
4. Continuous enhancement of the supervisory function and further improvement of supervision practices. Firstly, the Supervisory Board shall further revise the "Procedures of Supervisory Board Meeting" and "Provisional Measures for Supervision of Due Diligence of Directors and Senior Management by the Supervisory Board" to regulate the procedures and practices of supervision. Secondly, the Supervisory Board will adopt flexible measures to procure the Supervisors to perform their duties. Thirdly, the performance of Supervisors will be recorded, analyzed, reviewed, assessed and regularly reported in accordance with the "Performance Appraisal of Supervisors" to strengthen the supervision and appraisal of Supervisors. Fourthly, the Supervisory Board will organize the training for Supervisors and on-site visit to the supervisory board of other financial institutions to learn from more efficient supervisory system and improve the performance of the Supervisors of the Company.

Major Events

I. Material Litigation and Arbitration

In the reporting period, the Company had no litigation or arbitration which has significant impact on its operations. As of 31 December, 2009, there were 72 outstanding litigations involving the Company as plaintiff for RMB1,384.51 million and 23 litigations involving the Company as defendant for RMB122.36 million.

II. Purchase and Disposal of Assets and Mergers and Acquisitions

The Company has strictly complied with the relevant provisions of the Articles of Association, the Basic Accounting Rules and the Administrative Measures on Fixed Assets of the Company in its recognition and account management of residual value of retired fixed assets. No event that has resulted in the damage to the interests of shareholders or the loss of assets of the Company occurred.

III. Material Contracts and Their Performance

In the reporting period, no major event regarding the custody, contracting or lease of the assets of other companies by Company or the assets of the Company by other companies occurred or continued. There occurred no major contractual dispute. The Company has not entrusted any cash or asset management businesses to others.

The Company acquired and reconstructed the Zhongshang Tower at Lujiazui, Shanghai. The parties to the construction contract have fulfilled their contractual obligations and the progress of the construction has been smooth. The construction works have been completed and fitting out is almost completed. Certain office floors have been used since 28 December, 2009.

The progress of the construction of Shunyi Headquarter Base in Beijing has been satisfactory. 50%, 40%, 30%, 60% and 40% of the main structure of the operation center, reception hall and conference room, training and logistics centre, technology development centre and office complex have been completed respectively. The filling of bid invitation for construction of curtain walls has been completed and tenders will be invited soon. Bid invitation for fitting out design has started and the fire prevention and other functional design of the building are under way.

IV. Major Guarantees

The Company has provided no guarantee other than financial guarantees within the scope of business approved by the PBOC.

V. Commitments by the Company

In the reporting period, the Company had no commitment requiring disclosure.

Major Events

VI. Other Major Events

1. The Company received from the Jilin Office of the CBRC regarding the Reply on the Approval of the Commencement of Business of Changchun Branch of China Minsheng Banking Corp., Ltd. (Ji Yin Jian Fu [2009] No.12), approving the commencement of business of the Changchun Branch of the Bank, and the appointment of Shi Jie and Zhu Dongyong as the branch president and branch vice-president of the Bank's Changchun Branch respectively. The address of the Bank's Changchun Branch is No.500, Changchun Street, Changchun. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 20 January, 2009.
2. On 4 February, 2009, the Company received the Decision on Administrative Approval from the People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2009] No.8), pursuant to which, the approval was granted to the Bank to issue no more than RMB5,000 million hybrid capital bonds in the inter-bank bond market in China. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 6 February, 2009.
3. The Company received from the Anhui Office of the CBRC regarding the Reply on the Approval of the Commencement of Business of Hefei Branch of China Minsheng Bank (Wan Yin Jian Fu [2009] No.25), approving the commencement of business of Hefei Branch of the Bank. The address of Hefei Branch is Tianqing Building, No.135, Haozhou Road, Hefei. The Reply also approved the appointment of Ye Jun as the branch vice-president (officer-in-charge), the appointment of Zhang Shaoxin as the branch vice-president, and the appointment of Feng Shaoying as the assistant to branch president of Hefei Branch, respectively. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 27 February, 2009.
4. The Company received from the Jiangxi Office of the CBRC regarding the Reply on the Approval of the Commencement of Business of Nanchang Branch of China Minsheng Bank (Gan Yin Jian Fu [2009] No.103), approving the commencement of business of Nanchang Branch of the Bank. The address of Nanchang Branch is Floor 1–4, Huaxin Hotel, No.237, Xiangshan Bei Road, Nanchang. The Reply also approved the appointment of Wu Jiangtao as the branch vice-president (officer-in-charge), the appointment of Ding Chenghui as the branch vice-president, and the appointment of Dou Jie and Li Fei as the assistants to branch president of Bank's Nanchang Branch. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 7 May, 2009.
5. In respect of the Company's participation in the private placement of ordinary A shares of Shaanxi International Trust Co., Ltd., due to significant changes in the domestic capital market and the uncertainties of the co-operation, the Company decided to terminate the strategic co-operation pursuant to the terms of a strategic co-operation agreement. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 13 May, 2009.
6. As at 22 June, 2009, the Company had sold an aggregate of 380,914,014 shares of Haitong Securities at an average selling price of approximately RMB14.33/share. The Company has disposed of all the Haitong Securities held by it. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 25 June, 2009.

Major Events

7. The Company received the Reply from the CBRC (Yin Jian Fu [2009] No.231), and the CSRC's Reply on the Approval Regarding the Issue of Overseas Listed Foreign Invested Shares by China Minsheng Banking Corp., Ltd. (Zheng Jian Xu Ke Zi [2009] No.1104) and passed the listing hearing by the Listing Committee of the Stock Exchange of Hong Kong Limited. The Company was approved to issue H shares in Hong Kong. The proceeds raised from the listing were used as supplementary capital of the Company. The H shares of the Company were listed and traded on the Hong Kong Stock Exchange on 26 November, 2009.
8. The United Commercial Bank Holdings (UCBH), in which the Company had equity interest, engaged in its main business through UCB. According to the website of the FDIC, on 6 November, 2009, UCB was closed by California Department of Financial Institution and FDIC was appointed as receiver. The Company had made sufficient provision for impairment loss of its investment in UCBH. The closure of UCB had no material impact on the operation and profit of the Company. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 10 November, 2009.
9. The Company received from the Shanghai Office of the CBRC regarding the Reply on the Approval of the Commencement of Business of SME Finance SBU of China Minsheng Bank (Hu Yin Jian Fu [2009] No.857), approving the commencement of business of the SME Finance SBU of the Bank. For details, please refer to the China Securities Journal, Shanghai Securities News and Securities Times on 9 December, 2009.

Social Responsibility



Social Responsibility



Social Responsibility

As part of its commitment to the core value of “serving and caring for the people”, the Company keeps on strengthening its management systems to fulfill its social responsibilities and to “incorporate the social responsibility into its daily operation and corporate culture”.

I. Responsibility management

The Company actively promoted the awareness of responsibility of all staff and designated corporate social responsibility officers responsible for external communication and compliance with relevant laws and regulations. The Head Office organized the 2009 Workshop for Social Responsibility of China Minsheng Banking Co., Ltd. (中國民生銀行2009年社會責任工作培訓) with around 80 participants, who were the social responsibility officers from the Head Office, SBUs and branches. The 2009 Outstanding Performance of Social Responsibility (2009年社會責任優秀案例) competition was held to select the best performance of social responsibility in 2009. The Company published its Social Responsibility Report in 2009 to disclose the objectives and implementations of social responsibility, which received positive comments from all stakeholders. In June 2009, the Company and Chinese Academy of Social Science jointly organized the Seminar of Minsheng Phenomenon of Social Responsibility (社會責任中的民生現象研討會) and published the White Paper on Social Responsibility of China Minsheng Banking Co., Ltd. (Draft for Consultation) (中國民生銀行社會責任白皮書 (徵求意見稿)). With an aim to operate the Bank in compliance with rules and regulations and strengthen the accountability of every staff, the Company launched anti money-laundering, anti-corruption and anti-bribery measures as a part of its compliance management through system construction, process control, culture nurturing and establishment of professional teams.

II. Market performances

Capitalizing on the listing of H shares, the Company improved the management of investor relationships and total risk management to build itself into a distinctive and efficient bank to satisfy financial needs of customers, which helped the Bank to achieve remarkable market performances. The Company formulated the 2009–2011 Plan of Comprehensive Risk Management System (2009–2011年全面風險管理體系建設規劃) pursuant to the general requirements of New Basel Capital Accord and COSO Total Risk Management (COSO全面風險管理) with an aim to become a leading bank in risk management. The Company took initiatives to build itself as a dedicated bank for non-state-owned enterprises, small and micro-enterprises and high end customers by setting up SME Finance SBU and launching Shang Dai Tong for SME, which provided support to nearly 32,000 customers from small and micro-enterprises, non-state-owned enterprises, individual businesses and commercial financing customers. In addition, the Company strived to become an efficient bank through SBU reform and construction of process-based bank. The new-generation core banking system covering all aspects of the Bank’s business, which includes 162 business models under 11 categories, is under test.

III. Social harmony

For the purpose of social harmony, the Company is dedicated to offer high quality financial services for customers, exploit the opportunities for staff and establish strategic co-operations with business partners. Customer-oriented company, the Company has improved its customer hotline services by means of knowledge, training and quality management. The customer service centre recorded 99% of customer satisfaction rate for three consecutive years. After the implementation of “one-stop” integrated complaint management system, number of complaints received by 95568 platform has reduced by approximately 50%. On the other hand, the Company protects its staff by strictly complying with the Labour Law and relevant rules and regulations, entering into labour contracts with its staff, contributing to social insurance in accordance with the law. The Company treasures its business partners, operates its business under the principle of good faith and fair competition and has developed sound strategic co-operation with local governments and enterprises.

IV. Green finance

In order to build itself into a green bank, the company strictly abides by the principles of green lending, supports the initiatives to reduce power consumption and emission, minimizes the impacts on the environment from its operations, and actively implements the measures to address climate change. In order to promote the green finance, the Company introduced the 2009 Credit Policy Guidelines (2009年授信政策指導意見), providing that credit policy should be based on energy-saving and emission reduction and stringent control on granting credits and loans should be imposed on

Social Responsibility

enterprises with high energy-consuming, high pollution and excessive production capacity while support to high-tech, energy-saving and environment-friendly products was encouraged. The Company conducted its green operation by minimizing the impacts on the environment, advocating an economical business model and promoting six principles for energy-saving and emission reduction, and has organized activities such as Building an Economical Bank by Using Electronic Bill (建設節約型銀行，推行電子賬單).

V. Charity and public welfare

The Company further standardized the management of charity donation and held various charitable activities to make active contributions to the society. The Company has donated RMB10 million to support the poverty alleviation programs of All-China Federation of Industry and Commerce, which helped to improve infrastructure in poverty areas, promote local economic development and raise the living standard of such areas. It has also donated RMB10 million to set up Youth Venture Fund (青年創業基金) with Beijing Shunyi New City Regulatory Commission to improve the venture environment in Shunyi District and encourage the youth to start their own businesses with innovation. Another RMB1 million has been donated to the Sun Yefang Economic and Science Foundation to support the appraisal and grant of various awards of Sun Yefang Award for Economic and Science, large-scale public economic seminars and major research activities. The Company also supports the art and cultural industry and sponsored activities in Yanhuang Art Museum, such as the Art Exhibition of Xu Beihong, Art Exhibition of Liu Haisu and Painting Exhibition of Huang Zhou. Besides, the Company offered featured services to over 20,000 people in the Eleventh National Games and received the Eleventh National Games Special Contribution Award (第十一屆全國運動會特別貢獻獎). To interpret and understand the dreams of Chinese people and its core value, the Company hosted an activity named Apex Wealth Management, My Dream (非凡財富、我的夢想) and conducted a largest ever research on dreams of Chinese people since the establishment of the People's Republic of China, and published the results in the White Paper of Chinese Dream (中國人夢想白皮書). The "free advertisement to alleviate poverty" model continued and the Company has invested a total of RMB58 million to help poverty-stricken cities/counties for a total of 304 times to broadcast free advertisements for the promotion of over 52,000 million kilograms of slow moving agriculture products during 2006 to 2009.

With the Company's commitment to innovative management and implementation of social responsibility, the "Minsheng Phenomenon in Social Responsibility" has been highly recognized by relevant government authorities, regulatory authorities and third party institutions, such as Ministry of Civil Affairs, the CBRC, China Academy of Social Science, SSE and NGOs, mainstream media, and had significant influence on the whole industry. In 2009, the Company received various awards in the social responsibility events sponsored by such institutions in the form of online voting, independent reviews by election committees and recommendations of regulatory departments.



Index of Reference

- I. Financial statements bearing the signatures and seals of three Directors
- II. Original copy of the auditors' reports
- III. Original copy of the annual report bearing the signatures of the Directors and senior executives of the Company
- IV. All original copies of documents and announcements disclosed to the public during the reporting period in the China Securities Journal, Shanghai Securities News and the Securities Times
- V. Articles of Association of the Company

Dong Wenbiao
Chairman of
the Board of Directors
China Minsheng Banking Corp., Ltd.

19 April, 2010

Financial Reports

- I. Independent Auditor's Report
- II. Financial Statements (Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows)
- III. Notes to the Financial Statements

Independent Auditor's Report



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To the shareholders of China Minsheng Banking Corp., Ltd.

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Minsheng Banking Corp., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on page 163 to 291, which comprise the consolidated and the Bank's statement of financial position as of 31 December 2009, and the consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Independent Auditor's Report

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and of the Group as of 31 December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 April 2010

Consolidated Income Statement

(All amounts in Rmb millions unless otherwise stated)

	Note	Year ended 31 December	
		2009	2008
Interest income	6	53,441	56,311
Interest expense	6	(21,201)	(25,931)
Net interest income		32,240	30,380
Fee and commission income	7	5,006	4,755
Fee and commission expense		(342)	(294)
Net fee and commission income		4,664	4,461
Net trading income	8	224	185
Net gain/(loss) on disposal of available-for-sale securities	9	4,909	(53)
Impairment losses on assets	10	(5,307)	(6,518)
Operating expenses	11	(20,539)	(17,817)
Other operating expenses		(535)	(150)
Profit before income tax		15,656	10,488
Income tax expense	13	(3,548)	(2,595)
Net profit		12,108	7,893
Net profit attributable to:			
Equity holders of the Bank		12,104	7,885
Non-controlling interests		4	8
		12,108	7,893
Earnings per share (expressed in Rmb per share)			
— basic	14	0.63	0.42
— diluted	14	0.63	0.42
Dividends			
Final dividend proposed after the reporting date	33	5,566	1,506

The notes on page 172 to 291 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

(All amounts in Rmb millions unless otherwise stated)

	Note	Year ended 31 December	
		2009	2008
Net profit		12,108	7,893
Other comprehensive income/(loss):			
Available-for-sale securities — net, before tax	34	(4,245)	(4,654)
Available-for-sale securities — tax	34	1,055	1,170
Other comprehensive income/(loss) for the year, net of tax		(3,190)	(3,484)
Total comprehensive income for the year		8,918	4,409
Total comprehensive income attributable to:			
Equity holders of the Bank		8,914	4,401
Non-controlling interests		4	8
		8,918	4,409

The notes on page 172 to 291 are an integral part of these financial statements.

Consolidated Statement of Financial Position

(All amounts in Rmb millions unless otherwise stated)

	Note	As at 31 December	
		2009	2008
ASSETS			
Cash and due from banks and other financial institutions	15	66,312	17,648
Precious metals		265	110
Balances with central banks	16	221,590	181,878
Trading financial assets	17	4,747	4,405
Derivative financial assets	18	465	1,216
Placements with banks and other financial institutions	19	73,015	52,408
Loans and advances to customers	20	867,738	646,475
Investment securities:			
— available-for-sale	21	49,035	53,597
— held-to-maturity	21	57,142	38,716
— loans and receivables	21	45,567	37,066
Finance lease receivables	22	16,874	5,253
Property and equipment	23	8,068	6,973
Deferred income tax assets	24	3,181	1,079
Other assets	26	12,393	7,526
Total assets		1,426,392	1,054,350

Consolidated Statement of Financial Position

(All amounts in Rmb millions unless otherwise stated)

	Note	As at 31 December	
		2009	2008
LIABILITIES			
Deposits from customers	27	1,127,938	785,786
Due to and placements from banks and other financial institutions	28	152,317	160,248
Borrowings from foreign governments		391	391
Borrowings from banks and other financial institutions		13,871	2,600
Derivative financial liabilities	18	395	1,239
Provisions		1,269	609
Debt securities in issue	29	23,060	33,999
Current income tax liabilities		3,870	1,238
Other liabilities	30	14,387	13,568
Total liabilities		1,337,498	999,678
EQUITY			
Share capital	31	22,262	18,823
Capital reserve	31	38,075	14,768
Surplus reserve	32	4,184	2,983
General reserve	32	10,904	8,001
Retained earnings	32	12,503	6,009
Reserve for fair value changes of available-for-sale securities	34	106	3,296
Capital and reserves attributable to the equity holders of the Bank		88,034	53,880
Non-controlling interests in equity		860	792
Total equity		88,894	54,672
Total equity and liabilities		1,426,392	1,054,350

Approved and authorized for issue by the Board of Directors on 19 April 2010.

Chairman **Dong Wenbiao**

Director and president **Hong Qi**

Director **Wang Songqi**

The notes on page 172 to 291 are an integral part of these financial statements.

Statement of Financial Position

(All amounts in Rmb millions unless otherwise stated)

	Note	As at 31 December	
		2009	2008
ASSETS			
Cash and due from banks and other financial institutions	15	65,080	17,630
Precious metals		265	110
Balances with central banks	16	221,505	181,874
Trading financial assets	17	4,747	4,405
Derivative financial assets	18	465	1,216
Placements with banks and other financial institutions	19	73,015	52,408
Loans and advances to customers	20	866,292	646,443
Investment securities:			
— available-for-sale	21	49,035	53,597
— held-to-maturity	21	57,102	38,716
— loans and receivables	21	45,567	37,066
Investment in subsidiaries	25	2,810	2,775
Property and equipment	23	8,028	6,949
Deferred income tax assets	24	3,166	1,078
Other assets	26	7,010	5,874
Total assets		1,404,087	1,050,141

Statement of Financial Position

(All amounts in Rmb millions unless otherwise stated)

	Note	As at 31 December	
		2009	2008
LIABILITIES			
Deposits from customers	27	1,125,390	785,814
Due to and placements from banks and other financial institutions	28	149,382	159,953
Borrowings from foreign governments		391	391
Derivative financial liabilities	18	395	1,239
Provisions		1,269	609
Debt securities in issue	29	23,060	33,999
Current income tax liabilities		3,864	1,242
Other liabilities	30	12,463	13,084
Total liabilities		1,316,214	996,331
EQUITY			
Share capital	31	22,262	18,823
Capital reserve	31	38,063	14,752
Surplus reserve	32	4,184	2,983
General reserve	32	10,900	8,000
Retained earnings	32	12,358	5,956
Reserve for fair value changes of available-for-sale securities	34	106	3,296
Total equity		87,873	53,810
Total equity and liabilities		1,404,087	1,050,141

Approved and authorized for issue by the Board of Directors on 19 April 2010.

Chairman **Dong Wenbiao**

Director and president **Hong Qi**

Director **Wang Songqi**

The notes on page 172 to 291 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

(All amounts in Rmb millions unless otherwise stated)

Note	Attributable to the equity holders of the Bank							Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Reserve for fair value changes of available-for-sale securities			
Balance at 1 January 2009	18,823	14,768	2,983	8,001	6,009	3,296	792	54,672	
Comprehensive income	—	—	—	—	12,104	(3,190)	4	8,918	
Issue of ordinary shares	31	3,439	23,311	—	—	—	65	26,815	
Appropriation to surplus reserve	32	—	—	1,201	—	(1,201)	—	—	
Appropriation to general reserve	32	—	—	—	2,903	(2,903)	—	—	
Cash dividends relating to 2008	33	—	—	—	(1,506)	—	—	(1,506)	
Stock dividends relating to 2008	33	—	—	—	—	—	—	—	
Others		—	(4)	—	—	—	(1)	(5)	
Balance at 31 December 2009	22,262	38,075	4,184	10,904	12,503	106	860	88,894	

Note	Attributable to the equity holders of the Bank							Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Reserve for fair value changes of available-for-sale securities			
Balance at 1 January 2008	14,479	16,200	2,200	5,800	4,728	6,780	—	50,187	
Comprehensive income	—	—	—	—	7,885	(3,484)	8	4,409	
Issue of ordinary shares	—	—	—	—	—	—	780	780	
Shares issued from capital reserve	31	1,448	(1,448)	—	—	—	—	—	
Appropriation to surplus reserve	32	—	—	783	—	(783)	—	—	
Appropriation to general reserve	32	—	—	—	2,201	(2,201)	—	—	
Cash dividends relating to 2007	33	—	—	—	—	(724)	—	(724)	
Stock dividends relating to 2007	33	2,896	—	—	—	(2,896)	—	—	
Others	—	16	—	—	—	—	4	20	
Balance at 31 December 2008	18,823	14,768	2,983	8,001	6,009	3,296	792	54,672	

The notes on page 172 to 291 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(All amounts in Rmb millions unless otherwise stated)

	Note	Year ended 31 December	
		2009	2008
Cash flows from operating activities			
Profit before income tax		15,656	10,488
Adjustments for:			
Impairment losses on assets		5,307	6,518
Depreciation and amortization		721	678
Changes in provisions		660	267
Gains on disposal of property and equipment and other long-term assets		(1)	(2)
Gain from fair value changes		(44)	(206)
Net (gains)/losses on disposal of available-for-sale securities		(4,909)	53
Interest expense on debt securities in issue and other financing activities		1,315	1,410
Interest income from investment securities		(5,480)	(5,451)
Payment of income tax		(1,963)	(3,549)
Net changes in operating assets and liabilities:			
Net increase in due from banks and other financial institutions		(1,917)	(1,736)
Net increase in restricted balances with central banks		(38,153)	(3,173)
Net (increase)/decrease in placements with banks and other financial institutions		(20,607)	27,827
Net increase in loans and advances to customers		(225,964)	(104,729)
Net increase in finance lease receivables		(11,797)	(5,310)
Net increase in other assets		(3,865)	(1,061)
Net increase in deposits from customers		342,152	114,567
Net (decrease)/increase in due to and placements from banks and other financial institutions		(7,931)	9,995
Net increase in borrowed from other financial institutions		11,271	2,600
Net increase in other liabilities		2,466	6,616
Net cash from operating activities		56,917	55,802

Consolidated Statement of Cash Flows

(All amounts in Rmb millions unless otherwise stated)

	Note	Year ended 31 December	
		2009	2008
Cash flows from investing activities			
Proceeds from disposal of investment securities		112,225	119,038
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		53	8
Purchase of investment securities		(128,070)	(96,242)
Purchase of property and equipment, intangible assets and other long-term assets		(4,827)	(1,686)
Net cash (utilised by)/from investing activities		(20,619)	21,118
Cash flows from financing activities			
Capital injection from non-controlling equity holders of subsidiaries		65	780
Proceeds from issuance of debt securities		4,983	—
Proceeds from issuance of shares		26,763	—
Repayments for debt securities		(15,800)	—
Payments for interest		(1,437)	(1,331)
Payments for dividends		(1,506)	(724)
Proceeds from other financing activities		(5)	15
Net cash from/(utilised by) financing activities		13,063	(1,260)
Cash and cash equivalents at beginning of the year		112,302	37,020
Effect of foreign exchange rate changes		87	(378)
Cash and cash equivalents at end of the year	35	161,750	112,302

The notes on page 172 to 291 are an integral part of these financial statements.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

1 General information

China Minsheng Banking Corp., Ltd. (the "Bank") is a national joint-stock commercial bank established in the People's Republic of China ("PRC") on 7 February 1996 with the approval of the State Council of the PRC and the People's Bank of China (the "PBOC").

