招商銀行

CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

Stock Code：03968

2010 ANNUAL REPORT

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2010 ANNUAL REPORT

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Green Finance

CONTENTS

Important Notice

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

The 11th meeting of the Eighth Session of the Board of Directors of the Company was held at the CMB College, Shenzhen on 31 March 2011. The meeting was presided by Fu Yuning, Chairman of the Board. 17 out of 17 eligible Directors attended the meeting. 17 votes were valid. 6 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants have reviewed the 2010 financial report respectively in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.

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

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

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

I Company Information

1.1 Company Profile

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

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

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

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

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

1.1.6 Share Listing:

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

1.1.7 Domestic Auditor: KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong

I Company Information

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

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

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

1.1.11 Websites and Newspapers Designated by the Company for Information Disclosure:
Mainland China: *"China Securities Journal", "Securities Times", "Shanghai Securities News"* website of Shanghai Stock Exchange (www.sse.com.cn), the Company's website (www.cmbchina.com)
Hong Kong: website of the Hong Kong Stock Exchange (www.hkex.com.hk), the Company's website (www.cmbchina.com)
Place of maintenance of annual reports: Office of the Board of Directors of the Company

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

1.2 Company Information

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the market in China. As at 31 December 2010, the Company had 73 branches, 749 sub-branches (including outlets), 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 1,913 self-service centers and 8,193 self-service cash machines (including 2,860 ATMs, 5,333 self-service circulation machines) and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd. in 87 cities of China; two wholly-owned subsidiaries in Hong Kong, namely, Wing Lung Bank Limited and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States; and a representative office in London, United Kingdom. In addition, the representative office of the Company in Taipei was officially opened on 15 March 2011. The efficiently operated outlets of the Company are primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium-sized cities in other regions. The Company has maintained business relationships with 1,693 overseas financial institutions in 106 countries and regions.

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

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

Principal activities of the Company:

Taking deposits from the public; granting short, medium and long term loans; settlement; bills discounting; issuing financial bonds and acting as agent for issuance and encashment; underwriting and trading government bonds; interbank lending and borrowing; letter of credit and guarantees; collection and payment; insurance agency services; safety deposit box services; foreign currency deposits and loans, remittance; foreign exchange; international settlement; foreign currency placement; foreign currency bills acceptance and discounting; trading and agency trading of foreign currency securities except stock; issuing and acting as agent for issuance of foreign currency securities except stock; proprietary FX trading and trading on behalf of customers; credit investigation, advisory and attestation services; offshore banking business; credit card business; securities investment fund custody and Qualified Foreign Institutional Investor (QFII) custodian services; corporate annuity fund custody and account management services; Social Security Fund custody; underwriting short-term commercial paper; derivative products trading; and other businesses approved by China Banking Regulatory Commission ("CBRC").

1.3 Awards and honors received in 2010

In 2010, the Company has received many domestic and international awards and honors in recognition of its outstanding business performance in operational management, corporate culture and continuous innovation. The awards and honors are set out as follows.

- On the Chart of the Highest Price-to-book Value Ratio in the World released by *Financial Times* of the U.K., the Company ranked the 1st out of the 50 largest banks in the world in terms of market value.
- The Company was awarded the "Best Private Bank in China" in the seventh selection of the "Best Private Bank and Wealth Management" organized by *Euromoney* for two consecutive years.
- *Financial Times* of the U.K. and Roland Berger Strategy Consultants jointly released the "Excellent Chinese Bank Award in the *Financial Times* of the U.K. 2010", in which the Company won two awards, the "Best Commercial Bank" and the "Best Retail Bank".
- In the selection of the best private bank in the world in 2010 organized by *The Asset*, the Company was honored the "Best Professional Custody Bank in China".
- In the "Annual Conference of ACCE Global Call Centre 2010" held in New Orleans in the United States, the Call Center 95555 of the Company was awarded "the World's Best Call Centre for 2010".
- In the selection of the best cash management bank in the world in 2010 organized by *Asia Money*, the Company was awarded the "Best Cash Management Bank in China" for the second time.
- On the Chart of the "Best Brand Value in China" jointly released by *Forbes and Interbrand*, the Company ranked 7th, the compound annual growth rate of the brand value reached 21%.
- In the selection of the "Best Asian Corporate" organized by *Finance Asia*, the Company won four awards, the "Best Managed Companies", the "Best Corporate Governance", the "Best Investor Relations" and the "Best Corporate Social Responsibility".
- In the selection of the "China Star 2010" released by *Global Finance*, the Company was awarded the "Best Retail Bank in China" and the "Best SME Loan Bank" at the same time.
- The Company was awarded the "Most Favored Bank by Customers 2010" at the Fifth Session of the 21st Century Asian Finance Annual Conference organized by the *21st Century Business Herald*.