The Bank has a primary listing on the Shanghai Stock Exchange in 2000. In 2009, the Bank issued 3,439,275,500 ordinary shares through offerings related to listings on the Stock Exchange of Hong Kong Limited, and the total issued share capital increased to Rmb22.26 billion.

The Bank and its subsidiaries (together the "Group") provides retail and corporate banking, leasing and fund management services in China. As at 31 December 2009, the Bank has 29 tier one branches and five subsidiaries in China.

These consolidated financial statements are presented in millions of units of Renminbi ("Rmb"), unless otherwise stated. These consolidated financial statements were approved for issue by the Board of Directors on 19 April 2010.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

a Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective on or before 2009 are relevant to the Group:

Standard/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009
IAS 23	Borrowing costs	1 January 2009
IFRIC 13	Customer loyalty programmes	1 July 2008

- **Amendments to IFRS 7, Financial instruments: Disclosures**

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the group.

- **IFRS 8, Operating segments**

IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the group senior management, which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect on the Group but has an impact on segment disclosure. The segment results have been changed accordingly.

- **IAS 1 (revised), Presentation of financial statements**

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

a Standards, amendments and interpretations effective on or after 1 January 2009 (Continued)

• IAS 23, Borrowing costs

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated statement of financial position.

• IFRIC 13, Customer loyalty programmes

IFRIC 13 clarifies that the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is mainly applicable to the Group's credit card business but does not have a material impact on the Group's operating results, financial position or comprehensive income.

The following interpretation became effective for accounting years beginning on or before 1 January 2009, but was not relevant for the Group's operations:

Standard/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payment — Vesting conditions and cancellations	1 January 2009
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRIC 15	Agreement for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

b Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

Standard/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial instruments: Recognition and measurement — eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

For IFRS 9, the Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group. For other standards and interpretations, the application is not expected to have a material effect on the Group's operating results or financial position.

c Early adoption of standards

The Group did not early-adopt new or amended standards in 2009.

2.2 Consolidation

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all consolidated subsidiaries, as of 31 December 2009.

Subsidiaries are companies in which the Group directly or indirectly holds the majority of the voting rights and over which it is able to exercise control and determines their financial and business policies in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

Inter-company transactions, balances and intergroup gains on transactions between group companies are eliminated. Intergroup losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

2.3 Foreign currency translation

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Bank and all its subsidiaries is Renminbi ("Rmb"), which is also the presentation currency for these financial statements.

Foreign currency transactions are translated into the Rmb using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlements of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale investments are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported in income statement as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are included in the fair value reserve in equity.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.4 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within “interest income” and “interest expense” in the consolidated income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When the future cash flow or the expected life of financial assets or financial liabilities could not be estimated reliably, the Group adopted the contracted cash flow of the financial assets or financial liabilities throughout the contract period.

2.5 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are recognized over that period. For other services, fee and commission income are recognized when the transactions are completed.

2.6 Financial assets

2.6.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition.

a Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The Group does not have any financial assets in the second sub-category.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.6 Financial assets (Continued)

2.6.1 Classification (Continued)

b Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

c Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments, fixed maturities, which the Group has the positive intention and ability to hold to maturity.

Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity investments at a time close to maturity), if the Group fails to hold them to maturity or reclassifies some to available-for-sale investments, it shall have to reclassify the remaining investments as available-for-sale investments, and re-measure them at fair value instead of amortized cost. After this reclassification, the Bank shall not reclassify these investments as held-to-maturity in the current period and the following two full financial years.

d Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.6.2 Recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.6 Financial assets (Continued)

2.6.2 Recognition and measurement (Continued)

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in equity, until the financial asset is derecognized or impaired. At this time the cumulative gain or loss previously recognized in the equity is recognized in the income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

2.6.3 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

2.7 Impairment of financial assets

a Financial assets carried at amortized cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.7 Impairment of financial assets (Continued)

a Financial assets carried at amortized cost (Continued)

- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.7 Impairment of financial assets (Continued)

a Financial assets carried at amortized cost (Continued)

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement. The reversal should not result in a carrying amount of the financial assets that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment reversed.

b Assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.8 Financial liabilities

2.8.1 Classification, recognition and measurement

The Group classifies its financial liabilities into the following two categories at initial recognition: financial liabilities at fair value through profit or loss and other liabilities. The Group does not have any financial liabilities in the second sub-category. Management determines the classification of the Group's financial liabilities at initial recognition.

a Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading and those designated at fair value through profit or loss at inception. The Group does not have any financial liabilities in the second sub-category.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognized in the income statement.

b Other financial liabilities

Other financial liabilities are recognized initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the other financial liabilities using the effective interest method.

2.8.2 Derecognition

Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

2.9 Derivative financial instruments and embedded derivative financial instruments

Derivative financial instruments include forward, futures, swap and option contracts, and compound instruments with one or more characteristics of the above financial contracts. A derivative financial instrument has all of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.9 Derivative financial instruments and embedded derivative financial instruments (Continued)

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair values. Changes in the fair values of derivative financial instruments are included in net trading income, and reported under “derivative financial assets” and “derivative financial liabilities” on the consolidated statement of financial position.

An embedded derivative financial instrument is a derivative financial instrument embedded in a non-derivative host contract (the “host contract”), and the derivative financial instrument causes some or all of the cash flows that otherwise would be required by the contract to be modified, according to specified interest rate, financial instrument price, foreign exchange rate, index of prices or interest rate index, credit rating or credit index, or variables such as the conversion option of a convertible bond. An embedded derivative financial instrument is separated from the host contract and separately accounted for as a derivative financial instrument, when its economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract. It is recognized initially at and subsequently measured at fair value.

After an embedded derivative is separated from its host, the host contract, if it is a financial instrument, shall be accounted for as a financial asset or financial liability where appropriate.

While certain derivative transactions are intended to provide effective economic hedges under the Group’s risk management positions, they do not qualify for hedge accounting under the specific rules in the revised IAS 39 and therefore changes in fair value are reported as net trading income. The Group has no derivative positions that are accounted for as hedges.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.11 Repurchase agreements and agreements to re-sell

Assets purchased under resale agreements are discounted bills, long-term receivables and loans purchased by the Bank at certain prices from the sellers under commitments to resell these items to the original sellers on a specified future date at predetermined prices. Assets sold under repurchase agreements refer to discounted bills, long-term receivables and loans sold by the Bank at certain prices under commitments to buy back the items on a specified future date at predetermined prices.

Assets purchased under resale agreements and assets sold under repurchase agreements are recognized at the transaction date at the actual amount paid or received and recorded as “assets purchased under resale agreements” and “assets sold under repurchase agreements” respectively upon initial recognition.

Assets purchased under resale agreements are classified as loans and receivables. Assets sold under repurchase agreements are classified as other financial liabilities. Both are measured at amortised cost using the effective interest method after initial recognition.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.11 Repurchase agreements and agreements to re-sell (Continued)

The related debt securities, loans, discounted bills and long-term receivables under repurchase agreements are deemed to be collateral provided to the counterparty and continue to be retained in the consolidated statement of financial position as assets under the relevant line items.

2.12 Repossessed assets

Repossessed assets are initially recognized at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. Subsequently, the repossessioned collateral assets are measured at lower of carrying amount and fair value less costs to sell.

2.13 Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the property and equipment items.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their anticipated useful lives as follows:

— Buildings	20–30 years
— Leasehold improvements	5–10 years
— Office equipment	5–10 years
— Transportation equipment	5 years

No depreciation is provided on construction work in progress.

The Group performs an analysis of the assets' estimated residual values and estimated useful lives at each reporting date, and makes the adjustments if appropriate.

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.14 Impairment of non-financial asset

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from provision for loan impairments and revaluation of certain financial assets and liabilities including derivative contracts. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.15 Current and deferred income tax (Continued)

Deferred income tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss.

Show the offset net of deferred income tax assets and deferred income tax liabilities when they meet the following conditions at the same time:

- Deferred tax assets and deferred income tax liabilities are related with the income tax of the same tax collection and management departments and the same tax-related subjects in the Group;
- The taxpayer of the Group has the statutory right to settle the net amount of income tax assets and current tax liabilities.

2.16 Debt securities in issue

Debt securities in issue by the Bank include financial bonds, subordinated bonds, hybrid capital bonds and convertible corporate bonds.

Debt securities in issue are recognized initially at fair value, being their issue proceeds (fair value of consideration received) less transaction costs incurred. Debt securities issued are subsequently stated at amortized cost. Any difference between net proceeds net of transaction costs and the redemption value is amortized over the period of the borrowings using the effective interest method and is recognized in the income statement.

2.17 Employee benefits

Employee benefits mainly include salary, bonus, allowance, subsidy, welfare, social insurance and housing fund, labor union expenditures and personnel education as well as other expenditures for services provided by employees.

The employee benefits expense is recognized during the employees' servicing period, and is allocated to relevant cost and expenses accounts according to the nature of the service.

In accordance with the policies of relevant state and local governments, the Group's employees participate in various defined contribution retirement schemes managed by local Labor and Social Security Bureaus. The Group contributes to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates of the pension and insurance schemes stipulated in the relevant local regulations. Upon retirement of the employees, the local Labor and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

Contributions made by the Group to the above retirement schemes are expensed in the income statement as incurred.

In addition to the basic social pension insurance, the Bank staff can also voluntarily participate in the China Minsheng Banking Co., Ltd. pension plan ("Pension Plan"). The Bank pays to the pension plan by a certain percentage of the total employee wages. It will be included in the "operation fee" of the income statement when the Bank sets the accrue plan to the pension.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.19 Leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

a Operating lease

Rental income and expenses are charged in operating expenses in the income statement on a straight-line basis over the period of the lease.

b Finance lease

The Group entered into finance lease transactions only as lessor till now, the present value of the lease payment receivable from the lessee is recognized as finance lease receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return.

2.20 Contingent liabilities

Contingent liabilities are not recognized as a liability if it is expected to only be disclosed in the notes. If the situation changes, the contingent liabilities are recognized as liability when it is probable that an outflow of economic resources will be required or the amount of obligation can be measured reliably.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2.21 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and profit or loss arising thereon are excluded from the financial statements, as they are not the assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognized in the statement of financial position of the Group.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.22 Share capital

a Share issue costs

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

b Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the reporting date are dealt with in the dividends note.

2.23 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition including: cash, unrestricted balances with central banks, amounts due from banks and other financial institutions, and short-term government securities.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.25 Segment reporting

The Group determines its operating segments on the basis of its internal organizational structure, management requirements and internal reporting practices, and determines its reporting segments and disclose segment information on the basis of operating segments.

An operating segment is a component of the Group that meets all the following requirements: (a) it engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the enterprise; (b) its operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance; and (c) discrete financial information, operating results and relevant accounting information, including cash flows, are available. If two or more operating segments have similar economic characteristics and meet certain conditions, they are aggregated into one operating segment.

The reports on an operating segment are consistent with those internal reports submitted to the chief operating decision maker. The chief operating decision maker responsible for allocating resources to and assessing performance of operating segments is determined to be the chief executive officer and special governance committee members who make strategic decisions.

2.26 Comparative Figures

Where necessary, the comparative figures have been reclassified to conform to the presentation of the current period.

In the Group's consolidated statement of cash flows, the Rmb2.6 billion of borrowing from other financial institution by the Bank's subsidiary, Minsheng Financial Leasing Co., Ltd, to meet its normal operation needs has been reclassified from "Cash received from other financing activities" to "Net increase in other liabilities of the operating activities". This reclassification does not affect the operating results and overall financial position of the Group and the Bank during the comparative periods.

3 Financial risk management

(1) Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of various degree of risks or combination of risks. The core characteristic of financial business is undertaking risk. Risks are an inevitable consequence in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

As at 31 December 2009, the Group provides commercial banking, leasing, fund raising and sales and other financial services through the Bank and its subsidiaries of Minsheng Financial Leasing Co., Ltd, Minsheng Royal Fund Management Co., Ltd. and three village banks respectively. Its subsidiaries as separate institutions, take responsibility for the financial risk management of corresponding business. In 2009, the financial risk which the commercial banking faced constitutes the main financial risk of the Group.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(1) Financial risk management (Continued)

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Bank has a Risk Management Committee under the Board of Directors, and Risk Management Committee is responsible for setting the overall risk management strategies of the Bank, monitoring the Bank's risk management and internal controls and assessing the overall risk position of the Bank. In accordance with the risk management strategies set by the Risk Management Committee, the Bank's senior management formulates relevant risk management policies, practices and procedures and drives their implementation and compliance.

The Bank has a Strategic Development and Investment Management Committee under the Board of Directors. The committee is responsible for the daily management of its subsidiaries; and the Bank is moving towards building its enterprise-wide risk management framework at the Group level.

The most significant types of risk to the Group are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

(2) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities, which including loans to others, trade finance, treasury and leasing activities. There is also credit risk in off statement financial instruments, such as acceptances.

Currently, the Bank's Risk Management Committee is responsible for decision-making and centralized coordination in credit risk management and mitigation, and manages credit risks through a number of methods, including specialized credit assessment, centralized quality monitoring, and centralized management and collection of stressed assets.

a Credit risk measurement

(i) Loans and advances and credit commitments

The Group measures and manages the quality of its credit assets in accordance with the China Banking Regulatory Commission ("CBRC") Guidelines for Risk Classification of Loans. The Guidelines for Risk Classification of Loans require financial institutions to classify their credit assets into five categories, namely pass, special mention, sub-standard, doubtful and loss, of which the last three categories are non-performing loans. At the same time, the Group includes its off statement credit commitments as part of its overall credit management, applies credit limit management, and classifies key off statement items in accordance with the Guidelines for Risk Management of Loans. The Bank has also developed its Administrative Measures for Risk Classification of Credit Assets of China Minsheng Banking Corporation to guide its daily risk management of credit assets, following classification principles fully consistent with CBRC's Guidelines for Risk Classification of Loans.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

a Credit risk measurement (Continued)

(i) Loans and advances and credit commitments (Continued)

The core definitions of credit asset classifications in "Loan Risk Classifications Guiding Principles" are as follows:

Pass:	The borrower can fulfill the contracts, and there is no sufficient reason to suspect that the principal and interest of loans can not be repaid in full on time.
Special-mention:	The borrower has the ability to make current payments, but there may be some potential issues that could have adverse impact on the future payments.
Substandard:	The borrower's repayment ability has been impaired and its normal income is insufficient to repay the loan principles and interest in full. Even with the enforcement of the related guarantee (if any), there may certain level of loss.
Doubtful:	The borrower can't repay the principal plus the interest in full. Even with the enforcement of guarantee (if any), there will be a significant loss.
Loss:	After taking consideration of all possible recovery action or all necessary legal proceedings, the outcome is likely to be little or no recovery.

(ii) Debt securities and other bills

For debt securities and other bills, the Group manages the credit risk exposures by setting limits to the external credit ratings of its investments. A credit rating of BBB or above (by Standard & Poor's or equivalent agencies) at the time of purchase is required for foreign currency debt securities investments. Rmb debt securities investments require a rating of A or above for long-term securities investments and a rating of A-1 or above for short-term securities investments from an external rating agency recognized by the PBOC. The risk control staff also regularly reviews the changes of credit ratings of issuers of securities held by the Group and makes risk management recommendations from both industry and enterprise perspectives for adjustments to risk management practices.

b Risk limit control and mitigation policies

The Group exercises risk concentration management and control over its counterparties, whether individual or group customers, industries and geographical areas.

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to the acceptable risks for different individual or group customer counterparties, different industries and geographical areas. The Group monitors the risk status of these customers on a regular basis and reviews their risk positions at least once a year.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

b Risk limit control and mitigation policies (Continued)

The risk exposures to the borrowers, including banks, are further classified into on and off statement risk exposures and control has been applied to the daily risk limits of each class. The Bank also monitors on a daily basis the actual risk exposures in relation to the corresponding risk limits.

The Group controls its credit risks through, among other necessary measures, regular analysis of a customer's ability to repay interests and principals, and making appropriate adjustments to credit lines.

Other specific control and mitigation methods include:

(i) Collateral

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantee from the business enterprise or individuals. The Group has specified the types of collaterals acceptable, mainly including the following:

- Real estate and land use rights;
- Machinery and equipment;
- Right to receive payments and accounts receivable;
- Financial instruments such as time deposits, debt securities and equities.

In order to minimize its credit loss, once indication of impairment has been identified with an individual loan, the Group will seek additional collateral from the counterparty or require additional guarantors.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(ii) Derivative instruments

In the Group, only the Bank is authorized to engage in financial derivative transactions. The Bank maintains strict net exposure limits in its financial derivative transactions with counterparties and monitors the activities through daily summary reports on the use of exposure limits. The credit risk of derivative instruments faced by the Bank is limited to the derivative instruments with positive fair value. The Bank sets credit limits for counterparties in its management system to monitor the credit position of derivative transactions and mitigates credit risk associated with derivative instruments by requiring margin deposits from counterparties.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

b Risk limit control and mitigation policies (Continued)

(iii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Group to lessen the credit risks related to such commitments. The Group's potential amount of credit risk is equivalent to the total amount of credit commitments.

Loan commitments and financial leasing commitments represent unused portions of authorizations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c Impairment allowance policies

In accordance with accounting policies and regulations, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognized in the income statement.

Note 2.7 illustrates the criteria that the Group uses to determine that there is an objective evidence of impairment loss.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at reporting date on a case-by-case basis. In making such assessment, the Group considers the value of collateral held and expected future cash flows from the asset.

Impairment allowances are provided for the following portfolios according to historical data, experience and statistical techniques: (i) those consisting of homogenous assets that are individually below materiality thresholds; and (ii) those where losses that have been incurred but have not yet been individually identified with any specific asset within the portfolio.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

d Maximum exposure to credit risk before collateral held or other credit enhancements

The following tables represent the worst case scenario of credit risk exposure of the Group and Bank, without taking account of any collateral held or other credit enhancements attached.

Group

	31 December	
	2009	2008
Credit risk exposures relating to on statement assets are as follows:		
Balances with central banks	221,590	181,878
Due from banks and other financial institutions	61,848	14,748
Placements with banks and other financial institutions	73,015	52,408
Trading financial assets	4,747	4,405
Derivative financial assets	465	1,216
Loans and advances to customers		
— Loans to corporate entities	705,697	539,186
— Loans to individuals	162,041	107,289
Investment securities		
— Debt securities	151,619	125,618
Finance lease receivables	16,874	5,253
Other financial assets	11,090	6,250
Subtotal	1,408,986	1,038,251
Credit risk exposures relating to off statement items are as follows:		
Acceptances	216,657	145,005
Letters of guarantee	45,593	49,029
Unused credit card limits	28,466	28,140
Letters of credit	15,094	8,250
Irrevocable loan commitment	5,422	6,000
Finance lease commitment	1,841	475
Subtotal	313,073	236,899
Total	1,722,059	1,275,150

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

d Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Bank

	31 December	
	2009	2008
Credit risk exposures relating to on statement assets are as follows:		
Balances with central banks	221,505	181,874
Due from banks and other financial institutions	61,841	14,732
Placements with banks and other financial institutions	73,015	52,408
Trading financial assets	4,747	4,405
Derivative financial assets	465	1,216
Loans and advances to customers		
— Loans to corporate entities	704,730	539,163
— Loans to individuals	161,562	107,280
Investment securities		
— Debt securities	151,579	125,618
Other financial assets	5,789	4,621
Subtotal	1,385,233	1,031,317
Credit risk exposures relating to off statement items are as follows:		
Acceptances	216,555	145,005
Letters of guarantee	45,593	49,029
Unused credit card limits	28,466	28,140
Letters of credit	15,094	8,250
Irrevocable loan commitment	5,422	6,000
Subtotal	311,130	236,424
Total	1,696,363	1,267,741

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

e Placements with banks and other financial institutions

Group and Bank

	31 December	
	2009	2008
Neither past due nor impaired	73,015	52,408
Impaired	—	92
Gross	73,015	52,500
Less: allowance for impairment loss	—	(92)
Net	73,015	52,408

(i) Neither past due nor impaired

The credit risk of placements with banks and other financial institutions that are neither past due nor impaired can be assessed by referring to characteristics of the counterparties.