- In the selection of the "Most Respected Bank and the Best Retail Bank in China 2010" organized by *Moneyweek*, the Company won six awards, namely the "Most Respected Bank in China", the "Best Retail Bank in China", the "Best Private Bank", the "Best Internet Banking", the "Best Bank for Wealth Management" and the "Best Credit Card Customer Service". Meanwhile, the Company was the only bank awarded the "Most Favored Retail Bank by Customers in China 2010" presented by J.D.Power Asia Pacific.
- In the "Corporate Governance Assessment Summary Report on the Top 100 Chinese Listed Companies for 2010" jointly released by Research Centre of Corporate Governance, World Economics and Politics Institute of Chinese Academy of Social Sciences, and Protiviti China, with its outstanding performance, the Company ranked 1st on both "Top 20 Best Companies for Corporate Governance 2010" and "Top 10 Listed Financial Companies for Corporate Governance 2010", respectively.
- In the award ceremony of 9th Corporate Governance Forum in China, the Company won the "2010 Information Disclosure Award" issued by Shanghai Stock Exchange, with the support from State-owned Assets Supervision and Administration Committee (SASAC) of the State Council and Organization for Economic Cooperation and Development (OECD).
- In the Tenth Asia-Pacific Chinese Entrepreneurial Leaders Forum, the Company was awarded the "Most Socially Responsible Company in the Asia Pacific Region 2010", President Ma Weihua was honored the "Outstanding Contribution Award for Most Socially Responsible Chinese Business Leader in the Asia Pacific Region 2010" in this selection, the top award at the forum.
- In the selection of the best chief executive officers in the world organized by *Institutional Investor* in the United States, President Ma Weihua was awarded the "Best President in Asia" in the selection of the "Best Senior Management in Financial Institutions in Asia Pacific Region 2010".
- In the selection of the "30 outstanding people in Shenzhen Special Economic Zone in the last 30 years" organized by the Publicity Division and Culture Office of Shenzhen Municipal Party Committee, Mr. Ma Weihua was awarded as an "Outstanding Innovative People in Shenzhen Special Economic Zone in the last 30 years", while the First Chairman of the Company Mr. Yuan Geng (袁庚) was awarded an "Outstanding Entrepreneur in Shenzhen Special Economic Zone in the last 30 years", the First President of the Company Mr. Wang Shizhen (王世楨) was awarded as an "Excellent Entrepreneur in Shenzhen Special Economic Zone in the last 30 years" and Mr. Zang Jingui (臧金貴), a member of the Poverty Relief Committee of the Company, was awarded as an"Excellent Model in Shenzhen Special Economic Zone in the last 30 years".

II Financial Highlights

2.1 Key financial data

Operating Results

	2010	2009	Changes
	(in millions of RMB)		+/(-)%
Net operating income(1)	**71,756**	51,917	38.21
Profit before tax	**33,343**	22,384	48.96
Net profit attributable to the Bank's shareholders	**25,769**	18,235	41.32

Per Share

	2010	2009	Changes
	(RMB)		+/(-)%
Basic earnings attributable to the Bank's shareholders	**1.23**	0.95	29.47
Diluted earnings attributable to the Bank's shareholders	**1.23**	0.95	29.47
Year-end net assets attributable to the Bank's shareholders	**6.21**	4.85	28.04

Financial Indicators

	As at 31 December 2010	As at 31 December 2009	Changes
	(in millions of RMB)		+/(-)%
Total assets	**2,402,507**	2,067,941	16.18
of which: total loans and advances to customers	**1,431,451**	1,185,822	20.71
Total liabilities	**2,268,501**	1,975,158	14.85
of which: total deposits from customers	**1,897,178**	1,608,146	17.97
Total equity attributable to the Bank's shareholders	**134,006**	92,783	44.43

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

2.2 Financial Ratios

	2010	2009	Changes
		(%)	+/(-)
Profitability ratios			
Return on average assets (after tax) attributable to the Bank's shareholders	**1.15**	1.00	0.15
Return on average equity (after tax) attributable to the Bank's shareholders	**22.73**	21.17	1.56
Net interest spread	**2.56**	2.15	0.41
Net interest margin	**2.65**	2.23	0.42
As percentage of operating income			
– Net interest income	**79.54**	77.75	1.79
– Net non-interest income	**20.46**	22.25	(1.79)
Cost-to-income ratio (excluding business tax and surcharges)	**39.69**	44.45	(4.76)

	As at 31 December 2010	As at 31 December 2009	Changes
		(%)	+/(-)
Capital adequacy ratios			
Core capital adequacy ratio	**8.04**	6.63	1.41
Capital adequacy ratio	**11.47**	10.45	1.02
Total equity to total assets	**5.58**	4.49	1.09
Asset quality ratios			
Non-performing loan ratio	**0.68**	0.82	(0.14)
Allowances for impairment losses to non-performing loans	**302.41**	246.66	55.75
Allowances for impairment losses to total loans and advances to customers	**2.05**	2.02	0.03

II Financial Highlights

2.3 Five-year Financial Summary

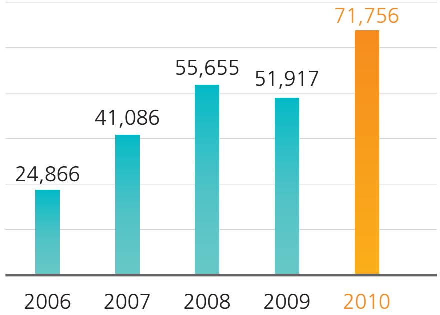
	2010	2009	2008	2007	2006
Results for the year			(in millions of RMB)		
Net operating income	**71,756**	51,917	55,655	41,086	24,866
Operating expenses	**32,634**	26,207	23,636	16,738	11,091
Impairment losses on assets	**5,501**	2,971	5,154	3,305	3,691
Profit before tax	**33,343**	22,384	26,759	21,043	10,084
Net profit attributable to the Bank's shareholders	**25,769**	18,235	21,077	15,243	6,794
Per share			(RMB)		
Dividend	**0.29**	0.21	0.40	0.28	0.12
Basic earnings(1)	**1.23**	0.95	1.10	0.80	0.36
Diluted earnings(1)	**1.23**	0.95	1.10	0.80	0.36
Year-end net assets attributable to the Bank's shareholders	**6.21**	4.85	5.41	4.62	3.75
Year end			(in millions of RMB)		
Share capital	**21,577**	19,119	14,707	14,705	14,703
Total shareholders' equity	**134,006**	92,783	79,781	67,984	55,160
Total liabilities	**2,268,501**	1,975,158	1,492,016	1,242,568	878,942
Deposits from customers	**1,897,178**	1,608,146	1,250,648	943,534	773,757
Total assets	**2,402,507**	2,067,941	1,571,797	1,310,964	934,102
Net loans and advances to customers(2)	**1,402,160**	1,161,817	852,754	654,417	549,420
Key financial ratios			(%)		
Return on average assets (after tax) attributable to the Bank's shareholders	**1.15**	1.00	1.46	1.36	0.81
Return on average equity (after tax) attributable to the Bank's shareholders	**22.73**	21.17	28.58	24.76	16.74
Cost-to-income ratio	**39.69**	44.45	36.55	34.94	38.28
Non-performing loan ratio	**0.68**	0.82	1.11	1.54	2.12
Core capital adequacy ratio(3)	**8.04**	6. 63	6.56	8.78	9.58
Capital adequacy ratio(3)	**11.47**	10.45	11.34	10.40	11.39