Group and Bank

	31 December	
	2009	2008
Banks	50,339	30,324
Other financial institutions	22,676	22,084
	73,015	52,408

(ii) Impaired

At 31 December 2009, there is no impaired placement with banks and other financial institutions (2008: Rmb92 million).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

f Loans and advances to customers

Group

	31 December	
	2009	2008
Neither past due nor impaired	872,060	643,219
Past due but not impaired	3,522	7,220
Impaired	7,397	7,921
Gross	882,979	658,360
Less: allowance for impairment loss		
— individual assessment	(4,378)	(3,990)
— collective assessment	(10,863)	(7,895)
	(15,241)	(11,885)
Net	867,738	646,475

Bank

	31 December	
	2009	2008
Neither past due nor impaired	870,599	643,187
Past due but not impaired	3,522	7,220
Impaired	7,397	7,921
Gross	881,518	658,328
Less: allowance for impairment loss		
— individual assessment	(4,378)	(3,990)
— collective assessment	(10,848)	(7,895)
	(15,226)	(11,885)
Net	866,292	646,443

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

f Loans and advances to customers (Continued)

(i) Neither past due nor impaired

The credit risk of loans and advances neither past due nor impaired was assessed by referring to "Loan Risk Classification Guiding Principles" of the CBRC.

Group	Corporate loans	Individual loans	Total
31 December 2009			
Pass	703,053	159,496	862,549
Special mention	9,143	368	9,511
	712,196	159,864	872,060
31 December 2008			
Pass	528,673	103,274	631,947
Special mention	10,468	804	11,272
	539,141	104,078	643,219
Bank	Corporate loans	Individual loans	Total
31 December 2009			
Pass	702,076	159,012	861,088
Special mention	9,143	368	9,511
	711,219	159,380	870,599
31 December 2008			
Pass	528,650	103,265	631,915
Special mention	10,468	804	11,272
	539,118	104,069	643,187

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

f Loans and advances to customers (Continued)

(ii) Past due but not impaired

In general, loans that are overdue for less than 90 days should not be identified as impaired loans unless there is evidence of impairment.

At the inception of loan drawdown, the Group requires independent asset evaluation agencies to perform valuation assessments of the corresponding collateral. When there is evidence that indicates the collateral is impaired, the Group will review whether the collateral is sufficient to cover the credit risk of the corresponding loans.

Analysis of the assets overdue but not impaired by overdue days:

Group and Bank

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
31 December 2009					
Loans to corporate entities	65	75	6	219	365
Loans to individuals	1,764	619	381	393	3,157
	1,829	694	387	612	3,522
31 December 2008					
Loans to corporate entities	995	16	910	1,473	3,394
Loans to individuals	2,063	824	527	412	3,826
	3,058	840	1,437	1,885	7,220

The Group has made individual impairment assessments on each of the overdue corporate loans, and no impairment has been identified.

All of the secured loans overdue for more than 90 days as well as unsecured loans and guaranteed loans (excluding credit card) overdue for more than 30 days are identified as impaired loans. All the credit card advances overdue than 180 days have been identified as impaired loans by the Group.

The fair value of collateral held against loans and advances past due but not impaired amounts to Rmb2.58 billion as at 31 December 2009 (2008: Rmb7.37 billion).

The fair value of collateral was estimated by management based on the latest available external valuations and adjusted by the current realization experience and market situation.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

f Loans and advances to customers (Continued)

(iii) Impaired Loans

Group and Bank

	31 December	
	2009	2008
Loans to corporate entities	6,538	7,255
Loans to individuals	859	666
	7,397	7,921
% of total loans and advances	0.84%	1.20%
Allowance for impairment losses		
– Loans to corporate entities	(4,497)	(4,273)
– Loans to individuals	(645)	(426)
	(5,142)	(4,699)
Fair value of collateral held against impaired loans	2,680	3,413

The fair value of collateral was estimated by management based on the latest available external valuations and adjusted by the current realization experience and market situation.

Impaired loans and advances by type of guarantee:

	31 December	
	2009	2008
Unsecured loans	788	818
Guaranteed loans	2,437	2,320
Secured loan		
– Collateralized loans	3,527	4,066
– Pledged loans	645	717
Total	7,397	7,921

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

f Loans and advances to customers (Continued)

(iv) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability. Rescheduled loans amounted to Rmb3.74 billion as at 31 December 2009 (2008: Rmb5.73 billion).

Within impaired loans and advances, rescheduled loans and advances net of amounts overdue for no more than 90 days are as follows:

Group and Bank

	31 December	
	2009	2008
Loans and advances to customers	305	273
% of total loans and advances	0.04%	0.04%

g Finance lease receivables

Group

	31 December	
	2009	2008
Neither past due nor impaired		
— Pass	16,494	4,927
— Special mention	256	383
Past due but not impaired	357	—
Gross	17,107	5,310
Less: allowance for impairment loss	(233)	(57)
Net	16,874	5,253

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

h Debt securities

Rmb denominated securities are disclosed by issuer's credit risk classification.

Group

	31 December 2009				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	2,870	26,368	50,970	30,718	110,926
Financial institutions bonds	—	640	404	9,687	10,731
Financial institutions entrust products	—	—	—	5,162	5,162
Corporate bonds	1,877	17,072	5,400	—	24,349
Total	4,747	44,080	56,774	45,567	151,168

Bank

	31 December 2009				
	Trading assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	2,870	26,368	50,970	30,718	110,926
Financial institutions bonds	—	640	364	9,687	10,691
Financial institutions entrust products	—	—	—	5,162	5,162
Corporate bonds	1,877	17,072	5,400	—	24,349
Total	4,747	44,080	56,734	45,567	151,128

Group and Bank

	31 December 2008				
	Trading Assets	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Rmb securities					
Government and quasi-government bonds	3,069	34,021	37,228	20,792	95,110
Financial institutions bonds	—	2,009	488	7,890	10,387
Financial institutions entrust products	—	—	—	8,384	8,384
Corporate bonds	1,336	7,948	—	—	9,284
Total	4,405	43,978	37,716	37,066	123,165

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

h Debt securities (Continued)

The following tables show the Standard & Poor's rating on foreign currency securities.

Group and Bank

	31 December 2009		
	Available-for-sale	Held-to-maturity	Total
Foreign currency securities			
AAA	987	—	987
AA- to AA+	113	298	411
A- to A+	3,284	70	3,354
Lower than A-	207	—	207
Unrated	239	—	239
Total	4,830	368	5,198

Group and Bank

	31 December 2008		
	Available-for-sale	Held-to-maturity	Total
Foreign currency securities			
AAA	1,986	280	2,266
AA- to AA+	287	191	478
A- to A+	3,262	375	3,637
Lower than A-	323	—	323
Unrated	—	154	154
Total	5,858	1,000	6,858

The Group's debt securities are individually assessed for impairment. The Group's impaired debt securities are all foreign currency securities, of which the amortised value amounted to Rmb419 million as at 31 December 2009 (2008:Rmb1,339 million). Impairment loss amounted to Rmb391 million (2008: Rmb653 million).

i Repossessed assets

Group and Bank

	31 December	
	2009	2008
Repossessed assets — buildings	957	945

Repossessed assets are sold as soon as practicable. Repossessed assets are classified as other assets in the consolidated statement of financial position.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

j Concentration of risks of financial assets with credit risk exposure

Credit risk increases when counter-parties are concentrated in the same industries or geographical regions. The Group conducts its credit business predominantly within mainland China, with major customers concentrated in a number of key industries. Different areas in China and different industries have their own unique characteristics in economic development, and therefore could present different credit risks to the Group.

The geographic segments can be divided into four main regions: Northern China, Eastern China, Southern China, Other locations.

- (1) Northern China — Including Minsheng Financial Leasing Co., Ltd, the Headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijiazhuang and Tianjin;
- (2) Eastern China — Including Cixi Minsheng Township Bank Co., Ltd, Songjiang Minsheng Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang;
- (3) Southern China — Including Minsheng Royal Fund Management Co., Ltd and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen;
- (4) Other locations — Including Pengzhou Minsheng Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou and Changchun.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

j Concentration of risks of financial assets with credit risk exposure (Continued)

(i) Geographical sectors

Financial assets other than debt securities

Group

	Northern China	Eastern China	Southern China	Other locations	Total
31 December 2009					
Balances with central banks	200,811	11,329	3,092	6,358	221,590
Due from banks and other financial institutions	20,597	9,837	20,529	10,885	61,848
Placements with banks and other financial institutions	63,659	8,801	505	50	73,015
Gross loans and advances to customers	276,820	319,054	95,762	191,343	882,979
Less: allowance for impairment assets	(6,640)	(4,665)	(1,614)	(2,322)	(15,241)
Finance lease receivables	7,847	5,485	1,022	2,520	16,874
Other financial assets	5,101	1,689	2,425	2,340	11,555
Total	568,195	351,530	121,721	211,174	1,252,620

Group

	Northern China	Eastern China	Southern China	Other locations	Total
31 December 2008					
Balances with central banks	165,833	8,776	3,513	3,756	181,878
Due from banks and other financial institutions	9,162	2,563	2,295	728	14,748
Placements with banks and other financial institutions	27,540	12,248	8,736	3,884	52,408
Gross loans and advances to customers	191,011	236,412	95,388	135,549	658,360
Less: allowance for impairment losses	(5,051)	(3,251)	(1,796)	(1,787)	(11,885)
Finance lease receivables	5,253	—	—	—	5,253
Other financial assets	6,415	498	99	454	7,466
Total	400,163	257,246	108,235	142,584	908,228

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

j Concentration of risks of financial assets with credit risk exposure (Continued)

(i) Geographical sectors (Continued)

Financial assets other than debt securities (Continued)

Bank

	Northern China	Eastern China	Southern China	Other locations	Total
31 December 2009					
Balances with central banks	200,811	11,276	3,092	6,326	221,505
Due from banks and other financial institutions	20,596	9,834	20,529	10,882	61,841
Placements with banks and other financial institutions	63,659	8,801	505	50	73,015
Gross loans and advances to customers	276,820	317,849	95,762	191,087	881,518
Less: allowance for impairment losses	(6,640)	(4,653)	(1,614)	(2,319)	(15,226)
Other financial assets	3,803	1,101	711	639	6,254
Total	559,049	344,208	118,985	206,665	1,228,907

Bank

	Northern China	Eastern China	Southern China	Other locations	Total
31 December 2008					
Balances with central banks	165,832	8,776	3,513	3,753	181,874
Due from banks and other financial institutions	8,989	2,563	2,295	885	14,732
Placements with banks and other financial institutions	27,540	12,248	8,736	3,884	52,408
Gross loans and advances to customers	191,011	236,380	95,388	135,549	658,328
Less: allowance for impairment losses	(5,051)	(3,251)	(1,796)	(1,787)	(11,885)
Other financial assets	4,953	335	98	451	5,837
Total	393,274	257,051	108,234	142,735	901,294

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

j Concentration of risks of financial assets with credit risk exposure (Continued)

(i) Geographical sectors (Continued)

Financial assets — debt securities Group

	Mainland China	North America	Europe	Other	Total
31 December 2009					
Trading financial assets	4,747	—	—	—	4,747
Available-for-sale debt securities	47,514	1,041	317	38	48,910
Held-to-maturity securities	56,843	—	154	145	57,142
Loans and receivables	45,567	—	—	—	45,567
Total	154,671	1,041	471	183	156,366

Bank

	Mainland China	North America	Europe	Other	Total
31 December 2009					
Trading financial assets	4,747	—	—	—	4,747
Available-for-sale debt securities	47,514	1,041	317	38	48,910
Held-to-maturity securities	56,803	—	154	145	57,102
Loans and receivables	45,567	—	—	—	45,567
Total	154,631	1,041	471	183	156,326

Group and Bank

	Mainland China	North America	Europe	Other	Total
31 December 2008					
Trading financial assets	4,405	—	—	—	4,405
Available-for-sale debt securities	47,083	2,476	237	40	49,836
Held-to-maturity securities	37,889	7	312	508	38,716
Loans and receivables	37,066	—	—	—	37,066
Total	126,443	2,483	549	548	130,023

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

j Concentration of risks of financial assets with credit risk exposure (Continued)

(ii) Industry sectors

Group

	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
31 December 2009							
Balances with central banks	221,590	—	—	—	—	—	221,590
Due from banks and other financial institutions	—	61,848	—	—	—	—	61,848
Placements with banks and other financial institutions	—	73,015	—	—	—	—	73,015
Loans to corporate entities	—	37,785	118,878	101,115	447,919	—	705,697
Loans to individuals	—	—	—	—	—	162,041	162,041
Investment securities – debt securities	112,222	16,550	6,317	1,302	15,228	—	151,619
Finance lease receivables	—	—	8,977	—	7,897	—	16,874
Other financial assets	2,870	226	1,292	3,120	8,794	—	16,302
Total	336,682	189,424	135,464	105,537	479,838	162,041	1,408,986

Group

	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
31 December 2008							
Balances with central banks	181,878	—	—	—	—	—	181,878
Due from banks and other financial institutions	—	14,748	—	—	—	—	14,748
Placements with banks and other financial institutions	—	52,408	—	—	—	—	52,408
Loans to corporate entities	—	21,719	175,581	88,837	253,049	—	539,186
Loans to individuals	—	—	—	—	—	107,289	107,289
Investment securities – debt securities	96,771	20,809	3,167	—	4,871	—	125,618
Finance lease receivables	—	—	2,336	—	2,917	—	5,253
Other financial assets	3,069	595	2,112	583	5,217	295	11,871
Total	281,718	110,279	183,196	89,420	266,054	107,584	1,038,251

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(2) Credit risk (Continued)

j Concentration of risks of financial assets with credit risk exposure (Continued)

(ii) Industry sectors (Continued)

Bank

	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
31 December 2009							
Balances with central banks	221,505	—	—	—	—	—	221,505
Due from banks and other financial institutions	—	61,841	—	—	—	—	61,841
Placements with banks and other financial institutions	—	73,015	—	—	—	—	73,015
Loans to corporate entities	—	37,785	118,649	101,115	447,181	—	704,730
Loans to individuals	—	—	—	—	—	161,562	161,562
Investment securities – debt securities	112,222	16,510	6,317	1,302	15,228	—	151,579
Other financial assets	2,870	226	349	568	6,988	—	11,001
Total	336,597	189,377	125,315	102,985	469,397	161,562	1,385,233

Bank

	Government and quasi- government	Financial institution	Manufacturing	Real estate	Others	Individuals	Total
31 December 2008							
Balances with central banks	181,874	—	—	—	—	—	181,874
Due from banks and other financial institutions	—	14,732	—	—	—	—	14,732
Placements with banks and other financial institutions	—	52,408	—	—	—	—	52,408
Loans to corporate entities	—	21,711	175,577	88,829	253,046	—	539,163
Loans to individuals	—	—	—	—	—	107,280	107,280
Investment securities – debt securities	96,771	20,809	3,167	—	4,871	—	125,618
Other financial assets	3,069	595	775	583	4,925	295	10,242
Total	281,714	110,255	179,519	89,412	262,842	107,575	1,031,317

(3) Market risk

The Group is exposed to market risk, which is the risk of loss to the Group's on and off statement businesses caused by changes in prices (interest rate, exchange rate and stock price). Market risks include open positions in interest rate, exchange rate (including gold bullion) and equities, all of which are exposed to adverse movements in interest rates, exchange rates and stock prices.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

The market risk faced by the Group mainly arises from the business activities of the Bank. The subsidiaries were exposed to an insignificant level of market risks. The Bank and its subsidiaries independently managed their own market risks.

The Bank divides its market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios consist of held-to-maturity and available-for-sale securities held by the Bank and market risk exposures facing its loan and advance accounts.

Currently, the Asset and Liability Management Department takes responsibility in monitoring and controlling the market risk of non-trading accounts across the Bank. The Treasury and Capital Markets Department is responsible for the trading accounts and non-trading accounts of their department. Also, the Bank has established the practice of regular reporting to the senior management on market risks, including the monitoring and analysis of market risk changes and limits on net and gross positions by the two departments.

The Financial and Planning Department of Mingsheng Financial Leasing Co., Ltd is responsible for the monitoring and control of market risks on the funds positions, while the Capital Market Department is responsible for the market risk management in the business operations of the department.

a Market risk measuring techniques

As part of market risk management, the Group adopts various strategies to mitigate risks. The Bank also enters into interest rate swaps to match the interest rate risks associated with fixed-rate long-term debt securities to which the fair value option has been applied.

The tools and techniques for measuring and controlling market risk are as follows:

The primary techniques applied for measuring and controlling market risks are mainly net position exposure analysis, stop loss, sensitivity analysis of interest rate and exchange rate, stress testing and scenario analysis. In response to the market conditions and leveraging available technologies, the Group is now able to use value at risk to measure market risks on certain financial instruments.

The Bank applies sensitivity analysis to estimate the interest rate and exchange rate risks arising from trading accounts and non-trading accounts, which means periodically calculating the gap between interest-earning assets and interest-bearing liabilities that would reach maturity or be subject to repricing during a certain period. Then, the Bank utilizes the gap data to carry out sensitivity analysis against movements of market interest rates and foreign exchange rates, in order to provide guidance on the adjustment of the repricing and maturity structure of interest-earning assets and interest-bearing liabilities. The Bank has set up a reporting system for sensitivity analysis, presenting the summary report on sensitivity analysis on a regular basis for review by senior management, for example, the Risk Management Committee.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

b Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The subsidiaries do not engage in foreign exchange operations, and the Group's currency risks are concentrated in the Bank.

The Group's principal strategy in controlling currency risk is to substantially match its assets and liabilities in each currency and to maintain currency risk within established limits. The Bank has set exposure limits according to the guidelines established by the Risk Management Committee, the relevant regulatory requirements, and management's assessment of the current market condition. The Bank also manages its foreign capital sources and usage of foreign currencies to minimize potential currency mismatches. The Treasury and Capital Markets Department sets exposure and stop loss limits for foreign exchange risks within the scope of its departmental operations, and applies authority limits in managing foreign exchange risks.

The following table presents the Group's and the Bank's foreign exchange risk exposures at the reporting dates. The carrying value of financial instruments denominated in foreign currencies have been converted into Rmb.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

b Currency risk (Continued)

Group

	RMB	USD	HKD	Others	Total
31 December 2009					
Cash and due from banks and other financial institutions	44,819	11,055	8,794	1,644	66,312
Balances with central banks	220,528	995	67	—	221,590
Placements with banks and other financial institutions	68,997	3,138	880	—	73,015
Loans and advances to customers	855,456	11,519	2	761	867,738
Investment securities	146,546	5,084	—	114	151,744
Finance lease receivable	16,874	—	—	—	16,874
Other financial assets	15,927	310	1	329	16,567
Total financial assets	1,369,147	32,101	9,744	2,848	1,413,840
Deposits from customers	1,113,361	11,133	1,247	2,197	1,127,938
Due to and placements from banks and other financial institutions	150,554	1,612	133	18	152,317
Borrowings from other financial institutions	13,871	—	—	—	13,871
Debt securities in issue	23,060	—	—	—	23,060
Other financial liabilities	10,271	305	7	310	10,893
Total financial liabilities	1,311,117	13,050	1,387	2,525	1,328,079
Net on statement financial position	58,030	19,051	8,357	323	85,761
Foreign currency derivatives	(31)	21	—	32	22
Credit commitments	279,976	29,149	170	3,778	313,073

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

b Currency risk (Continued)

Group

	RMB	USD	HKD	Others	Total
31 December 2008					
Cash and due from banks and other financial institutions	12,050	3,503	488	1,607	17,648
Balances with central banks	180,809	1,003	66	—	181,878
Placements with banks and other financial institutions	52,324	—	84	—	52,408
Loans and advances to customers	640,033	5,893	6	543	646,475
Investment securities	122,522	6,754	—	103	129,379
Finance lease receivable	5,253	—	—	—	5,253
Other financial assets	11,486	258	1	236	11,981
Total financial assets	1,024,477	17,411	645	2,489	1,045,022
Deposits from customers	768,957	14,204	1,152	1,473	785,786
Due to and placements from banks and other financial institutions	157,664	2,232	59	293	160,248
Borrowings from other financial institutions	2,600	—	—	—	2,600
Debt securities in issue	33,999	—	—	—	33,999
Other financial liabilities	11,886	600	6	334	12,826
Total financial liabilities	975,106	17,036	1,217	2,100	995,459
Net on statement financial position	49,371	375	(572)	389	49,563
Foreign currency derivatives	18	(197)	922	(779)	(36)
Credit commitments	207,101	25,815	207	3,776	236,899

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

b Currency risk (Continued)

Bank

	RMB	USD	HKD	Others	Total
31 December 2009					
Cash and due from banks and other financial institutions	43,587	11,055	8,794	1,644	65,080
Balances with central banks	220,443	995	67	—	221,505
Placements with banks and other financial institutions	68,997	3,138	880	—	73,015
Loans and advances to customers	854,010	11,519	2	761	866,292
Investment securities	146,506	5,084	—	114	151,704
Other financial assets	13,436	310	1	329	14,076
 Total financial assets	 1,346,979	 32,101	 9,744	 2,848	 1,391,672
 Deposits from customers	 1,110,813	 11,133	 1,247	 2,197	 1,125,390
Due to and placements from banks and other financial institutions	147,619	1,612	133	18	149,382
Borrowings from other financial institutions	—	—	—	—	—
Debt securities in issue	23,060	—	—	—	23,060
Other financial liabilities	8,381	305	7	310	9,003
 Total financial liabilities	 1,289,873	 13,050	 1,387	 2,525	 1,306,835
 Net on statement financial position	 57,106	 19,051	 8,357	 323	 84,837
 Foreign currency derivatives	 (31)	 21	 —	 32	 22
Credit commitments	278,033	29,149	170	3,778	311,130

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

b Currency risk (Continued)

Bank

	RMB	USD	HKD	Others	Total
31 December 2008					
Cash and due from banks and other financial institutions	12,032	3,503	488	1,607	17,630
Balances with central banks	180,805	1,003	66	—	181,874
Placements with banks and other financial institutions	52,324	—	84	—	52,408
Loans and advances to customers	640,001	5,893	6	543	646,443
Investment securities	122,522	6,754	—	103	129,379
Other financial assets	12,632	258	1	236	13,127
Total financial assets	1,020,316	17,411	645	2,489	1,040,861
Deposits from customers	768,985	14,204	1,152	1,473	785,814
Due to and placements from banks and other financial institutions	157,369	2,232	59	293	159,953
Debt securities in issue	33,999	—	—	—	33,999
Other financial liabilities	11,402	600	6	334	12,342
Total financial liabilities	971,755	17,036	1,217	2,100	992,108
Net on statement financial position	48,561	375	(572)	389	48,753
Foreign currency derivatives	18	(197)	922	(779)	(36)
Credit commitments	206,626	25,815	207	3,776	236,424

The foreign currency risk of the Group's mainly arises from USD and HKD, which are closely related. Given a 1% change of exchange rate between a foreign currency and Renminbi, the potential impact on the pre-tax profits and equity as a result of the translation gain or loss on the foreign exchange exposures is presented as follows:

Group

	31 December	
	2009 Gain/(loss)	2008 Gain/(loss)
1% upward change of foreign exchange rate	277	2
1% downward change of foreign exchange rate	(277)	(2)

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

b Currency risk (Continued)

Bank

	31 December	
	2009 Gain/(loss)	2008 Gain/(loss)
1% upward change of foreign exchange rate	277	2
1% downward change of foreign exchange rate	(277)	(2)

In performing the exchange rate sensitivity analysis, the Group and Bank make the following general assumptions in defining business terms and financial parameters, but have not considered the following:

- changes after the reporting date, as the analysis is performed based on the static gap at the reporting date;
- the impact of exchange rate fluctuations on the customers' behaviours;
- the complicated relationship between complex structured products (e.g. embedded early redemption options and other derivative financial instruments) and exchange rate fluctuations; and
- the impact of exchange rate fluctuations on market prices.
- the impact of exchange rate fluctuation on off statement products.

c Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to both fair value and cash flow interest rate risks arising from changes in the principal market interest rates.