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

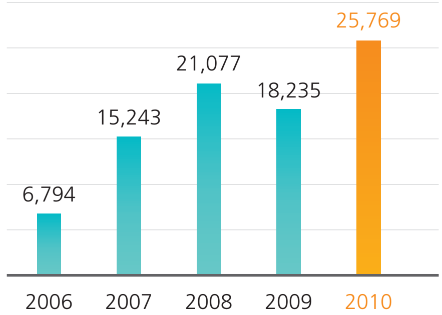
(2) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

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

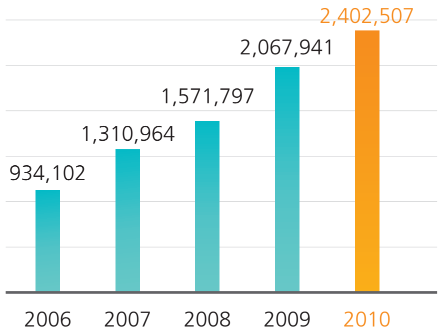
Net operating income
in millions of RMB



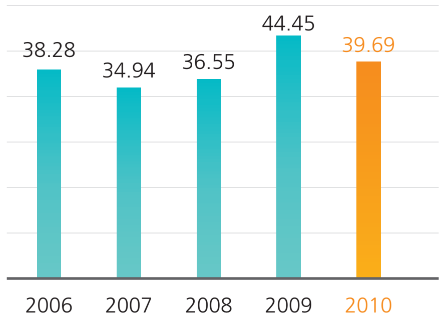
Net profit attributable to the Bank's shareholders
in millions of RMB



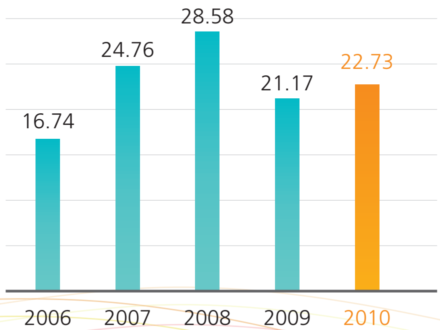
Total assets
in millions of RMB



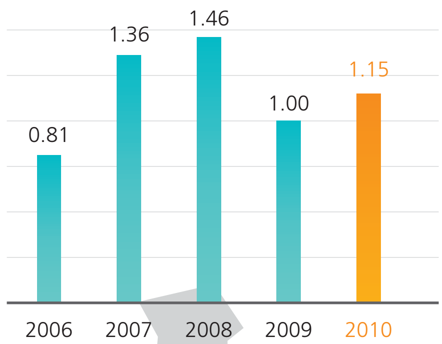
Cost-to-income ratio
percentage



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



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



Fu Yuning Chairman

Chairman's Statement

Looking back into the past decade, CMB has seen ten years of success. Under the leadership of the Board of Directors, the Bank experienced exponential developments in the past ten years through its ability to seize opportunities, to think innovatively, to create, and to combat hardships. To sum up, CMB has made promising performances and striking developments in five aspects: first, growing profitability; second, improving asset quality; third, rapid growth in business scale; fourth, gradual refinement of business structure; and fifth, encouraging progress in internationalization and comprehensive business operation.

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The past ten years are the times when crisis and prosperity, the fall and the rise went hand in hand. This was exemplified by the unpredictable changes and complicated state of world economy that prevailed ever since the outbreak of the financial tsunami originated in the U.S. in 2008. In China, the structures of the economy and industries are on the way of transformation, and regulatory requirements are becoming more stringent. Accordingly, we appreciated the difficulty in keeping our extensive growth mode in the past and embarked upon a "Second Transformation" strategy in early 2010, so as to abandon the extensive management mode in which growth relies on scale expansion and capital contribution. Instead, we adopt an intensive management mode which would lead to higher efficiency and hence a persistent and steady growth in return on capital and overall value of the bank.For the year of 2010, the world economy was in a rough ride to recovery. Domestically, banks had to face complicated economic and financial environments, and at the same time, comply with stricter regulatory requirements on asset quality and risk management imposed by domestic and overseas regulators. Under such circumstances, CMB overcame all difficulties, accomplished all targets as planned, and maintained a promising outlook.

In 2010, the Group made a net profit attributable to shareholders of RMB25.769 billion, representing an increase of 41.32% as compared to the previous year; a return on average assets (ROAA) attributable to shareholders of 1.15%, representing an increase of 0.15 percentage point as compared to the previous year, and a return on average equity (ROAE) attributable to shareholders of 22.73%, representing an increase of 1.56 percentage points as compared to the previous year. The Group recorded a capital adequacy ratio of 11.47%, representing an increase of 1.02 percentage points as compared to the previous year, a non-performing loan ratio of 0.68%, representing a decrease of 0.14 percentage point as compared to the beginning of the year, and an allowance coverage ratio of 302.41%, representing an increase of 55.75 percentage points as compared to the beginning of the year.

The Bank introduced the Second Transformation on an impressive starting note in 2010. First of all, credit risk pricing capacity were raised effectively, leading to a year on year rise in net interest income. Secondly, return on capital rose significantly, which was demonstrated by an increase of ROAE after a Rights Issue of RMB21.5 billion undertaken in April 2010. This in turn led to the quickening on-going structural adjustments in internal organizations, line functions, products and customers to enhance return on assets. Thirdly, the cost-to-income ratio was in steady decline, thanks to a higher sophistication of cost management as well as enhanced standardization and scientific management. Fourthly, the Bank's risk level was well managed, as reflected in the generally stable readings of indicators ranging from asset quality, interest rate risk, foreign exchange risk to liquidity risk. During the year, no serious incidence arising from failure in controlling operational risk has occurred. Lastly, the number of high net worth customers grew in a fast pace as supported by an expanding customer base and an optimizing customer mix.

While we step into the second ten-year after the millennium, CMB is presented with new opportunities as well as tougher challenges. External environment has changed, and will remain in constant changes, which posts unprecedented challenges to the management and operation of the Bank. In the international arena, the acute effect of the financial crisis is still lingering around with unemployment rates of developed countries expected to stand stubbornly high in the near future. The European sovereign debt crisis may spill over to other economies, therefore European countries are braced for a long and bumpy way to economic recovery. While at home, pursuing a faster shift in the mode of development is the main focus of the central government in the Twelfth Five-Year Plan period. Upward pressure on general price level is mounting when the national economy attains rapid growth. At the same time, the inflow of hot money and growing asset price bubble threatened the health of the economy. Adding on this are the challenges of tighter regulatory rules and the ever-changing needs of the financial market which domestic banks must face although they are not short of favorable opportunities.

The followings are some note-worthy developments.

1. **Shifting needs for financing.** As to the demand for corporate banking, disintermediation of corporate financing is gearing up. As large enterprises are becoming less dependent on bank financing, the Bank's traditional business which derives its main source of profit from asset expansion and interest spread is under serious threats. However, new opportunities also emerge in various ways: for example, small businesses are burgeoning with huge demand for financing; and demand from large enterprises for integrated financial solutions such as cash management, asset custody and loan underwriting is rising quickly. As to the demand for retail banking, customers are increasingly affluent, as their differences are widening, their investments more diversified and they are more prompt to consume excessively.

2. **Quickening pace of interest rate liberalization.** The competition among banks will experience radical change given the narrowing interest spreads and rising risk exposures. Against this backdrop, the top priority for us is to figure out ways to develop new businesses and sources of revenue, to limit our risk exposures and maintain competitive edges within intensive price competitions.

3. **Tightened regulation for the banking industry.** More harsh regulations are imposed on banks by the CBRC while the Basel III Accord has been adopted. Firstly, strict regulations are implemented on a macro level, which involve counter-cyclical capital adequacy ratios, differentiated deposit reserve ratios and strict loan-to-deposit ratio to serve the purpose of tightened supervision. Secondly, banks are required to raise the quality and quantity of capital, increase capital adequacy ratio, and keep a capital conservation buffer and a counter-cyclical capital buffer, while additional capital requirements are imposed on systemetically important banks. Thirdly, new regulatory tools including a more forward looking dynamic provisioning system, leverage rate, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are introduced to strengthen liquidity regulatory control.

Despite hefty changes in external environment and tightening regulations, the Bank continues to take advantage of favourable opportunities to develop and innovate, moving forward with the Second Transformation with a view to attaining sustainable growth in the second decade of the new millennium.