Interest margins may increase as a result of such changes, but may reduce or suffer losses in the event that unexpected movements arise. The Group operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC. As PBOC has historically adjusted its benchmark interest rates for loans and deposits in the same direction (though not necessarily by the same quantum), the Group has primarily managed its exposure to interest rate risk through the management of the maturity profile of its loans and deposits.

According to the requirement of PBOC, interest rates on loan denominated in Rmb could float based on the PBOC benchmark interest rates. Interest rates on discounted bills denominated in Rmb are determined in accordance with market prices. However, such interest rates cannot be set below the PBOC interest rates for re-discounted bills. Interest rates on deposit denominated in Rmb cannot be higher than the PBOC benchmark interest rates.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

c Interest rate risk (Continued)

The Group closely monitors the trend of interest rate changes, follows the changes of market interest rates, performs scenario analysis, and adjusts the interest rates of deposits and loans in both Rmb and foreign currencies to manage interest rate risks.

The table below summarizes the Group and Bank's exposure to interest rate risks. It includes the financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

Group

	31 December 2009					Total
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Financial assets:						
Cash and due from banks and other financial institutions	57,932	3,916	—	—	4,464	66,312
Balances with central banks	221,590	—	—	—	—	221,590
Placements with banks and other financial institutions	61,287	11,628	100	—	—	73,015
Loans and advances to customers	757,941	98,315	9,155	2,327	—	867,738
Investment securities	14,659	54,420	54,548	27,992	125	151,744
Finance lease receivables	16,874	—	—	—	—	16,874
Other financial assets	7,400	2,211	1,225	302	5,429	16,567
Total financial assets	1,137,683	170,490	65,028	30,621	10,018	1,413,840
Financial liabilities:						
Deposits from customers	917,697	190,981	18,774	486	—	1,127,938
Due to and placements from banks and other financial institutions	121,989	23,328	7,000	—	—	152,317
Borrowings from other financial institutions	9,121	4,750	—	—	—	13,871
Debt securities in issue	—	12,175	4,135	6,750	—	23,060
Other financial liabilities	6,099	63	79	281	4,371	10,893
Total financial liabilities	1,054,906	231,297	29,988	7,517	4,371	1,328,079
Total interest repricing gap	82,777	(60,807)	35,040	23,104	5,647	85,761

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

c Interest rate risk (Continued)

Group

	31 December 2008					
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
					Total	
Financial assets:						
Cash and due from banks and other financial institutions	12,406	2,342	—	—	2,900	17,648
Balances with central banks	181,878	—	—	—	—	181,878
Placements with banks and other financial institutions	44,242	7,296	870	—	—	52,408
Loans and advances to customers	549,798	86,487	8,031	2,159	—	646,475
Investment securities	11,367	23,658	62,465	28,128	3,761	129,379
Finance lease receivables	5,253	—	—	—	—	5,253
Other financial assets	6,453	2,876	—	—	2,652	11,981
Total financial assets	811,397	122,659	71,366	30,287	9,313	1,045,022
Financial liabilities:						
Deposits from customers	533,734	165,613	85,674	765	—	785,786
Due to and placements from banks and other financial institutions	102,989	52,759	4,500	—	—	160,248
Borrowings from other financial institutions	500	2,100	—	—	—	2,600
Debt securities in issue	—	24,956	—	9,043	—	33,999
Other financial liabilities	7,044	13	84	294	5,391	12,826
Total financial liabilities	644,267	245,441	90,258	10,102	5,391	995,459
Total interest repricing gap	167,130	(122,782)	(18,892)	20,185	3,922	49,563

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

c Interest rate risk (Continued)

Bank

	31 December 2009					Total
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Financial assets:						
Cash and due from banks and other financial institutions	57,925	3,916	—	—	3,239	65,080
Balances with central banks	221,505	—	—	—	—	221,505
Placements with banks and other financial institutions	61,287	11,628	100	—	—	73,015
Loans and advances to customers	757,830	96,981	9,154	2,327	—	866,292
Investment securities	14,659	54,420	54,508	27,992	125	151,704
Other financial assets	5,236	2,211	1,225	302	5,102	14,076
Total financial assets	1,118,442	169,156	64,987	30,621	8,466	1,391,672
Financial liabilities:						
Deposits from customers	915,575	190,557	18,772	486	—	1,125,390
Due to and placements from banks and other financial institutions	120,527	21,855	7,000	—	—	149,382
Debt securities in issue	—	12,175	4,135	6,750	—	23,060
Other financial liabilities	5,827	31	79	281	2,785	9,003
Total financial liabilities	1,041,929	224,618	29,986	7,517	2,785	1,306,835
Total interest repricing gap	76,513	(55,462)	35,001	23,104	5,681	84,837

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

c Interest rate risk (Continued)

Bank

	31 December 2008					
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
					Total	
Financial assets:						
Cash and due from banks and other financial institutions	12,390	2,342	—	—	2,898	17,630
Balances with central banks	181,874	—	—	—	—	181,874
Placements with banks and other financial institutions	44,242	7,296	870	—	—	52,408
Loans and advances to customers	549,797	86,456	8,031	2,159	—	646,443
Investment securities	11,367	23,658	62,465	28,128	3,761	129,379
Other financial assets	4,928	2,876	—	—	5,323	13,127
Total financial assets	804,598	122,628	71,366	30,287	11,982	1,040,861
Financial liabilities:						
Deposits from customers	533,776	165,613	85,660	765	—	785,814
Due to and placements from banks and other financial institutions	102,694	52,759	4,500	—	—	159,953
Debt securities in issue	—	24,956	—	9,043	—	33,999
Other financial liabilities	6,953	13	84	294	4,998	12,342
Total financial liabilities	643,423	243,341	90,244	10,102	4,998	992,108
Total interest repricing gap	161,175	(120,713)	(18,878)	20,185	6,984	48,753

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(3) Market risk (Continued)

c Interest rate risk (Continued)

If the interest rates move in parallel for 100 basis points ("bps") from 1 January, 2010, the potential impact on the net interest income and equity for the next year is as follows:

Group

	31 December	
	2009 Gain/(loss)	2008 Gain/(loss)
100 bps upward changes of interest rate	494	996
100 bps downward changes of interest rate	(494)	(996)

Bank

	31 December	
	2009 Gain/(loss)	2008 Gain/(loss)
100 bps upward changes of interest rate	459	952
100 bps downward changes of interest rate	(459)	(952)

In performing the interest rate sensitivity analysis, the Group and Bank make the following general assumptions in defining business terms and financial parameters, but have not considered the following:

- changes after the reporting date, as the analysis is performed based on the static gap at the time point of the reporting date;
- the impact of interest rate fluctuations on the customers' behaviours;
- the complicated relationship between complex structured products (e.g. embedded early redemption options and other derivative financial instruments) and interest rate fluctuations;
- the impact of interest rate fluctuations on market prices; and
- the impact of interest rate fluctuation on off statement products.

(4) Liquidity risk

Liquidity risk is the risk that the Group is unable to provide funds for maturing liabilities through asset realization at reasonable price on a timely basis.

The Bank and the subsidiaries manage their respective liquidity risks separately and independently, and the Bank manages the liquidity risk of all its branches.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

The Bank has exposure to daily calls on its available cash resources from overnight deposits, demand deposits, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

According to the Commercial Bank Law, the Rmb loan-to-deposit ratios is required to be within 75%. On 10 January 2009, a notice issued by the China Banking Regulatory Commission (the CBRC) — “CBRC Notice Regarding the Current Adjustment of Certain Credit Regulatory and Supervisory Policies to Promote Stable Development of the Economy” (the CBRC Notice), permits small or medium size banks which meet certain requirements to appropriately exceed the Rmb loan-to-deposit ratio in 2009. The Bank’s Rmb loan-to-deposit ratio is in compliance with the requirements of the Commercial Bank Law and the CBRC Notice.

As at 31 December 2009, the Bank was required to maintain 13.5% of the total Rmb denominated deposits and 5% of the total foreign currency denominated balances with PBOC.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the full amounts under commitments, because the Bank does not generally expect the third party to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

a Liquidity risk management policy

The Bank and its subsidiaries separately and independently develop their liquidity risk management policies.

The Assets and Liabilities Management Committee of the Bank (the ALM Committee) is responsible for formulating liquidity risk management policies. The Assets and Liabilities Management Department under the ALM Committee is responsible for daily liquidity risk management through the following procedures:

- Manages the day-to-day position through monitoring the future cash flow to ensure it meets the required fund position, including matured deposits and replenishment of funds for loan demand. The Bank actively participates in global money market transactions to ensure the Bank’s funding requirements are satisfied.
- Sets ratio requirements and transactions limits to help monitor and manage liquidity risks. The ratios include but are not limited to loan to deposit ratio, the deposit reserve ratio, liquidity ratio, and liquidity gap ratio, and guiding target ratios have been set for every branch.
- Monitors the liquidity ratio and liquidity gap ratio through the asset and liabilities management system, and performs liquidity scenario analysis and stress testing on overall assets and liabilities to satisfy internal and external requirements. Various techniques are used to estimate the Bank’s liquidity requirements, and liquidity management decision is made based on the estimated liquidity requirements. A periodical reporting system is established to update the senior management of the latest information on liquidity risks in a timely manner.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

a Liquidity risk management policy (Continued)

- Monitors and enhances the maturity concentration risk of financial assets and hold an appropriate quantity of high-liquidity and high-market-value assets to ensure the Bank is well positioned to fund its repayment obligations and business growth in the event of an interruption of cash flows due to whatever causes.

b Maturity analysis

The table below analyses the Group and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date.

Group

	31 December 2009							Total
	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	
Financial Assets:								
Cash and due from banks and other financial institutions	43,832	11,066	7,495	3,919	—	—	—	66,312
Balances with central banks	221,590	—	—	—	—	—	—	221,590
Placements with banks and other financial institutions	—	55,849	1,350	12,128	3,688	—	—	73,015
Loans and advances to customers	—	51,676	96,156	321,357	271,614	122,137	4,798	867,738
Investment securities								
— available-for-sale	—	613	2,004	5,672	27,796	12,950	—	49,035
— held-to-maturity	—	580	4,828	11,014	32,670	8,050	—	57,142
— loans and receivables	—	90	2,416	31,747	2,247	9,067	—	45,567
Finance lease receivables	—	448	640	3,087	11,470	872	357	16,874
Other financial assets	—	294	621	6,411	7,652	1,589	—	16,567
Total financial assets	265,422	120,616	115,510	395,335	357,137	154,665	5,155	1,413,840
Financial Liabilities:								
Deposits from customers	551,715	189,072	108,183	195,335	82,647	986	—	1,127,938
Due to and placements from banks and other financial institutions	38,184	70,312	11,493	5,200	27,100	28	—	152,317
Borrowings from other financial institutions	—	250	—	13,021	600	—	—	13,871
Debt securities in issue	—	—	—	6,088	6,087	10,885	—	23,060
Other financial liabilities	31	814	255	7,494	1,769	530	—	10,893
Total financial liabilities	589,930	260,448	119,931	227,138	118,203	12,429	—	1,328,079

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

b Maturity analysis (Continued)

Group

	31 December 2008							
	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
Financial Assets:								
Cash and due from banks and other financial institutions	11,797	1,484	2,025	2,342	—	—	—	17,648
Balances with central banks	181,878	—	—	—	—	—	—	181,878
Placements with banks and other financial institutions	—	29,293	14,949	7,296	870	—	—	52,408
Loans and advances to customers	—	37,712	77,581	272,225	139,131	110,108	9,718	646,475
Investment securities	—	719	1,833	11,717	21,126	18,202	—	53,597
— available-for-sale	—	—	—	4,350	27,574	6,742	—	38,716
— held-to-maturity	50	—	—	—	—	—	—	—
— loans and receivables	6	—	615	5,621	24,564	6,260	—	37,066
Finance lease receivables	—	85	250	991	3,927	—	—	5,253
Other financial assets	110	879	4,161	1,227	4,856	732	16	11,981
Total financial assets	193,841	70,172	101,414	305,769	222,048	142,044	9,734	1,045,022
Financial Liabilities:								
Deposits from customers	404,990	44,301	84,457	165,613	85,660	765	—	785,786
Due to and placements from banks and other financial institutions	44,563	17,710	21,388	50,239	26,348	—	—	160,248
Borrowings from other financial institutions	—	500	2,100	—	—	—	—	2,600
Debt securities in issue	—	—	—	10,530	11,982	11,487	—	33,999
Other financial liabilities	—	373	7,189	3,463	1,036	765	—	12,826
Total financial liabilities	449,553	62,884	115,134	229,845	125,026	13,017	—	995,459

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

b Maturity analysis (Continued)

Bank

	31 December 2009							Total
	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	
Financial Assets:								
Cash and due from banks and other financial institutions	42,603	11,066	7,495	3,916	—	—	—	65,080
Balances with central banks	221,505	—	—	—	—	—	—	221,505
Placements with banks and other financial institutions	—	55,849	1,350	12,128	3,688	—	—	73,015
Loans and advances to customers	—	51,666	95,539	320,539	271,613	122,137	4,798	866,292
Investment securities	—	613	2,004	5,672	27,796	12,950	—	49,035
— available-for-sale	—	580	4,828	11,014	32,630	8,050	—	57,102
— held-to-maturity	—	90	2,416	31,747	2,247	9,067	—	45,567
— loans and receivables	—	277	582	6,085	2,986	4,146	—	14,076
Total financial assets	264,108	120,141	114,214	391,101	340,960	156,350	4,798	1,391,672
Financial Liabilities:								
Deposits from customers	551,411	187,305	108,132	194,911	82,645	986	—	1,125,390
Due to and placements from banks and other financial institutions	39,646	70,312	10,569	1,727	27,100	28	—	149,382
Debt securities in issue	—	—	—	6,088	6,087	10,885	—	23,060
Other financial liabilities	31	813	132	6,782	776	469	—	9,003
Total financial liabilities	591,088	258,430	118,833	209,508	116,608	12,368	—	1,306,835

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

b Maturity analysis (Continued)

Bank

	31 December 2008							
	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
Financial Assets:								
Cash and due from banks and other financial institutions	11,795	1,468	2,025	2,342	—	—	—	17,630
Balances with central banks	181,874	—	—	—	—	—	—	181,874
Placements with banks and other financial institutions	—	29,293	14,949	7,296	870	—	—	52,408
Loans and advances to customers	—	37,705	77,581	272,208	139,131	110,100	9,718	646,443
Investment securities	—	719	1,833	11,717	21,126	18,202	—	53,597
— available-for-sale	—	—	—	4,350	27,574	6,742	—	38,716
— held-to-maturity	50	—	—	—	—	—	—	—
— loans and receivables	6	—	615	5,621	24,564	6,260	—	37,066
Other financial assets	110	879	4,158	1,227	3,230	3,507	16	13,127
Total financial assets	193,835	70,064	101,161	304,761	216,495	144,811	9,734	1,040,861
Financial Liabilities:								
Deposits from customers	405,018	44,301	84,457	165,613	85,660	765	—	785,814
Due to and placements from banks and other financial institutions	44,835	17,143	21,388	50,239	26,348	—	—	159,953
Debt securities in issue	—	—	—	10,530	11,982	11,487	—	33,999
Other financial liabilities	—	323	7,138	3,431	685	765	—	12,342
Total financial liabilities	449,853	61,767	112,983	229,813	124,675	13,017	—	992,108

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

c Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on its estimation of expected future cash inflows.

Group

	31 December 2009					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial Liabilities:						
Deposits from customers	745,540	109,224	200,088	92,726	1,125	1,148,703
Due to and placements from banks and other financial institutions	110,004	11,730	5,949	29,795	28	157,506
Borrowings from other financial institutions	260	51	13,279	638	—	14,228
Debt securities in issue	—	277	6,616	8,737	16,347	31,977
Other financial liabilities	835	202	1,498	1,687	400	4,622
Total financial liabilities (contractual maturity date)	856,639	121,484	227,430	133,583	17,900	1,357,036
Financial Assets:						
Total financial assets (expected maturity date)	393,459	120,275	394,477	427,321	211,290	1,546,822

Group

	31 December 2008					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial Liabilities:						
Deposits from customers	455,518	85,940	170,497	100,621	872	813,448
Due to and placements from banks and other financial institutions	62,518	22,179	52,257	28,431	53	165,438
Borrowings from other financial institutions	—	4	2,583	154	—	2,741
Debt securities in issue	—	—	11,456	16,195	14,502	42,153
Other financial liabilities	333	99	3,268	611	339	4,650
Total financial liabilities (contractual maturity date)	518,369	108,222	240,061	146,012	15,766	1,028,430
Financial Assets:						
Total financial assets (expected maturity date)	269,957	108,822	338,458	273,110	171,704	1,162,051

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

c Non-derivative cash flows (Continued)

Bank

	31 December 2009					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial Liabilities:						
Deposits from customers	743,468	109,173	199,664	92,725	1,123	1,146,153
Due to and placements from banks and other financial institutions	111,467	10,770	2,387	29,795	28	154,447
Debt securities in issue	—	277	6,616	8,737	16,347	31,977
Other financial liabilities	834	79	883	678	307	2,781
Total financial liabilities (contractual maturity date)	855,769	120,299	209,550	131,935	17,805	1,335,358

	31 December 2009					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial Assets:						
Total financial assets (expected maturity date)	390,331	119,382	389,177	409,070	212,819	1,520,779

	31 December 2008					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial Liabilities:						
Deposits from customers	455,546	85,940	170,497	100,621	872	813,476
Due to and placements from banks and other financial institutions	62,223	22,179	52,257	28,431	53	165,143
Debt securities in issue	—	—	11,456	16,195	14,502	42,153
Other financial liabilities	283	94	3,236	260	339	4,212
Total financial liabilities (contractual maturity date)	518,052	108,213	237,446	145,507	15,766	1,024,984

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial Assets:						
Total financial assets (expected maturity date)	269,837	108,533	337,087	266,875	171,704	1,154,036

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

d Derivative cash flow

(i) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

- Interest rate derivatives: interest rate swaps;
- Credit derivatives: credit default swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	31 December 2009					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivatives	(8)	4	2	6	—	4
Credit derivatives	—	—	—	1	—	1
	(8)	4	2	7	—	5

Group and Bank

	31 December 2008					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivatives	(2)	(2)	8	20	4	28
Credit derivatives	—	—	—	2	—	2
	(2)	(2)	8	22	4	30

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forwards, currency swaps, currency options.
- Precious metal derivatives: precious metal forwards.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

d Derivative cash flow (Continued)

(ii) Derivatives settled on a gross basis (Continued)

The table below analyzes the Bank's derivative financial instruments that will be settled on a gross basis in to relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	31 December 2009					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Foreign exchange derivatives						
– Cash outflow	(4,458)	(2,086)	(11,230)	—	—	(17,774)
– Cash inflow	4,491	2,087	11,234	—	—	17,812
Precious metal derivatives						
– Cash outflow	(213)	(799)	(333)	—	—	(1,345)
– Cash inflow	214	781	334	—	—	1,329
Total cash outflow	(4,671)	(2,885)	(11,563)	—	—	(19,119)
Total cash inflow	4,705	2,868	11,568	—	—	19,141

Group and Bank

	31 December 2008					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Foreign exchange derivatives						
– Cash outflow	(2,382)	(4,054)	(6,302)	(291)	—	(13,029)
– Cash inflow	2,400	4,063	6,237	291	—	12,991
Precious metal derivatives						
– Cash outflow	(163)	—	—	—	—	(163)
– Cash inflow	165	—	—	—	—	165
Total cash outflow	(2,545)	(4,054)	(6,302)	(291)	—	(13,192)
Total cash inflow	2,565	4,063	6,237	291	—	13,156

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

e Off statement items

Contractual maturity is used by the management as best estimate to analyze the liquidity risk of off statement items, unless the objective evidence of default is identified.

Group

	31 December 2009			
	No later than 1 year	1 to 5 years	Over 5 years	Total
Acceptances	216,657	—	—	216,657
Unused credit card limits	28,466	—	—	28,466
Letters of guarantee	19,225	24,334	2,034	45,593
Letters of credit	14,392	697	5	15,094
Financial lease commitments	1,841	—	—	1,841
Irrevocable loan commitments	1,766	67	3,589	5,422
Operating lease commitments	875	2,557	852	4,284
Capital commitments	250	6	—	256
Total	283,472	27,661	6,480	317,613

Group

	31 December 2008			
	No later than 1 year	1 to 5 years	Over 5 years	Total
Acceptances	145,005	—	—	145,005
Unused credit card limits	28,140	—	—	28,140
Letters of guarantee	24,465	23,060	1,504	49,029
Letters of credit	7,218	634	398	8,250
Financial lease commitments	475	—	—	475
Irrevocable loan commitments	120	1,634	4,246	6,000
Operating lease commitments	625	1,610	379	2,614
Capital commitments	96	3,005	112	3,213
Total	206,144	29,943	6,639	242,726

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(4) Liquidity risk (Continued)

e Off statement items (Continued)

Bank	31 December 2009			
	No later than 1 year	1 to 5 years	Over 5 years	Total
Acceptances	216,555	—	—	216,555
Unused credit card limits	28,466	—	—	28,466
Letters of guarantee	19,225	24,334	2,034	45,593
Letters of credit	14,392	697	5	15,094
Irrevocable loan commitments	1,766	67	3,589	5,422
Operating lease commitments	867	2,537	852	4,256
Capital commitments	250	6	—	256
Total	281,521	27,641	6,480	315,642

Bank	31 December 2008			
	No later than 1 year	1 to 5 years	Over 5 years	Total
Acceptances	145,005	—	—	145,005
Unused credit card limits	28,140	—	—	28,140
Letters of guarantee	24,465	23,060	1,504	49,029
Letters of credit	7,218	634	398	8,250
Irrevocable loan commitments	120	1,634	4,246	6,000
Operating lease commitments	617	1,584	378	2,579
Capital commitments	96	2,464	112	2,672
Total	205,661	29,376	6,638	241,675

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(5) Fair value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (e.g. London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (e.g. Nasdaq, S&P 500).
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The Sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

a Financial instruments measured at fair value

Group and Bank

	31 December 2009		
	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss			
— Trading securities	—	4,747	—
— Trading derivatives	—	465	—
Available-for-sale securities	67	48,284	559
Total	67	53,496	559
Financial liabilities at fair value through profit or loss			
Trading derivatives	—	(394)	(1)
Total	—	(394)	(1)

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(5) Fair value of financial assets and liabilities (Continued)

b Financial instruments not measured at fair value

The estimated fair values of the Group's financial assets and liabilities, of which the respective carrying value are different, are summarized as follows:

Group	Carrying value	
	31 December 2009	31 December 2008
Financial assets		
Loans and advances to customers	867,738	646,475
Investment securities		
— Held-to-maturity	57,142	38,716
— Loans and receivables	45,567	37,066
Financial liabilities		
Deposits from customers	1,127,938	785,786
Debt securities in issue and borrowings from foreign governments	23,451	34,390

And other off-statement credit commitments of the contract value of financial instruments refer to Note 36 (1).

	Fair value	
	31 December 2009	31 December 2008
Financial assets		
Loans and advances to customers	868,126	647,209
Investment securities		
— Held-to-maturity	57,023	40,033
— Loans and receivables	45,852	38,203
Financial liabilities		
Deposits from customers	1,128,625	786,629
Debt securities in issue and borrowings from foreign governments	22,965	34,351
Credit commitments	941	596

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(5) Fair value of financial assets and liabilities (Continued)

b Financial instruments not measured at fair value (Continued)

Bank	Carrying value	
	31 December 2009	31 December 2008
Financial assets		
Loans and advances to customers	866,292	646,443
Investment securities		
— Held-to-maturity	57,102	38,716
— Loans and receivables	45,567	37,066
Financial liabilities		
Deposits from customers	1,125,390	785,814
Debt securities in issue and borrowings from foreign governments	23,451	34,390
Fair value		
	31 December 2009	31 December 2008
Financial assets		
Loans and advances to customers	866,680	647,177
Investment securities		
— Held-to-maturity	56,983	40,033
— Loans and receivables	45,852	38,203
Financial liabilities		
Deposits from customers	1,126,076	786,657
Debt securities in issue and borrowings from foreign governments	22,965	34,351
Credit commitments	941	596

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(5) Fair value of financial assets and liabilities (Continued)

b Financial instruments not measured at fair value (Continued)

(i) Cash and due from banks and other financial institutions, finance lease receivables, placements with banks and other financial institutions, due to and placements from banks and other financial institutions and borrowings from other financial institutions.

Given these financial assets and liabilities have a maturity of less than a year or have floating interest rates, their book values approximate their fair value.

(ii) Loans and advances, and investment securities — loans and receivables

Loans and advances, and investment securities — loans and receivables are recorded net of allowance for impairment losses. The estimated fair value represents the amount of estimated future cash flows expected to be received discounted at current market rates.

(iii) Held-to-maturity investment securities

The fair value for held-to-maturity assets is based on “bid” market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Customer deposits

The fair value of checking, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed interest-bearing deposits and placements without quoted market prices are based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities in issue and borrowings from foreign governments

Fair values of debt securities in issue and borrowings from foreign governments are based on quoted market prices. For bonds where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for the nature of the obligations with similar remaining maturities.

(vi) Credit commitments

The fair value of credit commitments is estimated based on the fair value of a similar financial instrument in the market. If there is no such information, its fair value will be measured using the discounted cash flow method.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(6) Capital management

The capital management of the Group aims to ensure compliance with regulatory requirements, continuously improve its ability to mitigate risks and enhance the return on its capital. On this basis, the Group has set its capital adequacy objectives, and takes a range of measures, including budgeting/planning and performance measurement and limit management, to ensure the realization of management objectives, so as to meet the requirements for regulatory compliance, credit rating, risk premium and shareholder return, and to facilitate the Group's risk management, ensure the orderly expansion of the asset base and enhance the business structure and model.

The Group calculates and discloses its Capital Adequacy Ratio in accordance with "The Administrative Rules on Capital Adequacy Ratios of Commercial Banks" and other related rules and regulations issued by the CBRC, and the generally accepted accounting principles of the PRC ("PRC GAAP").

The capital adequacy ratio and core capital adequacy ratio of the Group complied with the requirement of the CBRC.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

3 Financial risk management (Continued)

(6) Capital management (Continued)

Group	31 December	
	2009	2008
Core Capital:		
Share Capital	22,262	18,823
Capital reserve net of unrealized gain from available-for-sale securities	38,075	14,768
Surplus reserve	4,184	2,983
General reserve	10,904	8,001
Retained earnings	12,471	5,940
Non-controlling interest in equity	860	792
Core Capital:	88,756	51,307
Less: 50% of the investment in unconsolidated non-bank financial institutions	(62)	(620)
Net Core Capital	88,694	50,687
Supplementary Capital:		
Revaluation reserves	86	1,305
General provision	10,438	7,895
Hybrid capital bonds	9,300	4,300
Long-term subordinated bonds	1,400	7,200
Total of the supplementary Capital (Max of the 100% of net Core capital)	21,224	20,700
Total Capital	109,980	72,007
Less: Investment in unconsolidated non-bank financial institutions	(124)	(1,240)
Subordinated bonds issued by other commercial banks after 1 July 2009	(2,200)	—
Net Capital	107,656	70,767
Total risk-weighted assets	993,773	767,895
Core capital adequacy ratio	8.92%	6.60%
Capital adequacy ratio	10.83%	9.22%

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

4 Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

(1) Impairment allowances on loans and advances

Besides impairment assessment for individually impaired loans, the Group reviews its loan portfolios to assess impairment regularly. In determining whether a provision for loan impairments should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults of borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(2) Fair value of derivative and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

(3) Impairment of available-for-sale securities and held-to-maturity securities

The Group follows the guidance of IAS 39 in determining impairment of available-for-sale securities and held-to-maturity securities. The determination of impairment requires a high level of management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, technological changes, credit ratings, delinquency rates, loss provision coverage and counterparty risk.

(4) Held-to-maturity securities

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity securities at a time close to maturity), if the Group fails to hold these securities to maturity or reclassifies some of the securities to available-for-sale securities, the Group shall have to reclassify any of the remaining held-to-maturity securities as available-for-sale securities, and measure them at fair value rather than amortized cost.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

4 Critical accounting estimates and judgments in applying accounting policies (Continued)

(5) Taxation

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for business tax and income tax. The Group recognizes liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the business tax, income tax and deferred income tax provisions in the period during which such a determination is made.

5 Segment information

The Group manage business from geographic and business respective. The geographic segment can be divided four region, Northern china, Eastern china, Southern china, Other locations. The business segment can be divided four line, Corporate banking business, Retail banking business, Treasury business, Other business and unallocated.

Segment assets, liabilities, revenues, operating results and capital expenditures are based on the Group's accounting policies as the basis for measurement. The item of segment include directly attributable to the segment and can be based on reasonable criteria related to the segment assigned to the item. As part of the management of assets and liabilities, the Group's capital resource and exert are allocated to various business segment through treasury business. The Group's FTP mechanism to deposit and loan interest rates and market interest rates as the benchmark, determined FTP with reference to different products and their period, the impact of insider trading have been offset when prepare consolidated statements.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

5 Segment information (Continued)

Group

	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
2009						
External Interest income	13,133	9,391	3,238	6,478	—	32,240
Inter-segment Interest (expense)/income	(2,366)	1,157	1,075	134	—	—
Net interest income	10,767	10,548	4,313	6,612	—	32,240
Fee and commission income	3,287	888	479	352	—	5,006
Fee and commission expense	(174)	(70)	(64)	(34)	—	(342)
Net fee and commission income	3,113	818	415	318	—	4,664
Operating expense	(10,441)	(4,930)	(2,392)	(2,776)	—	(20,539)
Impairment losses on assets	(2,865)	(1,519)	(132)	(791)	—	(5,307)
Net other income	4,932	(139)	(73)	(122)	—	4,598
Total profit	5,506	4,778	2,131	3,241	—	15,656
As at 31 December 2009						
Segment assets	925,604	482,244	205,114	251,198	(440,949)	1,423,211
Unallocated						3,181
Total assets						1,426,392
Segment liabilities	(856,680)	(474,174)	(201,491)	(246,102)	440,949	(1,337,498)
Depreciation and amortization	289	183	120	129	—	721
Capital expenditure	4,177	290	143	217	—	4,827
Credit commitments	70,505	116,493	34,218	91,857	—	313,073

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

5 Segment information (Continued)

Group

	Northern China	Eastern China	Southern China	Other locations	Inter- segment elimination	Total
2008						
External Interest income	11,648	8,506	5,020	5,206	—	30,380
Inter-segment Interest (expense)/income	(3,755)	2,157	1,083	515	—	—
Net interest income	7,893	10,663	6,103	5,721	—	30,380
Fee and commission income	3,196	870	355	334	—	4,755
Fee and commission expense	(129)	(50)	(69)	(46)	—	(294)
Net fee and commission income	3,067	820	286	288	—	4,461
Operating expense	(6,530)	(5,406)	(2,982)	(2,899)	—	(17,817)
Impairment losses on assets	(3,929)	(900)	(595)	(1,094)	—	(6,518)
Net other income	(50)	(49)	87	(6)	—	(18)
Total profit	451	5,128	2,899	2,010	—	10,488
As at 31 December 2008						
Segment assets	671,727	335,333	163,954	170,199	(287,942)	1,053,271
Unallocated						1,079
Total assets						1,054,350
Segment liabilities	(633,845)	(327,846)	(159,454)	(166,475)	287,942	(999,678)
Depreciation and amortization	293	156	124	105	—	678
Capital expenditure	902	503	20	336	—	1,761
Credit commitments	82,193	92,831	25,302	36,573	—	236,899

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

5 Segment information (Continued)

In the financial year 2009, segment reporting by the Group was prepared for the first time in accordance with IFRS 8, 'Operating segments'.

Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group senior management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The business segments can be divided into four lines: Corporate banking business, Retail banking business, Treasury business and Other business.

Corporate banking — for corporate customers, government agencies and financial institutions. These products and services include current accounts, deposits, overdrafts, loans, hosting, trade-related products and other credit services, foreign currency and derivative products.

Retail banking — providing banking products and services for individual clients. These products and services include current accounts, savings deposits, investment savings products, credit cards and debit cards, consumer credit and mortgage loans.

Treasury business — including foreign exchange trading, foreign exchange derivatives transactions, money market transactions, self-support trade, as well as asset-liability management. The business segment's operating results include foreign currency profit and the affect of the profit and loss which generated from internal fund surplus or shortage from interest-bearing assets and interest-bearing liabilities.

Other business — the Group's other businesses including the Group's investments and any other business which is not reported separately in report.

As the Group's segment operations are all financial with the total revenues deriving from interest and the Group senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group senior management is measured in a manner consistent with that in the consolidated income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

5 Segment information (Continued)

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. As the Group senior management reviews operating profit, the results of discontinued operations are not included in the measure of operating profit. Non-recurring gains and losses should be allocated to other business lines.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Group senior management.

Segment assets and liabilities comprise operating assets and liabilities, being the total of the consolidated statement of financial position.

The segment information by business type provided to senior management are as follows:

Group	Corporate banking business	Retail banking business	Treasury business and business	Other unallocated	Elimination	Total
2009						
Net interest income	19,012	4,307	8,921	—	—	32,240
Include: intersegment net interest income	(3,038)	490	2,548	—	—	—
Net fee and commission income	3,037	1,291	336	—	—	4,664
Include: intersegment net fee and commission income	—	—	—	—	—	—
Operating expense	(12,561)	(3,032)	(4,946)	—	—	(20,539)
Impairment losses on assets	(4,415)	(582)	(302)	(8)	—	(5,307)
Net other income	(379)	(4)	9	4,972	—	4,598
Total profit	4,694	1,980	4,018	4,964	—	15,656
As at 31 December 2009						
Segment assets	640,504	166,844	550,413	65,450	—	1,423,211
Unallocated						3,181
Total assets						1,426,392
Segment liabilities	(928,721)	(194,513)	(205,286)	(8,978)	—	(1,337,498)

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

5 Segment information (Continued)

Group	Corporate banking business	Retail banking business	Treasury business	Other business and unallocated	Elimination	Total
2008						
Net interest income	17,581	4,861	8,138	—	—	30,380
Include: intersegment net interest income	(1,162)	(200)	1,362	—	—	—
Net fee and commission income	2,925	975	561	—	—	4,461
Include: intersegment net fee and commission income	—	—	—	—	—	—
Operating expense	(10,788)	(2,670)	(4,359)	—	—	(17,817)
Impairment losses on assets	(5,143)	(569)	(810)	4	—	(6,518)
Net other income	(73)	(1)	(42)	98	—	(18)
Total profit	4,502	2,396	3,488	102	—	10,488
As at 31 December 2008						
Segment assets	515,661	113,970	377,107	46,533	—	1,053,271
Unallocated						1,079
Total assets						1,054,350
Segment liabilities	(735,705)	(135,442)	(123,348)	(5,183)	—	(999,678)

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

6 Net interest income

	Year ended 31 December	
	2009	2008
Interest income:		
– Loans and advances to customers		
– Loans to corporate entities	33,747	34,266
– Loans to individuals	6,737	7,316
– Loans to discounted bills	2,676	2,851
– Investment securities	5,478	5,451
– Balances with central banks	1,941	2,216
– Placements with banks and other financial institutions	1,767	3,784
– Finance lease receivables	745	189
– Due from banks and other financial institutions	310	216
– Others	40	22
	53,441	56,311
Interest expense:		
– Deposits from customers	(16,060)	(18,428)
– Due to and placements from banks and other financial institutions	(3,597)	(6,045)
– Debt securities in issue	(1,315)	(1,410)
– Borrowings from banks and other financial institutions	(221)	(46)
– Others	(8)	(2)
	(21,201)	(25,931)
Net interest income	32,240	30,380
Included within interest income:		
Interest income on listed investments	4,047	3,247
Interest income on unlisted investments	1,431	2,204
Interest income accrual on identified impaired financial assets	178	164

7 Fee and commission income

	Year ended 31 December	
	2009	2008
Financial advisory services	1,577	1,702
Bank card services	1,207	920
Credit commitments	926	917
Trust and other fiduciary services	633	603
Settlement services	299	312
Securities underwriting services	135	139
Others	229	162
Total	5,006	4,755

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

8 Net trading income

	Year ended 31 December	
	2009	2008
Gain/(loss) on exchange rate instruments	177	(111)
Gain/(loss) on precious metal and other products	98	(131)
(Loss)/gain on interest rate instruments	(51)	427
Total	224	185

9 Net gain/(loss) on disposal of available-for-sale securities

	Year ended 31 December	
	2009	2008
Net gain on disposal of Haitong securities	4,902	—
Others	7	(53)
Total	4,909	(53)

In 2009, the Bank disposed of its equity securities of Haitong Securities Co., Ltd ("Haitong Securities"). The balance of equity securities of Haitong Securities held by the Bank was Rmb3.09 billion as at 31 December 2008. Net gain of Rmb4.90 billion was recognized in the consolidated income statement of 2009.

10 Impairment losses on assets

	Year ended 31 December	
	2009	2008
Loans and advances to customers	4,792	5,686
Available-for-sale securities	356	599
Finance lease receivables	176	57
Held-to-maturity securities	(54)	54
Others	37	122
Total	5,307	6,518

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

11 Operating Expenses

	Year ended 31 December	
	2009	2008
Staff costs, including directors' emoluments		
– Salary, including bonus	6,658	5,707
– Social insurance	1,058	913
– Other benefits	1,428	1,330
Business tax and surcharges	2,802	2,916
Business development expenses	1,634	1,295
Office expenses	1,578	904
Lease expense, primarily for office	983	824
Depreciation and amortization	721	678
Electronic equipment operating expenses	705	432
Automobile expenses	564	572
Mailing and telegraph expenses	332	353
Travelling expenses	291	244
Conference expenses	225	219
CBRC supervisory charges	138	134
Others	1,422	1,296
Total	20,539	17,817

Auditors' remuneration included in the operating expenses as for the year ended 31 December 2009 was Rmb6.60 million (2008: Rmb7.12 million).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

12 Directors and Supervisors' emoluments

(in thousand of Rmb)

	For the year ended 31 December 2009 (in thousand of Rmb)			
	Basic salaries, allowances and benefits	Contributions to pension schemes	Discretionary bonus	Total
Dong Wenbiao	3,846	270	2,430	6,546
Hong Qi	3,459	209	2,601	6,269
Qiao Zhimin	3,308	209	2,267	5,784
Huang Diyan****	233	—	4,770	5,003
Liang Yutang	2,757	209	1,911	4,877
Chen Jinzhong	1,989	128	1,747	3,864
Wang Lei	1,985	133	1,589	3,707
Wang Tongshi**	1,152	—	1,376	2,528
Wang Lianzhang	1,120	—	—	1,120
Wang Songqi	925	—	—	925
Lu Zhiqiang	865	—	—	865
Zhang Hongwei	860	—	—	860
Wang Hang	820	—	—	820
Zhang Ke**	808	—	—	808
Huang Xi	777	—	—	777
Xing Jijun	762	—	—	762
Wang Yugui	760	—	—	760
Shi Yuzhu	710	—	—	710
Chen Jian	690	—	—	690
Xu Rui	685	—	—	685
Wang Liang	667	—	—	667
Lu Zhongnan	660	—	—	660
Gao Shangquan**	652	—	—	652
Zhang Disheng	622	—	—	622
Liu Yonghao***	612	—	—	612
Wang Junhui***	565	—	—	565
Qin Rongsheng***	230	—	—	230
Wu Zhipan**	220	—	—	220
Han Jianmin***	215	—	—	215
Wang Lihua***	197	—	—	197
Su Qingzan**	195	—	—	195
Li Yu****	185	—	—	185
Liang Jinquan*	—	—	—	—

* Liang Jinquan waived emoluments for the year ended 31 December 2009.

** Zhang Ke, Gao Shangquan, Su Qingzan, Wu Zhipan and Wang Tongshi were no longer the directors at 31 December 2009.

*** Liu Yonghao, Wang Juhui, Wang Lihua, Qin Rongsheng and Han Jianmin were the new directors in 2009.

**** Li Yu and Huang Diyan were not the supervisors at 31 December 2009.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

12 Directors and Supervisors' emoluments (continued)

(in thousand of Rmb)

	For the year ended 31 December 2008 (in thousand of Rmb)			
	Basic salaries, allowances and benefits	Contributions to pension schemes	Discretionary bonus	Total
Dong Wenbiao	3,249	23	8,094	11,366
Wang Tongshi	2,858	52	6,132	9,042
Hong Qi	2,800	23	5,716	8,539
Zhang Ke	723	—	—	723
Zhang Hongwei	692	—	—	692
Lu Zhiqiang	692	—	—	692
Wang Lianzhang	664	—	—	664
Wu Zhipan	641	—	—	641
Wang Songqi	638	—	—	638
Gao Shangquan	617	—	—	617
Wang Hang	613	—	—	613
Wang Yugui	588	—	—	588
Shi Yuzhu	588	—	—	588
Su Qingzan	588	—	—	588
Xing Jijun	584	—	—	584
Huang Xi	559	—	—	559
Chen Jian	559	—	—	559
Liang Jinquan *	—	—	—	—
Lu Zhongnan	578	—	—	578
Zhang Disheng	584	—	—	584
Xu Rui	614	—	—	614
Li Yu	629	—	—	629
Wang Liang	600	—	—	600
Huang Diyan	102	—	—	102
Qiao Zhimin	590	—	—	590
Wang Lei	411	—	—	411
Chen Jinzhong	422	—	—	422

* Liang Jinquan waived emoluments for the year ended 31 December 2008.

The 5 highest-paid individuals of the Group in the current year are all members of the board of directors or supervisors (2008: 3), as shown in the above table, and they have no one who is not a member of the board of directors or the supervisory board (2008: 2), as shown below:

	Year ended 31 December	
	2009	2008
Basic salaries, allowances and benefits	—	3,070
Contributions to pension schemes	—	16
Discretionary bonus	—	8,676
Total	—	11,762

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

12 Directors and Supervisors' emoluments (continued)

Emoluments of the individuals were the following bands:

	Year ended 31 December	
	2009	2008
Rmb1 to 2 million	—	—
Rmb2 to 3 million	—	—
Rmb3 to 4 million	—	—
Rmb5 to 6 million	—	2
Rmb6 to 7 million	—	—
Rmb7 to 8 million	—	—
Rmb8 to 9 million	—	—
Rmb9 to 10 million	—	—
Rmb10 to 11 million	—	—
Rmb11 to 12 million	—	—
Rmb17 to 18 million	—	—

The Group had not paid any emoluments to the directors or supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 Income tax expense

Taxation in the consolidated income statement represents mainland Chinese income tax:

	Year ended 31 December	
	2009	2008
Current taxes on income for the reporting period	4,607	3,577
Current taxes referring to previous periods*	(12)	233
Total current tax	4,595	3,810
Total deferred tax (Note 24)	(1,047)	(1,215)
Income tax expense	3,548	2,595

The applicable income tax rate (except for Shenzhen branch) is 25% as at 31 December 2009 (2008: 25%). For Shenzhen branch, the applicable income tax rate is 20% as at 31 December 2009 (2008: 18%).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

13 Income tax expense (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate of the Group as follows:

	Year ended 31 December	
	2009	2008
Profit before income tax	15,656	10,488
Income tax calculated at 25%	3,914	2,622
Impact of different rates of different districts	(7)	(26)
Income tax calculated at standard rates	3,907	2,596
Tax exemption on interest income from government bonds	(449)	(419)
Non-deductible salary, entertainment and other expenses*	111	371
Others	(21)	47
Income tax expense	3,548	2,595

* In June 2008, the State Administration of Taxation issued additional provisions on the criteria for the deduction of performance-based salaries, resulting in lower deductible amounts and an increase of Rmb263 million of income tax expense for the Bank, which is included in 2008 consolidated income statement.

14 Earnings per share

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Bank	12,104	7,885
Weighted average number of ordinary shares in issue (in millions)	19,144	18,823
Basic earnings per share (in Rmb)	0.63	0.42

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

14 Earnings per share (continued)

(2) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for the effect of all dilutive potential ordinary shares of the Bank, which are in the form of convertible debt. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Bank	12,104	7,885
Weighted average number of ordinary shares in issue	19,144	18,823
Diluted earnings per share (in Rmb)	0.63	0.42

The number of shares assuming the conversion of all the convertible bonds convert into ordinary shares was 49,784 at the beginning of 2008, which was insignificant. The convertible option expired on 26 February 2008, and the Bank didn't issue other convertible bonds afterwards. The diluted earnings per share was equal to basic earnings per share.

15 Cash and due from banks and other financial institutions

Group

	31 December	
	2009	2008
Cash	4,464	2,900
Due from banks and other financial institutions		
– Due from banks	59,948	13,930
– Due from other financial institutions	1,900	818
	66,312	17,648

Bank

	31 December	
	2009	2008
Cash	3,239	2,898
Due from banks and other financial institutions		
– Due from banks	59,941	13,914
– Due from other financial institutions	1,900	818
	65,080	17,630

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

16 Balances with central banks

Group

	31 December	
	2009	2008
Restricted deposits	122,610	84,457
Unrestricted deposits	98,980	97,421
	221,590	181,878

Bank

	31 December	
	2009	2008
Restricted deposits	122,534	84,453
Unrestricted deposits	98,971	97,421
	221,505	181,874

Restricted deposits are general reserve balance with central banks. The Group was required to maintain with the PBOC a restricted general reserve deposit equal to 13.5% of Rmb deposits and 5% of foreign currency deposits as at 31 December 2009 (2008: 13.5% of Rmb deposits and 5% of foreign currency deposits). Unrestricted deposits are maintained with the PBOC for liquidity purposes.

Restricted balance with central banks are not available for use in the Group's day-to-day operations.

17 Trading financial assets

Group and Bank

	31 December	
	2009	2008
Government and quasi-government bonds	2,870	3,069
Corporate bonds	1,877	1,336
Total	4,747	4,405

All of above bond investments are listed.

Trading financial assets pledged as collateral under repurchase agreements signed with other banks and other financial institutions as at 31 December 2009 amounted to Rmb2.03 billion (2008: Rmb2.05 billion). Please refer to Note 36 for detailed information.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

18 Derivative financial instruments

The following derivative financial instruments are held by the Group for trading purposes:

Foreign exchange forwards represent commitments to purchase/sell foreign currencies at a future date, including undelivered spot transactions.

Interest rate and currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g. fixed rate for floating rate).

The credit risk faced by the Group arising from derivative financial products means, if a counterparty fails to fulfill its obligation, the cost of replacement of the original contract with an additional commitment. The Group controls this risk by monitoring the nominal amount of contracts, fair value and the ability to convert to cash on a continuous basis. In order to control the level of credit risk, the Group uses similar method adopted in its credit business to measure the extent of credit exposure.

The contractual/notional amounts of financial instruments serve only as a basis for comparison with fair value instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial instruments held are set out in the following table:

	Contract/notional Amount	Fair values		
		Assets	Liabilities	
Group and Bank				
31 December 2009				
Interest rate swaps	16,393	312	(263)	
Currency forwards	14,888	111	(105)	
Currency swaps	3,764	42	(3)	
Precious metal swaps	422	—	(23)	
Credit default swaps	68	—	(1)	
Extension options	9,700	—	—	
		465	(395)	
Group and Bank				
31 December 2008				
Interest rate swaps	17,711	987	(969)	
Currency forwards	11,498	211	(266)	
Currency swaps	1,531	18	—	
Precious metal swaps	163	—	—	
Credit default swaps	68	—	(4)	
Extension options	9,015	—	—	
		1,216	(1,239)	

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

18 Derivative financial instruments (continued)

Replacement costs are the costs of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations). The replacement costs of the Group and the Bank are equal to balances of derivative financial assets which are presented above.

Credit risk weighted amount

Group and Bank

	31 December	
	2009	2008
Exchange rate contracts	23	13
Interest rate contracts	37	22
	60	35

The credit risk weighted amount represents the counterparty credit risk associated with derivative financial instruments and are calculated with reference to the guidelines issued by the CBRC and are dependent on, among other factors, the credit worthiness of the counterparty and the maturity characteristics of each type of contract.

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

19 Placements with banks and other financial institutions

Group and Bank

	31 December	
	2009	2008
Placements with banks and other financial institutions		
– Banks	50,339	30,324
– Other financial institutions	22,676	22,176
	73,015	52,500
Less: allowance for impairment losses — individually assessed	—	(92)
Net	73,015	52,408

The movement of allowance for impairment losses are as follows:

	Year ended 31 December	
	2009	2008
Opening balance	92	94
Releases	—	(2)
Amount written off during the year as uncollectible	(92)	—
Ending balance	—	92

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

19 Placements with banks and other financial institutions (continued)

Placements with banks and other financial institutions include balances arising from reverse repurchase agreements as follows:

	31 December	
	2009	2008
Discounted bills	46,861	23,463
Finance lease receivables	4,088	—
Government and quais-government bonds	1,070	10,450
Corporate loans	280	1,400
Total	52,299	35,313

20 Loans and advances to customers

Group

	31 December	
	2009	2008
Loans to corporate entities		
— Corporate loans	676,084	475,185
— Discounted bills	35,221	63,931
— Others	7,794	10,673
Subtotal	719,099	549,789
Loans to individuals		
— Mortgage loans	99,619	87,401
— Shang Dai Tong*	44,809	6,637
— Credit Cards	14,266	12,727
— Others	5,186	1,806
Subtotal	163,880	108,571
Loan and advances to customers, gross	882,979	658,360
Less: allowance for impairment losses		
— Individually assessed	(4,378)	(3,990)
— Collectively assessed	(10,863)	(7,895)
	(15,241)	(11,885)
Loan and advances to customers, net	867,738	646,475

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

20 Loans and advances to customers (continued)

Bank

	31 December	
	2009	2008
Loans to corporate entities		
– Corporate loans	675,154	475,176
– Discounted bills	35,174	63,917
– Others	7,794	10,673
Subtotal	718,122	549,766
Loans to individuals		
– Mortgage loans	99,615	87,397
– Shang Dai Tong*	44,809	6,637
– Credit Cards	14,266	12,727
– Others	4,706	1,801
Subtotal	163,396	108,562
Loan and advances to customers, gross	881,518	658,328
Less: allowance for impairment losses		
– Individually assessed	(4,378)	(3,990)
– Collectively assessed	(10,848)	(7,895)
	(15,226)	(11,885)
Loan and advances to customers, net	866,292	646,443

* Shang Dai Tong is a line of loan products specifically designed for owners of individual businesses, small business and micro-enterprises.

There was no loans to corporate customers and discounted bills pledged as collateral under repurchase agreements with banks and other financial institutions as at 31 December 2009 (2008: Rmb5.45 billion). Please refer to Note 36 for detailed information.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

20 Loans and advances to customers (continued)

(1) Analysis of loans and advances to customers by collective and individual assessment

Group	Identified impaired loans and advances					Total
	Loans and advances for which allowance is collectively assessed	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal		
31 December 2009						
Gross loans and advances						
– Loans to corporate entities	712,561	258	6,280	6,538	719,099	
– Loans to individuals	163,021	859	–	859	163,880	
Allowance for impairment losses	(10,099)	(764)	(4,378)	(5,142)	(15,241)	
Loans and advances to customers, net	865,483	353	1,902	2,255	867,738	
Group						
31 December 2008						
Gross loans and advances						
– Loans to corporate entities	542,534	535	6,720	7,255	549,789	
– Loans to individuals	107,905	666	–	666	108,571	
Allowance for impairment losses	(7,186)	(709)	(3,990)	(4,699)	(11,885)	
Loans and advances to customers, net	643,253	492	2,730	3,222	646,475	

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

20 Loans and advances to customers (continued)

(1) Analysis of loans and advances to customers by collective and individual assessment (continued)

	Bank	Identified impaired loans and advances				
		Loans and advances for which allowance is collectively assessed	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total
Bank						
31 December 2009						
Gross loans and advances						
– Loans to corporate entities	711,584	258	6,280	6,538	718,122	
– Loans to individuals	162,537	859	–	859	163,396	
Allowance for impairment losses	(10,084)	(764)	(4,378)	(5,142)	(15,226)	
Loans and advances to customers, net	864,037	353	1,902	2,255	866,292	
Bank						
31 December 2008						
Gross loans and advances						
– Loans to corporate entities	542,511	535	6,720	7,255	549,766	
– Loans to individuals	107,896	666	–	666	108,562	
Allowance for impairment losses	(7,186)	(709)	(3,990)	(4,699)	(11,885)	
Loans and advances to customers, net	643,221	492	2,730	3,222	646,443	

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

20 Loans and advances to customers (continued)

(2) Loans to corporations by industries

Group

	31 December 2009		31 December 2008	
	Amount	(%)	Amount	(%)
Manufacturing	121,940	18	103,132	18
Real estate	103,713	14	90,158	15
Leasing and commercial services	94,644	13	51,045	9
Transportation, warehousing and postal service	75,137	10	69,840	13
Water conservancy, environment and public utilities management	60,967	8	40,262	7
Production and supply of electronic power, gas and water	48,515	7	46,761	9
Mining	41,680	6	28,601	5
Financial services	37,835	5	25,135	5
Public administration and social organizations	36,051	5	13,942	3
Wholesale and retail	35,772	5	25,811	5
Construction	26,144	4	25,307	5
Education and community services	22,125	3	14,290	3
Information transmission, IT service and software industry	3,816	1	4,960	1
Others	10,760	1	10,545	2
Total	719,099	100	549,789	100

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

20 Loans and advances to customers (continued)

(2) Loans to corporations by industries (continued)

Bank

	31 December 2009		31 December 2008	
	Amount	(%)	Amount	(%)
Manufacturing	121,706	18	103,129	18
Real estate	103,714	14	90,150	15
Leasing and commercial services	94,634	13	51,045	9
Transportation, warehousing and postal service	75,129	10	69,840	13
Water conservancy, environment and public utilities management	60,967	8	40,261	7
Production and supply of electronic power, gas and water	48,510	7	46,761	9
Mining	41,680	6	28,601	5
Financial services	37,835	5	25,127	5
Public administration and social organizations	36,043	5	13,942	3
Wholesale and retail	35,297	5	25,811	5
Construction	26,071	4	25,307	5
Education and community services	22,020	3	14,290	3
Information transmission, IT service and software industry	3,811	1	4,960	1
Others	10,705	1	10,542	2
Total	718,122	100	549,766	100

(3) Loans and advances analyzed by guarantee type is as follows:

	31 December			
	2009		2008	
	Amount	(%)	Amount	(%)
Unsecured loans	254,221	28.79	173,421	26.34
Guaranteed loans	222,009	25.14	150,383	22.84
Secured loan				
— Collateralized loans	306,658	34.73	220,754	33.53
— Pledged loans	100,091	11.34	113,802	17.29
Total	882,979	100	658,360	100

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

20 Loans and advances to customers (continued)

(4) Movement of allowance for impairment losses:

	Loans to corporate entities			Loans to individual
	Individual assessment	Collective assessment	Collective assessment	Total
Group				
Balance at 1 January 2009	3,990	6,613	1,282	11,885
New allowances	1,227	2,641	998	4,866
Releases	(74)	—	—	(74)
Reclassification	179	(179)	—	—
Amounts written off and exempted during the period as uncollectible	(853)	(51)	(441)	(1,345)
Unwinding of discount on allowance	(178)	—	—	(178)
Recovery after write-off	87	—	—	87
Balance at 31 December 2009	4,378	9,024	1,839	15,241
Bank				
Balance at 1 January 2009	3,990	6,613	1,282	11,885
New allowances	1,227	2,631	993	4,851
Releases	(74)	—	—	(74)
Reclassification	179	(179)	—	—
Amounts written off and exempted during the period as uncollectible	(853)	(51)	(441)	(1,345)
Unwinding of discount on allowance	(178)	—	—	(178)
Recovery after write-off	87	—	—	87
Balance at 31 December 2009	4,378	9,014	1,834	15,226
Group and Bank				
Balance at 1 January 2008	3,494	3,250	919	7,663
New allowances	1,802	3,481	489	5,772
Releases	(86)	—	—	(86)
Reclassification	95	(95)	—	—
Amounts written off and exempted during the period as uncollectible	(1,200)	(16)	(124)	(1,340)
Unwinding of discount on allowance	(164)	—	—	(164)
Recovery after write-off	56	—	—	56
Exchange differences	(7)	(7)	(2)	(16)
Balance at 31 December 2008	3,990	6,613	1,282	11,885

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

21 Investment securities

Group

	31 December	
	2009	2008
Available-for-sale securities	49,035	53,597
Held-to-maturity securities	57,142	38,716
Loans and receivables	45,567	37,066
	151,744	129,379
Analyzed as follows:		
– Listed in Hong Kong	2,654	2,708
– Listed outside Hong Kong	101,983	84,788
– Unlisted	47,107	41,883
	151,744	129,379

Bank

	31 December	
	2009	2008
Available-for-sale securities	49,035	53,597
Held-to-maturity securities	57,102	38,716
Loans and receivables	45,567	37,066
	151,704	129,379
Analyzed as follows:		
– Listed in Hong Kong	2,654	2,708
– Listed outside Hong Kong	101,983	84,788
– Unlisted	47,067	41,883
	151,704	129,379

Investment securities pledged as collateral under agreements signed with banks and other financial institutions as at 31 December 2009 amounted to Rmb3.26 billion (2008: Rmb3.30 billion). Such agreements interest rate swap contracts and negotiated deposits. Please refer to Note 36 for detailed information.

The Group did not make any reclassification of investment securities as at 31 December 2009 and as at 31 December 2008.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

21 Investment securities (continued)

(1) Available-for-sale securities Group and Bank

	31 December	
	2009	2008
Debt securities at fair value		
Government and quasi-government bonds		
— listed in Hong Kong	2,512	2,467
— listed outside Hong Kong	27,163	34,770
— unlisted	790	1,333
Financial institutions bonds		
— listed in Hong Kong	72	68
— listed outside Hong Kong	640	737
— unlisted	286	2,422
Corporate bonds		
— listed outside Hong Kong	17,447	7,948
— unlisted	—	91
	48,910	49,836
Equity securities at fair value		
Financial institutions securities		
— listed outside Hong Kong	—	3,633
— unlisted	125	125
Corporate securities		
— listed outside Hong Kong	—	3
	125	3,761
	49,035	53,597

The Group's fair value changes relating to impaired available-for-sale securities, which have been charged to the consolidated income statement. The Group's impaired available-for-sale assets' book value amounted to Rmb983 million as at 31 December 2009 (2008: Rmb1,104 million). Impairment loss amounted to Rmb955 million (2008: Rmb599 million).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

21 Investment securities (continued)

(2) Held-to-maturity securities

Group

	31 December	
	2009	2008
Government and quasi-government bonds		
— listed in Hong Kong	70	173
— listed outside Hong Kong	50,969	37,228
— unlisted	—	7
Financial institutions bonds		
— listed outside Hong Kong	364	478
— unlisted	339	884
Corporate bonds		
— listed outside Hong Kong	5,400	—
Gross	57,142	38,770
Less: allowance for impairment losses — individually assessed	—	(54)
Net	57,142	38,716
Fair value of listed securities	56,782	39,174

Bank

	31 December	
	2009	2008
Government and quasi-government bonds		
— listed in Hong Kong	70	173
— listed outside Hong Kong	50,969	37,228
— unlisted	—	7
Financial institutions bonds		
— listed outside Hong Kong	364	478
— unlisted	299	884
Corporate bonds		
— listed outside Hong Kong	5,400	—
Gross	57,102	38,770
Less: allowance for impairment losses — individually assessed	—	(54)
Net	57,102	38,716
Fair value of listed securities	56,782	39,174

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

21 Investment securities (continued)

(2) Held-to-maturity securities (continued)

Movement of allowance for impairment losses are as follows:

	Year ended 31 December	
	2009	2008
Opening balance	54	—
New allowances	—	54
Recovery after write-off	(54)	—
Ending balance	—	54

(3) Loans and receivables

Group and Bank

	31 December	
	2009	2008
Government and quasi-government bonds	30,718	20,792
Financial institution bonds	9,687	7,890
Financial institutions entrust products	5,162	8,384
Total	45,567	37,066

The Group purchased financial institutions products from other banks. These products are project loans arranged through underlying trust agencies.

All of above loans and receivables are unlisted.

22 Finance lease receivables

	31 December	
	2009	2008
Finance lease receivables	19,383	5,991
Less: unearned finance income	(2,276)	(681)
	17,107	5,310
Less: allowance for impairment losses — collectively assessed	(233)	(57)
Net	16,874	5,253

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

22 Finance lease receivables (continued)

Movement of allowance for impairment losses of finance lease receivables are as follows:

	Year ended 31 December	
	2009	2008
Opening balance	57	—
New allowances	176	57
Ending balance	233	57
	31 December	
	2009	2008
Gross investment in finance leases, receivable:		
– Not later than 1 year	4,900	1,513
– Later than 1 year and not later than 5 years	13,460	4,478
– Later than 5 years	1,023	—
	19,383	5,991
Unearned finance income on finance leases	(2,276)	(681)
Present value of minimum lease payments, receivable	17,107	5,310
The present value of minimum lease payments may be analysed as follows:		
– Not later than 1 year	4,266	1,327
– Later than 1 year and not later than 5 years	11,950	3,983
– Later than 5 years	891	—
	17,107	5,310

Finance lease receivables pledged as collateral under repurchase and borrowings agreements with banks and other financial institutions as at 31 December 2009 amounted to Rmb5.03 billion (2008: Rmb1.47 billion). Please refer to Note 36 for detailed information.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

23 Property and equipment

	Buildings	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
Group						
31 December 2009						
Original cost	3,923	1,622	2,835	222	2,921	11,523
Accumulated depreciation	(609)	(994)	(1,716)	(136)	—	(3,455)
Net value	3,314	628	1,119	86	2,921	8,068
Group						
31 December 2008						
Original cost	3,472	1,262	2,408	200	2,518	9,860
Accumulated depreciation	(490)	(785)	(1,502)	(110)	—	(2,887)
Net value	2,982	477	906	90	2,518	6,973
Bank						
31 December 2009						
Original cost	3,916	1,606	2,812	218	2,921	11,473
Accumulated depreciation	(608)	(990)	(1,712)	(135)	—	(3,445)
Net value	3,308	616	1,100	83	2,921	8,028
Bank						
31 December 2008						
Original cost	3,465	1,262	2,393	196	2,518	9,834
Accumulated depreciation	(490)	(785)	(1,501)	(109)	—	(2,885)
Net value	2,975	477	892	87	2,518	6,949

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

23 Property and equipment (continued)

	Leasehold Buildings	improvements	Office equipment	Motor vehicles	Construction in progress	Total
Group						
Net book value of balance at January 1, 2009	2,982	477	906	90	2,518	6,973
Additions	89	361	514	26	776	1,766
Transfer in/(out)	373	—	—	—	(373)	—
Disposals	(11)	(1)	(87)	(4)	—	(103)
Depreciation charge	(119)	(209)	(214)	(26)	—	(568)
Net book value of balance at 31 December 2009	3,314	628	1,119	86	2,921	8,068
Group						
Net book value of balance at 31 December 2008	2,982	477	906	90	2,518	6,973
	Leasehold Buildings	improvements	Office equipment	Motor vehicles	Construction in progress	Total
Bank						
Net book value of balance at January 1, 2009	2,975	477	892	87	2,518	6,949
Additions	89	345	506	26	776	1,742
Transfer in/(out)	373	—	—	—	(373)	—
Disposals	(11)	(1)	(87)	(4)	—	(103)
Depreciation charge	(118)	(205)	(211)	(26)	—	(560)
Net book value of balance at 31 December 2009	3,308	616	1,100	83	2,921	8,028
Bank						
Net book value of balance at 31 December 2008	2,975	477	892	87	2,518	6,949

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

23 Property and equipment (continued)

The carrying value of buildings and leasehold improvements is analyzed based on the remaining terms of the leases as follows:

Group

	31 December	
	2009	2008
Held outside Hong Kong		
on long-term lease (over 50 years)	159	121
on medium-term lease (10–50 years)	3,163	3,332
on short-term lease (less than 10 years)	620	6
	3,942	3,459

Bank

	31 December	
	2009	2008
Held outside Hong Kong		
on long-term lease (over 50 years)	159	121
on medium-term lease (10–50 years)	3,145	3,325
on short-term lease (less than 10 years)	620	6
	3,924	3,452

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

24 Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Deferred income tax is provided in full, using the liability method, on all temporary differences.

The movement on the deferred income tax account is as follows:

Group

	Year ended 31 December	
	2009	2008
Opening balance	1,079	(1,306)
Recognized in the income statement	1,047	1,215
Tax charged directly to equity	1,055	1,170
Ending balance	3,181	1,079

Bank

	Year ended 31 December	
	2009	2008
Opening balance	1,078	(1,306)
Recognized in the income statement	1,033	1,214
Tax charged directly to equity	1,055	1,170
Ending balance	3,166	1,078

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

24 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Assets impairment allowance	Fair value losses	Others	Total
Group				
At 1 January 2009	2,062	343	125	2,530
Charged to the consolidated income statement	866	(208)	191	849
Charged directly to equity	—	83	—	83
At 31 December 2009	2,928	218	316	3,462
Group				
At 1 January 2008	930	626	52	1,608
Charged to the consolidated income statement	1,132	(53)	73	1,152
Charged directly to equity	—	(230)	—	(230)
At 31 December 2008	2,062	343	125	2,530
Bank				
At 1 January 2009	2,061	343	125	2,529
Charged to the income statement	852	(208)	191	835
Charged directly to equity	—	83	—	83
At 31 December 2009	2,913	218	316	3,447
Bank				
At 1 January 2008	930	626	52	1,608
Charged to the income statement	1,131	(53)	73	1,151
Charged directly to equity	—	(230)	—	(230)
At 31 December 2008	2,061	343	125	2,529

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

24 Deferred income taxes (continued)

Deferred income tax liabilities

	Fair value gains	Others	Total
Group			
At 1 January 2009	(1,451)	—	(1,451)
Charged to the consolidated income statement	198	—	198
Charged directly to equity	972	—	972
At 31 December 2009	(281)	—	(281)
Group			
At 1 January 2008	(2,854)	(60)	(2,914)
Charged to the consolidated income statement	3	60	63
Charged directly to equity	1,400	—	1,400
At 31 December 2008	(1,451)	—	(1,451)
Bank			
At 1 January 2009	(1,451)	—	(1,451)
Charged to the income statement	198	—	198
Charged directly to equity	972	—	972
At 31 December 2009	(281)	—	(281)
Bank			
At 1 January 2008	(2,854)	(60)	(2,914)
Charged to the income statement	3	60	63
Charged directly to equity	1,400	—	1,400
At 31 December 2008	(1,451)	—	(1,451)

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

25 Investment in subsidiaries

	31 December	
	2009	2008
Minsheng Financial Leasing Co., Ltd. ("Minsheng Leasing")	2,600	2,600
Minsheng Royal Fund Management Co., Ltd. ("Minsheng Royal Fund Management")	120	120
Cixi Minsheng Township Bank Co., Ltd. ("Cixi Minsheng Township Bank")	35	35
Pengzhou Minsheng Township Bank Co., Ltd. ("Pengzhou Minsheng Township Bank")	20	20
Shanghai Songjiang Minsheng Township Bank Co., Ltd. ("Songjiang Minsheng Township Bank")	35	—
	2,810	2,775

Name	Date of incorporation	Place of incorporation and operation	Principal activities	Registered capital	Nature of legal entity	Interest held
Minsheng Leasing	2 April 2008	Tianjin China	Leasing	3,200	Limited company	81.25%
Minsheng Royal Fund Management	3 November 2008	Guangdong China	Fund management	200	Limited company	60%
Cixi Minsheng Township Bank	30 December 2008	Ningbo China	Commercial bank	100	Limited company	35%*
Pengzhou Minsheng Township Bank	12 September 2008	Sichuan China	Commercial bank	55	Limited company	36.36%*
Songjiang Minsheng Township Bank	29 December 2009	Shanghai China	Commercial bank	100	Limited company	35%*

All interests in subsidiaries are directly held.

* The Bank owns the majority of the voting rights in the board of directors of these companies, which enables the Bank to govern their financial and operating policies. These companies are treated as subsidiaries and are included in the consolidated financial statements.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

26 Other assets

Group

	31 December	
	2009	2008
Interest receivable	4,234	3,402
Prepayments for leasing assets	5,271	1,622
Other prepayments	958	893
Repossessed assets	957	945
Deferred assets	103	133
Others	870	531
	12,393	7,526

Bank

	31 December	
	2009	2008
Interest receivable	4,227	3,399
Prepayments	958	893
Repossessed assets	957	945
Deferred assets	68	121
Others	800	516
	7,010	5,874

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

27 Deposits from customers

Group

	31 December	
	2009	2008
Demand deposits		
– Corporate deposits	497,422	295,597
– Individual deposits	50,894	33,599
Time deposits (including notice deposits)		
– Corporate deposits	435,146	352,275
– Individual deposits	143,210	102,669
Other deposits	1,266	1,646
Total	1,127,938	785,786
The security and margin deposits are analyzed as follows:		
Security deposits for bank acceptances	86,293	90,416
Security deposits for letters of credit and letters of guarantee issued	6,865	8,480
Other security deposits	13,507	10,052
Total	106,665	108,948

Bank

	31 December	
	2009	2008
Demand deposits		
– Corporate deposits	495,457	295,656
– Individual deposits	50,794	33,582
Time deposits (including notice deposits)		
– Corporate deposits	434,941	352,275
– Individual deposits	142,932	102,655
Other deposits	1,266	1,646
Total	1,125,390	785,814
The security and margin deposits are analyzed as follows:		
Security deposits for bank acceptances	86,194	90,416
Security deposits for letters of credit and letters of guarantee issued	6,865	8,480
Other security deposits	13,490	10,052
Total	106,549	108,948

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

28 Due to and placements from banks and other financial institutions

Group

	31 December	
	2009	2008
Due to and placements from banks and other financial institutions		
– Due to banks	86,025	95,084
– Due to other financial institutions	66,292	65,164
Total	152,317	160,248

Bank

	31 December	
	2009	2008
Due to and placements from banks and other financial institutions		
– Due to banks	82,884	94,601
– Due to other financial institutions	66,498	65,352
Total	149,382	159,953

Included in due to and placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements categorized as follows:

Group

	31 December	
	2009	2008
Repurchase of:		
Discounted bills	—	5,231
Debt securities	2,000	2,000
Loans and advances to customers	—	214
Finance lease receivables	4,347	567
Total	6,347	8,012

Bank

	31 December	
	2009	2008
Repurchase of:		
Discounted bills	—	5,231
Debt securities	2,000	2,000
Loans and advances to customers	—	214
Total	2,000	7,445

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

29 Debt securities in issue

Group and Bank

	31 December	
	2009	2008
Financial bonds ⁽¹⁾	12,175	22,459
Subordinated bonds ⁽²⁾	1,401	7,252
Hybrid capital bonds ⁽³⁾	9,484	4,288
	23,060	33,999

(1) Financial bonds

Group and Bank

	31 December	
	2009	2008
2006 Rmb10 billion Financial Bonds with fixed interest — 3 years ⁽ⁱ⁾	—	10,173
2007 Rmb6 billion Financial Bonds with floating interest 3 years ⁽ⁱⁱ⁾	6,088	6,142
2007 Rmb6 billion Financial Bonds with floating interest — 5 years ⁽ⁱⁱ⁾	6,087	6,144
	12,175	22,459

Pursuant to the CBRC and the PBOC's approval, the bank issued the following financial bonds:

- (i) The 3-year 2006 financial bonds have a face value of Rmb10 billion and a fixed interest rate of 2.88% and payable annually. On 22 May 2009, the Bank repaid the financial bonds at face value.
- (ii) The 3-year 2007 financial bonds have a face value of Rmb6 billion and a floating rate that is based on the one-year PBOC time deposit rate published on the interest accrual date plus 61 bps. The 5-year floating rate financial bonds have a face value of Rmb6 billion and a floating rate based on the one-year PBOC time deposit rate published on the interest accrual date plus 76 bps. All interest is payable annually.

There were no defaults of principal and interest or other breaches with respect to these bonds. None of these bonds are secured.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

29 Debt securities in issue (continued)

(2) Subordinated bonds

Group and Bank

	31 December	
	2009	2008
2004 Rmb4.315 billion Subordinated Bonds with fixed rate — 10 years ⁽ⁱ⁾	—	4,351
2004 Rmb1.485 billion Subordinated Bonds with floating rate — 10 years ⁽ⁱⁱ⁾	—	1,500
2005 Rmb1.4 billion Subordinated Bonds with fixed rate — 10 years ⁽ⁱⁱⁱ⁾	1,401	1,401
	1,401	7,252

Pursuant to relevant approvals from the PBOC and the CBRC, the Bank issued the following subordinated bonds:

- (i) The fixed-rate subordinated bonds issued in 2004 have a maturity of 10 years, with a face value of Rmb4.315 billion, and a fixed coupon rate of 5.1% per annum from the first year to the fifth year. The interest rate will increase to 8.1% from the sixth year.
- (ii) The floating-rate subordinated bonds issued in 2004 have a maturity of 10 years, with a face value of Rmb1.485 billion, and a floating rate that is based on the one-year PBOC time deposit rate published plus a spread of 2.4% per annum for the first five years, and payable annually. From the sixth year, the spread will increase to 2.9% per annum.
- (iii) The fixed-rate subordinated bonds issued in 2005 have a maturity of 10 years, with a face value of Rmb1.4 billion, and a fixed coupon rate of 3.68% per annum and payable annually. From the sixth year, the interest rate will increase to 6.68% per annum.

According to the terms, the Bank has the option to redeem all the bonds described above at face value on the last day of the fifth year. On 2 November 2009, the Bank redeemed all the subordinated bonds issued in 2004 at face value.

These bonds are subordinated to all other claims on the assets of the Bank, except those of the hybrid capital bond holders and shareholders. According to relevant regulation, these bonds qualify for inclusion as supplementary capital in the calculation of the Bank's capital adequacy ratio.

There were no defaults of principal and interest or other breaches with respect to these bonds. None of these bonds are secured.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

29 Debt securities in issue (continued)

(3) Hybrid capital bonds

Group and Bank

	31 December		
	2009	2008	
2006 Rmb3.3 billion Hybrid Capital Bonds with fixed rate — 15 years ⁽ⁱ⁾	3,291	3,291	
2006 CMBC Hybrid 1 billion Capital Bonds with floating rate — 15 years ⁽ⁱⁱ⁾	997	997	
2009 Rmb3.325 billion Hybrid Capital Bonds with fixed rate — 15 years ⁽ⁱⁱⁱ⁾	3,459	—	
2009 Rmb Hybrid 1.675 billion Capital Bonds with floating rate — 15 years ^(iv)	1,737	—	
	9,484	4,288	

Pursuant to relevant approvals from the PBOC and the CBRC, the Bank issued the following hybrid capital bonds:

- (i) The fixed-rate hybrid capital bonds issued on 28 December 2006 have a maturity of 15 years, with a face value of Rmb3.3 billion, and a fixed coupon rate of 5.05% per annum from year 1 to 10, payable annually. For the last 5 years, the annual coupon rate will be 8.05%.
- (ii) The floating-rate hybrid capital bonds issued in 2006 have a maturity of 15 years, with a face value of 1 billion, and a floating rate that is based on the one-year PBOC time deposit rate published plus a spread of 2% per annum for the first 10 years, payable annually. From the eleventh year, the original spread will increase to 3% per annum.
- (iii) The fixed-rate hybrid capital bonds issued on 25 March 2009 have a maturity of 15 years, with a face value of Rmb3.325 billion, and a fixed coupon rate of 5.70% per annum from year 1 to 10, payable annually. For the last 5 years, the annual coupon rate will be 8.70%.
- (iv) The floating-rate hybrid capital bonds issued in 2009 have a maturity of 15 years, with a face value of 1.675 billion, and a floating rate that is based on the one-year PBOC time deposit rate published plus a spread of 3% per annum for the first 10 years, payable annually. From the eleventh year, the original spread will increase to 5% per annum.

According to the terms, the Bank has the option to redeem all or part of the bonds described above at face value at the last day of the tenth year.

The holders of the hybrid capital bonds are subordinated to holders of long-term subordinated bonds, but have priority over shareholders. All holders of hybrid capital bonds enjoy the same priority of claim. According to the terms, the Bank has the option to defer interest payment if the core capital adequacy ratio is below 4% using audited financial report of latest period. If the sum of statutory reserve plus retained earnings is negative in the audited statement of financial position of latest period and no cash dividends have been paid in the last 12 months, the Bank must defer interest payment.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

29 Debt securities in issue (continued)

(3) Hybrid capital bonds (continued)

According to relevant regulation, these bonds qualify for inclusion as supplementary capital in the calculation of the Bank's capital adequacy ratio.

There were no defaults of principal and interest or other breaches with respect to these bonds. None of these bonds are secured.

30 Other liabilities

Group

	31 December	
	2009	2008
Interest payable	5,931	6,999
Payroll and welfare payable	2,009	972
Guarantee deposits for finance lease	1,146	360
Other tax payable	1,112	1,274
Items in the process of clearance and settlement	1,047	1,678
Deferred fee and commission income	1,043	877
Others	2,099	1,408
	14,387	13,568

Bank

	31 December	
	2009	2008
Interest payable	5,827	6,953
Payroll and welfare payable	1,981	972
Other tax payable	1,105	1,274
Items in the process of clearance and settlement	1,047	1,678
Deferred fee and commission income	1,043	877
Others	1,460	1,330
	12,463	13,084

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

31 Share capital and capital reserve

The total number of authorized ordinary shares is 22.26 billion shares as at 31 December 2009 with a par value of Rmb1 yuan per share, among which 0.29 billion shares was restricted on sale (2008: 18.82 billion shares, among which 0.93 billion shares were restricted on sale). All issued shares are fully paid.

The Group's capital reserve is Rmb38.08 billion as at 31 December 2009, which mainly comprises capital premium (2008: Rmb14.77 billion).

In 2009, 3.439 billion shares were issued with a par value of Rmb1 yuan per share, with share premium of Rmb23.31 billion after deduction of issuing cost, through offerings related to listings on the Stock Exchange of Hong Kong Limited.

All dividends or distributions declared, paid or made in respect of the A Shares and H Shares will rank pari passu with each other.

32 Surplus reserve, general reserve and retained earnings

(1) Surplus reserve

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit, as determined under PRC GAAP, to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of statutory surplus reserve after such capitalization is not less than 25% of the share capital.

The Bank appropriated Rmb1.20 billion for the year ended 31 December 2009 (2008: Rmb0.78 billion).

(2) General reserve

Pursuant to circulars issued by MOF in 2005, the Bank is required to establish and maintain a general reserve within equity, through the appropriation of income to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy. Effective from 1 July 2005, the general reserve should be provided in full within three years. In no case could the transitional period exceed five years.

The Bank appropriated Rmb2.9 billion to the general reserve for the year ended 31 December 2009 (2008: Rmb2.2 billion).

Pursuant to circulars issued by MOF in 2007, Minsheng Leasing attributed 1% of its net profits to general reserve, Minsheng Royal Fund Management attributed 10% of its monthly fee income from securities investment fund management based on circulars issued by CSRC in 2006, and Minsheng three village banks attributed 1% of the aggregate amount of risk assets defined by MOF. In total the subsidiaries contributed Rmb3.64 million to general reserve for the year ended 31 December 2009, including Rmb2.50 million attributable to the Bank (2008: Minsheng Leasing contributed Rmb0.78 million, or 1% of its net profits to general reserve, including Rmb0.63 million attributable to the Bank).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

32 Surplus reserve, general reserve and retained earnings (continued)

(3) Retained earnings

As at 31 December 2009, the retained earnings contained statutory surplus reserve of 19 million contributed by subsidiaries (31 December 2008: Rmb6 million), Rmb13 million of which are the appropriation made by subsidiaries for the year ended 31 December 2009 (2008: Rmb6 million). The retained earnings contained statutory surplus reserve contributed by subsidiaries can not be further distributed.

33 Dividends

In respect of 2009, share dividends of 4,453 million and cash dividends of Rmb1,113 million (0.05 per share and before tax) have been approved. (2008: Cash dividends of Rmb1,506 million, 0.08 per share and before tax).

	Year ended 31 December	
	2009	2008
Dividends payable to equity holders of the Bank attributable to the year		
Proposed final dividend	5,566	1,506
Dividends payable to equity holders of the Bank attributable to the previous financial year, approved and paid during the year		
Final dividend paid	1,506	3,620

34 Reserve for fair value changes of available-for-sale securities

Group and Bank

	Year ended 31 December	
	2009	2008
Opening balance	3,296	6,780
Change of fair value of available-for-sale securities	310	(5,306)
Less: deferred income tax	(77)	1,333
Transfer to profit or loss upon disposal	(4,911)	53
Less: deferred income tax	1,221	(13)
Impairment losses on available-for-sale	356	599
Less: deferred income tax	(89)	(150)
Ending balance	106	3,296

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

35 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consists of the following:

Group	31 December	
	2009	2008
Cash (Note 15)	4,464	2,900
Unrestricted balance with central banks (Note 16)	98,980	97,421
Original maturity within 3 months:		
– Due from banks and other financial institutions	56,964	11,781
– Government and quasi-government bonds	1,342	200
	161,750	112,302

36 Contingent liabilities and commitments

(1) Credit commitments

Group	31 December	
	2009	2008
Acceptances	216,657	145,005
Letters of guarantee	45,593	49,029
Unused credit card limits	28,466	28,140
Letters of credit	15,094	8,250
Irrevocable loan commitments	5,422	6,000
Finance lease commitments	1,841	475
	313,073	236,899
Credit risk weighted amounts of credit commitments	137,757	128,820

Bank	31 December	
	2009	2008
Acceptances	216,555	145,005
Letters of guarantee	45,593	49,029
Unused credit card limits	28,466	28,140
Letters of credit	15,094	8,250
Irrevocable loan commitments	5,422	6,000
	311,130	236,424
Credit risk weighted amounts of credit commitments	137,752	128,345

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

36 Contingent liabilities and commitments (continued)

(1) Credit commitments (continued)

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the credit worthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

(2) Capital commitments

Group

	31 December	
	2009	2008
Property and equipment		
— Contracted but not provided for	256	755
— Authorized but not contracted for	—	118
Equity investment		
— Contracted but not provided for	—	2,340
— Authorized but not contracted for	—	—
	256	3,213

Bank

	31 December	
	2009	2008
Property and equipment		
— Contracted but not provided for	256	214
— Authorized but not contracted for	—	118
Equity investment		
— Contracted but not provided for	—	2,340
— Authorized but not contracted for	—	—
	256	2,672

The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

36 Contingent liabilities and commitments (continued)

(3) Operating lease commitments

Future minimum lease payments on operating leases are summarized as follows:

Group

	31 December	
	2009	2008
Less than 1 year	875	625
1 to 5 years	2,557	1,610
Later than 5 years	852	379
	4,284	2,614

Bank

	31 December	
	2009	2008
Less than 1 year	867	617
1 to 5 years	2,537	1,584
Later than 5 years	852	378
	4,256	2,579

(4) Assets pledged

Group

	31 December	
	2009	2008
Loans to corporate customers and discounted bills (Note 20)	—	5,445
Trading financial assets (Note 17)	2,025	2,047
Investment securities (Note 21)	3,257	3,305
Finance lease receivables (Note 22)	5,033	1,470
	10,315	12,267

Bank

	31 December	
	2009	2008
Loans to corporate customers and discounted bills (Note 20)	—	5,445
Trading financial assets (Note 17)	2,025	2,047
Investment securities (Note 21)	3,257	3,305
	5,282	10,797

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

36 Contingent liabilities and commitments (continued)

(4) Assets pledged (continued)

Assets are pledged as collateral under repurchase agreements with banks and other financial institutions, derivative contracts, letters of guarantee issued, negotiated deposits taken and borrowings agreements with banks and other financial institutions.

Mandatory reserve deposits are also held with the PBOC in accordance with statutory requirements (Note 16). These deposits are not available to finance the Group's day-to-day operations.

The pledged bills accepted by the Group and Bank in relation to resale agreement can be sold and re-pledged. The fair values of such accepted pledged assets were Rmb46.86 billion as at 31 December 2009 (2008: Rmb23.46 billion). Furthermore, there is no pledged assets sold by the Bank but with the obligation to return such pledged assets at the expiration at 31 December 2009 (2008: Rmb3.11 billion).

(5) Security underwriting

Group and Bank

	31 December	
	2009	2008
Medium- and short-term financing bills	11,850	2,900

(6) Certificate Treasury Bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have the option to redeem the bonds at par any time prior to maturity, and the Bank is committed to repurchase those bonds at the redemption price. The redemption price is the par value of the Certificate Treasury Bonds plus unpaid interest in accordance with the early redemption arrangement. The principal of the bonds amounted to Rmb4.35 billion as at 31 December 2009 (2008: Rmb3.71 billion). The original maturities of these bonds vary from 1 to 5 years. As the deposit base rate established by PBOC is currently lower than the yields on all issue of Certificate Treasury Bonds, management expects the amount of redemption before the maturity dates of those bonds will not be material.

(7) Legal proceedings

There were a number of outstanding litigation matters against the Group at 31 December 2008 and 2009. After considering professional advice received, the Group's management believes such litigation will not cause significant losses to the Group.

37 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any income or losses arising thereon are excluded from these financial statements, as they are not the assets of the Group.

The Group's balances of fund custodian operations were Rmb23.32 billion as at 31 December 2009 (2008: Rmb15.85 billion). The Group's balances of pension were Rmb1.50 billion as at 31 December 2009 (2008: Rmb0.84 billion). The Group's balances of credit assets management operations were Rmb16.37 billion as at 31 December 2009 (2008: Rmb1.23 billion). And the Group's balances of entrusted loans were Rmb33.01 billion as at 31 December 2009 (2008: Rmb25.22 billion).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

38 Related party transactions

Related parties of the Group refer to entities controlled or, jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, joint control or significant influence of another party. Related parties can be individuals or enterprises. Related parties that have significant influence on the Group include: companies controlled or significantly influenced by members of the Board of Directors and the Board of Supervisors, senior management or their related persons, the subsidiaries of these companies, and major shareholders with the power to influence the operating decision-making or financial policies of the Group.

There was no shareholders holding more than 5 percent (include 5%) stock as at 31 December 2009 (As at 31 December 2008: New Hope Investment Co., Ltd. and China Life Insurance Co., Ltd. held more than 5 percent (include 5%) stock).

The terms of transactions with related parties were in accordance with the terms of the underlying agreements arranged in the ordinary course of the Group's business.

(1) Loans granted to related parties

	Year ended 31 December	
	2009	2008
Opening balance	1,814	1,653
Transfer in	3	—
Loans granted during the year	3,293	920
Loan repayments/transfers during the year	(2,529)	(759)
Ending balance	2,581	1,814
Interest income earned	102	99

There is no impaired loan identified among the above related party loans as at 31 December 2009 and 31 December 2008.

Guaranteed loans which amounted to Rmb1.29 billion as at 31 December 2009, unsecured loans which amounted to Rmb0.07 billion as at 31 December 2009 and collateralized loans amounted to Rmb1.23 billion as at 31 December 2009 were included in the above loans to related parties. (2008: Guaranteed loans amounted to Rmb1.18 billion and collateralized loans amounted to Rmb0.63 billion).

The interest rates ranges of loans granted to related parties are 2.48%–5.84% for year ended 31 December 2009 (2008: 5.20%–6.14%).

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

38 Related party transactions (continued)

(2) Deposits taken from related parties

	Year ended 31 December	
	2009	2008
Opening balance	19,908	2,544
Transfer out	(18,445)	—
Transfer in	27,318	—
Deposits repaid during the year	(155,257)	108,215
Deposits taken during the year	146,486	(90,851)
Ending balance	20,010	19,908

The interest expense incurred on the related parties' deposits were not material for the years ended 31 December 2009 and 2008.

(3) In addition to the above loans granted to related parties:

	31 December	
	2009	2008
Due to and placements from banks and other financial institutions	2,812	1,263
Loans guaranteed by related parties	1,615	1,106
Loan purchased under resale agreement by related parties	280	—
Acceptance issued for related parties	240	464
Advances received from related parties	122	—
Investment securities issued by related parties	61	—
Related-party bills discounted by the Group	32	2
Bills purchased under resale agreement by related parties	10	100

All the above related parties transactions do not have a significant impact on the consolidated income statement or consolidated statement of financial position.

(4) Services provided by related parties

The Bank and Minsheng Life Insurance Company signed a rental contract that the Bank would take Minsheng Life Tower as office space and pay rent, property fees etc. on time.

The Bank commissioned China Life Pension Company Limited to take the responsibilities of investment and operational management for corporate pension plans.

Notes to the Financial Statements

(All amounts in Rmb millions unless otherwise stated)

38 Related party transactions (continued)

(5) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including directors, Supervisors and executive officers.

The Group enters into banking transactions with directors and key management personnel in the ordinary course of business. These include loans and deposits, which are carried out at rates in accordance with the terms of the underlying agreements. Loans outstanding to the key management amounted to Rmb3 million as at 31 December 2009, which have been included in the above loans granted to related parties (2008: nil).

Salaries and other short-term benefits paid to the key management personnel amounted to Rmb101 million as at 31 December 2009 (2008: Rmb85 million), including 31 million venture funds which has already been accrued by the certain proportion of key management's annual bonus but not yet distributed to key management personnel (2008: nil). No post-employment benefits, termination benefits or other long-term benefits were provided to the key management personnel during 2008 and 2009.

(6) The balance with subsidiaries

The balance with the subsidiary is not significant, which has been offset in consolidated financial statements.

39 Events after the date of the consolidated statement of financial position

As at the date of this report, other than the dividends, the Group had no material subsequent event. Details on dividend distribution are reported under Note 33 Dividends.

Unaudited Supplementary Financial Information

(All amounts in Rmb millions unless otherwise stated)

1 Liquidity ratios

	31 December	
	2009	2008
RMB current assets to RMB current liabilities	35%	46%
Foreign currency current assets to foreign currency current liabilities	126%	110%

Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and the CBRC, and the generally accepted accounting principals of the PRC.

2 Currency concentrations

	USD	HKD	Other	Total
As at 31 December 2009				
Spot assets	32,313	9,744	2,928	44,985
Spot liabilities	(13,262)	(1,387)	(2,605)	(17,254)
Forward purchases	3,903	174	1,005	5,082
Forward sales	(3,882)	(174)	(973)	(5,029)
Net long/(short) position*	19,072	8,357	355	27,784
As at 31 December 2008				
Spot assets	18,195	645	2,489	21,329
Spot liabilities	(17,820)	(1,217)	(2,100)	(21,137)
Forward purchases	5,436	974	1,827	8,237
Forward sales	(5,798)	(52)	(2,442)	(8,292)
Net long/(short) position*	13	350	(226)	137

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

The Group has no structural position.

Unaudited Supplementary Financial Information

(All amounts in Rmb millions unless otherwise stated)

3 Loans and advances to customers

(1) Loans and advances overdue for more than 3 months

Group and Bank

	31 December 2009		31 December 2008	
	Gross amount	% of total	Gross amount	% of total
Six months or less but over three months	691	0.08%	2,911	0.44%
One year or less than but over six months	1,020	0.12%	2,614	0.40%
Over one year	4,955	0.56%	3,575	0.54%
	6,666	0.76%	9,100	1.38%

(2) Impaired loans by geographical area

Group and Bank

	Northern China	Eastern China	Southern China	Other locations	Total
31 December 2009					
Impaired loans	4,246	1,636	1,250	265	7,397
Specific provision	2,796	875	596	111	4,378
Collective provision	447	142	108	67	764
31 December 2008					
Impaired loans	4,316	1,434	1,801	370	7,921
Specific provision	2,705	486	646	153	3,990
Collective provision	288	230	136	55	709

(3) Overdue loans by geographical area

Group and Bank

	Northern China	Eastern China	Southern China	Other locations	Total
31 December 2009					
Overdue	6,212	1,698	1,142	601	9,653
Specific provision	2,653	635	332	41	3,661
Collective provision	760	158	191	85	1,194
31 December 2008					
Overdue	7,077	3,426	3,017	1,177	14,697
Specific provision	2,695	454	689	47	3,885
Collective provision	374	274	292	154	1,094

Unaudited Supplementary Financial Information

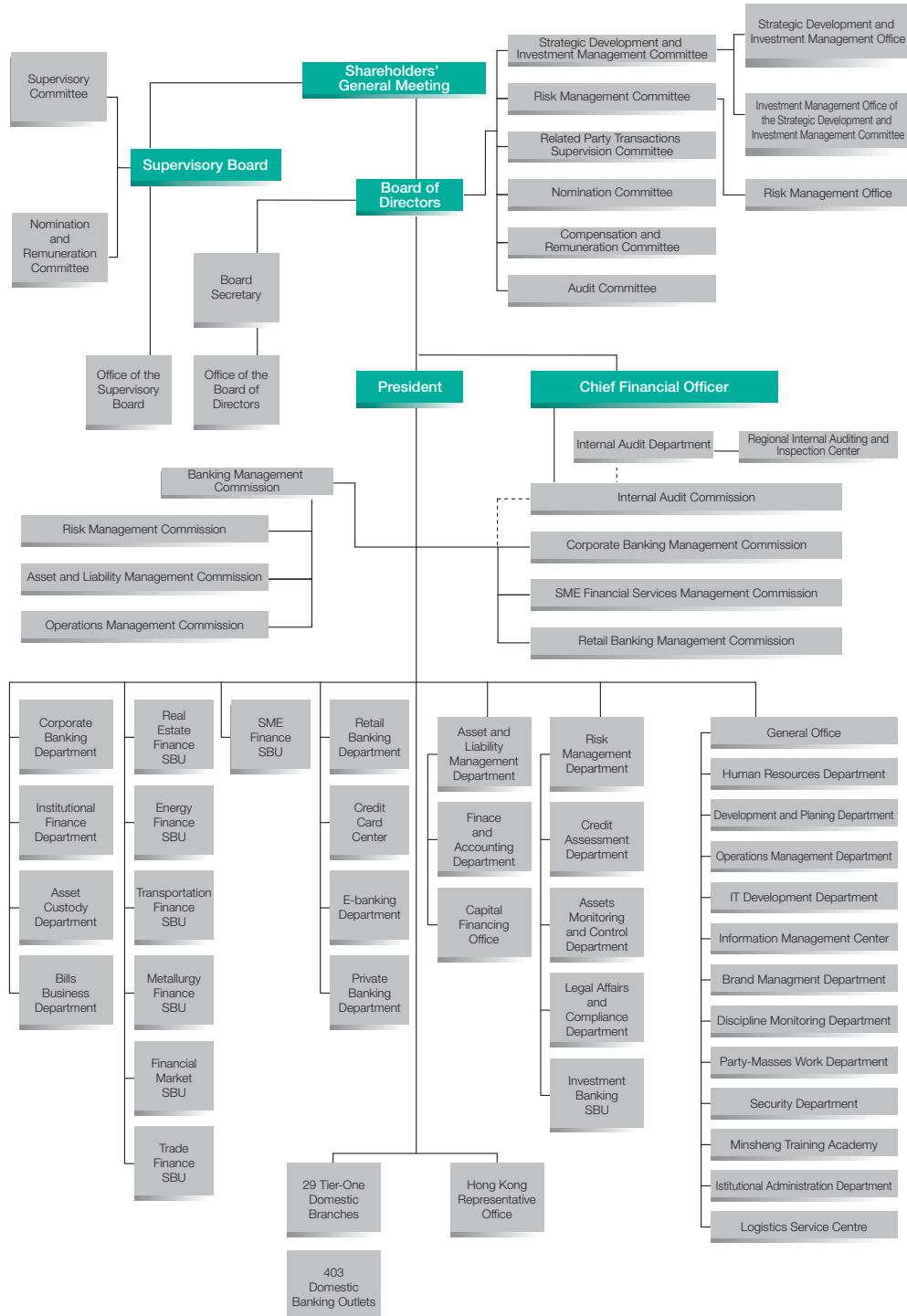
(All amounts in Rmb millions unless otherwise stated)

3 Loans and advances to customers (continued)

4 Cross-border claims

	Asia Pacific excluding Mainland China	North America	Europe	Other	Total
31 December 2009					
Banks and other financial institutions	9,411	2,559	1,140	184	13,294
Public sector entities	—	921	—	—	921
Other	—	—	136	—	136
Total	9,411	3,480	1,276	184	14,351
31 December 2008					
Banks and other financial institutions	6	1,058	466	607	2,137
Public sector entities	—	1,516	—	—	1,516
Other	—	—	92	—	92
Total	6	2,574	558	607	3,745

Organizational Chart



List of Entities

Head office of CMBC

Address: No. 2 Fuxingmennei Avenue,
Xicheng District, Beijing
Postal Code: 100031
Tel: 010-58560666
Fax: 010-58560690

■ Beijing

Beijing Administrative Department

Address: No. 2 Fuxingmennei Avenue,
Xicheng District, Beijing
Postal Code: 100031
Tel: 010-58560088
Fax: 010-58560001

■ Shanghai

Shanghai Branch

Address: No. 100 Pudong Nan Road,
Pudong New District, Shanghai
Postal Code: 200011
Tel: 021-61877000
Fax: 021-61877001

■ Guangzhou

Guangzhou Branch

Address: Yueneng Building, No. 45 Tianhe Road,
Yuexiu District, Guangzhou
Postal Code: 510075
Tel: 020-37877001
Fax: 020-37877777

■ Shenzhen

Shenzhen Branch

Address: CMBC Building, 11th Xinzhou Street,
Futian District, Shenzhen
Postal Code: 518000
Tel: 0755-82806002
Fax: 0755-82806555

■ Wuhan

Wuhan Branch

Address: No. 20, Jianghan Road,
Jiang'an District, Wuhan
Postal Code: 430014
Tel: 027-82789811
Fax: 027-82789807

■ Dalian

Dalian Branch

Address: No. 28, Yan'an Road,
Zhongshan District, Dalian
Postal Code: 116001
Tel: 0411-82802661
Fax: 0411-82819108

■ Taiyuan

Taiyuan Branch

Address: No. 2, Bingzhou Bei Road, Taiyuan
Postal Code: 030001
Tel: 0351-8208620
Fax: 0351-8208619

■ Shijiazhuang

Shijiazhuang Branch

Address: No. 10, Xidajie, Shijiazhuang
Postal Code: 050011
Tel: 0311-86678533
Fax: 0311-86678522

■ Hangzhou

Hangzhou Branch

Address: Yuanyang Building, No. 25,
Qingchun Road, Hangzhou
Postal Code: 310009
Tel: 0571-87232682
Fax: 0571-87239789

■ Nanjing

Nanjing Branch

Address: No. 20, Hongwu Bei Road, Nanjing
Postal Code: 210008
Tel: 025-83279033
Fax: 025-83279002

■ Chongqing

Chongqing Branch

Address: No. 9, Jianxin Bei Road,
Jiangbei District, Chongqing
Postal Code: 400020
Tel: 023-67695186
Fax: 023-67695107

■ Xi'an

Xi'an Branch

Address: CMBC Building, No. 78,
Erhuan Nanlu Xiduan, Xi'an
Postal Code: 710065
Tel: 029-88266088
Fax: 029-88266090

■ Fuzhou

Fuzhou Branch

Address: No. 173, Hudong Road, Fuzhou
Postal Code: 350001
Tel: 0591-87619126
Fax: 0591-87617310

■ Jinan

Jinan Branch

Address: No. 229, Leyuan Street, Jinan
Postal Code: 250012
Tel: 0531-86121680
Fax: 0531-86121690

List of Entities

■ Ningbo

Ningbo Branch

Address: No. 166-168, Zhongshan Xi Road, Ningbo
Postal Code: 315010
Tel: 0574-87260600
Fax: 0574-87270075

■ Chengdu

Chengdu Branch

Address: No. 2, Remin Nan Road 3 Duan, Chengdu
Postal Code: 610041
Tel: 028-85102110
Fax: 028-85102113

■ Shantou

Shantou Branch

Address: 1-3/F, Huajing Plaza, No. 17,
Hanjiang Road, Shantou
Postal Code: 515041
Tel: 0754-88363056
Fax: 0754-88363055

■ Tianjin

Tianjin Branch

Address: 1/F, Tianxin Building, No. 125,
Weidi Road, Haxi District, Tianjin
Postal Code: 300042
Tel: 022-23315222
Fax: 022-23193965

■ Kunming

Kunming Branch

Address: No. 331, Huancheng Nan Road, Kunming
Postal Code: 650011
Tel: 0871-3565666
Fax: 0871-3565000

■ Quanzhou

Quanzhou Branch

Address: 1-3/F, Kai Xiang Building, No. 336,
Fengze Street, Quanzhou
Postal Code: 362000
Tel: 0595-28008199
Fax: 0595-28008180

■ Suzhou

Suzhou Branch

Address: No. 200, Xinghai Street,
Suzhou Industrial Park, Suzhou
Postal Code: 215021
Tel: 0512-62568888
Fax: 0512-62569005

■ Qingdao

Qingdao Branch

Address: Zhong Gang Plaza, No. 18,
Fuzhou Nan Road, Shi Nan District,
Qingdao
Postal Code: 266071
Tel: 0532-85978608
Fax: 0532-85978667

■ Wenzhou

Wenzhou Branch

Address: 21-25/F, Development Building,
Xincheng Dadao, Wenzhou
Postal Code: 325001
Tel: 0577-88903999
Fax: 0577-88903777

■ Xiamen

Xiamen Branch

Address: 7/F, Lixin Plaza, No. 90,
Hubin Nan Road, Xiamen
Postal Code: 361004
Tel: 0592-2383388
Fax: 0592-2682826

■ Zhengzhou

Zhengzhou Branch

Address: CMBC Building, No. 1,
CDB Shangwu Waihuan Road,
Zhengdong New District, Zhengzhou
Postal Code: 450046
Tel: 0371-69166666
Fax: 0371-69166916

■ Changsha

Changsha Branch

Address: No. 669, Furong Zhong Road 1 Duan,
Changsha
Postal Code: 410011
Tel: 0731-84907000
Fax: 0731-84907010

■ Changchun

Changchun Branch

Address: No. 500, Changchun Street, Changchun
Postal Code: 130041
Tel: 0431-88553088
Fax: 0431-88553099

■ Hefei

Hefei Branch

Address: Block B, Tian Qing Building, No. 135,
Bozhou Road, Hefei
Postal Code: 230041
Tel: 0551-5682900
Fax: 0551-5682901

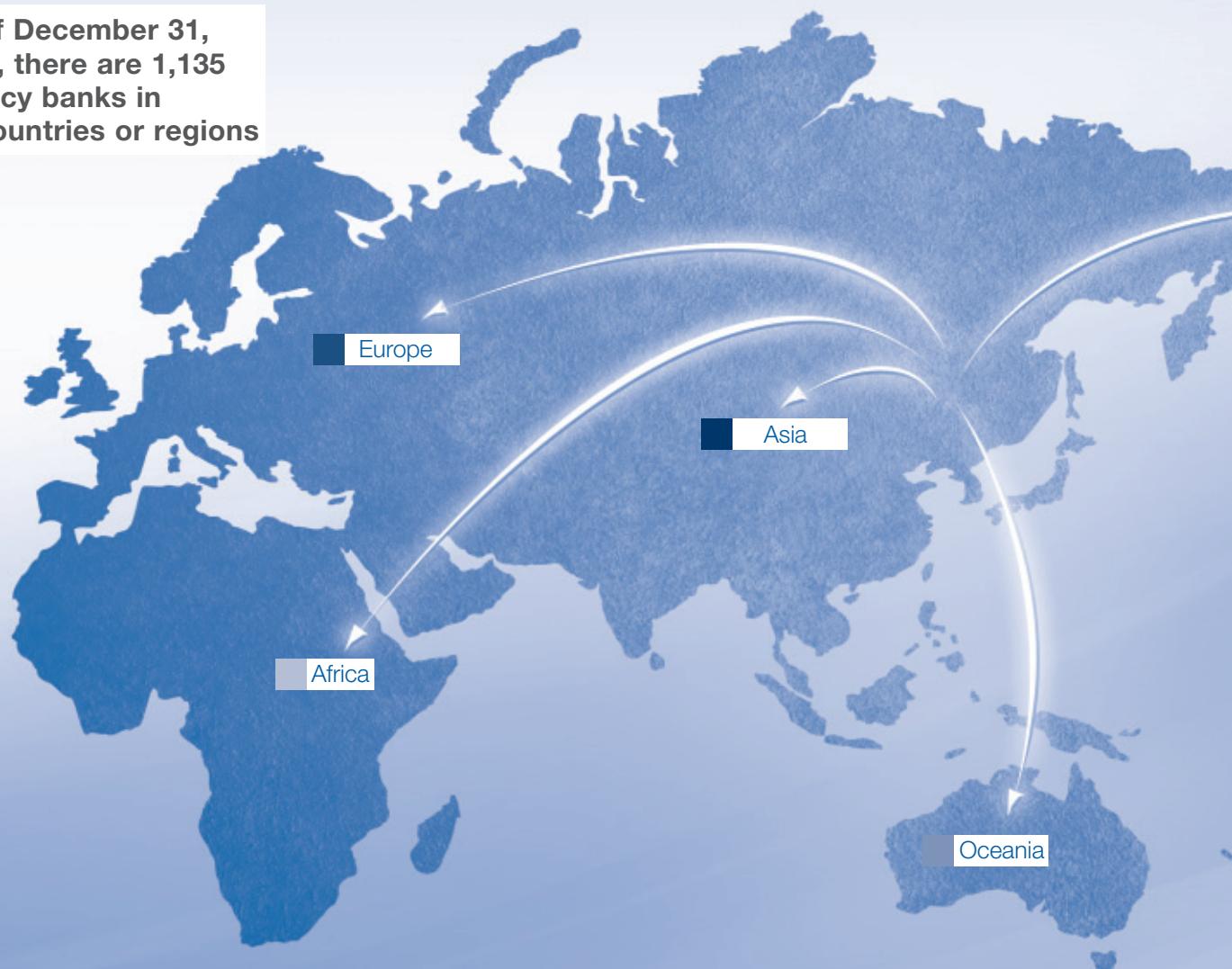
■ Nanchang

Nanchang Branch

Address: No. 237, Xiangshan Bei Road, Nanchang
Postal Code: 330008
Tel: 0791-6751157
Fax: 0791-6761557

List of Agency Banks of China Minsheng Bank

As of December 31, 2009, there are 1,135 agency banks in 97 countries or regions



Asia (29 countries or regions 560 agency banks)

China	149	Philippines	6	Sri Lanka	2
Hong Kong	92	India	17	Bangladesh	4
Macau	9	Pakistan	6	Jordan	2
Taiwan	41	Lebanon	2	Qatar	2
Japan	36	Iran	5	Israel	6
Singapore	54	The United Arab Emirates	15	Oman	3
South Korea	32			Bahrain	3
Thailand	15	Nepal	3	North Korea	1
Malaysia	14	Saudi Arabia	4	Syria	1
Indonesia	17	Kuwait	3		
		Vietnam	16		

Europe (37 countries, 379 agency banks)

Germany	72	Austria	14	Cyprus	1
England	42	Hungary	7	Belarus	1
Ireland	3	Belgium	11	Lithuania	2
Poland	5	Luxemburg	8	Norway	7
Switzerland	13	Portugal	6	Bulgaria	2
Netherlands	15	Romania	3	Bosnia and Herzegovina	1
France	15	Czech Republic	8		
Spain	13	Slovakia	4	Latvia	1
Italy	53	Croatia	2	Ukraine	1
Sweden	12	Russia	11	Malta	3
Denmark	6	Slovenia	1	Albania	1
Greece	12	Serbia and Montenegro	1	Kazakhstan	1
Finland	6	Turkey	15		



America (15 countries, 143 agency banks)

USA	86	The Dominican Republic	1
Canada	13	Uruguay	4
Peru	4	Cuba	1
Chile	6	Panama	3
Bahamas	1	Bolivia	2
Columbia	3	Mexico	3
Argentina	4		
Brazil	11	Belize	1

Oceania (3 countries, 28 agency banks)

New Zealand
Australia
Fiji

Africa (13 countries, 25 agency banks)

Egypt	6	Cameroon	1
Tunisia	2	Sudan	2
South Africa	4	Morocco	2
Mauritius	2	Algeria	1
Kenya	1	Libya	1
Namibia	1	Nigeria	1
Zambia	1		





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* For identification only