Specifically, the following strategies will be taken.

(1) **Setting a clear strategic position that is selective and achievable.** In light of tighter constraints to capital, credit, cost, human resources and other resources, the Bank is going to make most of limited resources based on its current conditions and its own strengths, and conduct differentiated competition strategy with emphasis on excellence and its characteristics so as to strengthen the Bank's market influence and its competitive edges.

(2) **Higher efficiency in three aspects and building an innovative business model.** To cope with the external changes, a new and more efficient way of operating business will be established featuring higher efficiency in three aspects. Firstly, raise capital efficiency. One way to achieve this is to effectively use capital and reduce capital consumption through better allocation of capital. Meanwhile, match risk with income by constantly improving risk pricing capacity. Therefore the goal to maximize return on capital and achieve long term growth in market capitalization can be realized. Secondly, improve operating efficiency. We aim at maximizing returns under a certain cost-to-income ratio through scientific deployment of various factors of production and exploiting the customer value. Thirdly, promote management efficiency, which can be achieved by making full use of the advanced IT system to streamline workflows and integrate existing resources.

(3) **Striking a balance between transformation and succession.** During the course of reform and change, the Bank will ensure the consistency of the interests of the staff, customers and shareholders, the succession of the market oriented system and the management philosophy, so that the well-proven guiding ideas and philosophies of "Balanced Development of Profits, Quality and Scale", "We are here, just for you" and "Change as Situation Does" can be succeeded and carried forward.

At the start of the new decade in 21st century, I am proud of the achievements made by CMB in the past. I am expecting a period of prominent development ahead. Built on the past ten years of concrete development, I am confident about CMB's ability to address the external changes and make superior performance on the road to sustainable development.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and business partners for their faith and support. I would also extend my gratitude to the dedication and efforts contributed by the management and the staff over the past year. In the coming year, we will work together for a fruitful future.

Ma Weihua President

President's Statement

2010 was an extraordinary year in the history of China Merchants Bank. During the year, as the global economy painstakingly regained momentum and China's economy pushed its way forward in a complex and unpredictable environment, China Merchants Bank stayed devoted to and determined in fulfilling the requirements of both the regulatory authorities and the Board of Directors, and managed to overcome various unfavourable factors, accomplished all the tasks set for the year and maintained a positive development prospect in general.

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As at the end of 2010, the total assets of the Group amounted to RMB2.40 trillion, up by 16.18% from the beginning of the year; the total deposits amounted to RMB1.90 trillion, increasing by 17.97% from the beginning of the year; and the total loans and advances to customers amounted to RMB1.43 trillion, increasing by 20.71% from the beginning of the year. The net profit attributable to shareholders of the Bank amounted to RMB25.769 billion, increasing by 41.32% compared with the beginning of the year.

In 2010, the Bank carried on with intensive operation and aimed at reducing capital consumption, raising credit risk pricing, controlling financial costs, increasing the number of high-net-worth customers and ensuring effective control over risks. Our efforts towards accelerating the change of business model and implementing a comprehensive Second Transformation achieved satisfying results. As at the end of the year, the RAROC of the Bank was 20.23%, up by 2.18 percentage points from the last year; the capital adequacy ratio was 11.21%, up by 1.16 percentage points from last year; the average floating band of interest rates (weighted at actual amount, the same hereinafter) for the newly granted RMB general loans increased by 7.92 percentage points from last year; the average floating band of interest rates for the newly-granted wholesale loans and retail loans increased by 3.80 percentage points and 20.07 percentage points respectively from last year; the cost-to-income ratio was 39.63%, down by 4.43 percentage points from the beginning of the year; the number of retail customers with daily average total assets per month of RMB500,000 or above increased by 21.18%; the number of corporate customers contributing total revenue of RMB100,000 or above increased by 39.92%. Meanwhile, the balance of non-performing loan and the non-performing loan ratio of the Bank both dropped; and the non-performing allowance coverage ratio increased significantly from the beginning of the year.

In 2010, the Bank pro-actively exploited the market, and ambitiously promoted corporate deposits marketing. We innovatively introduced funding products to support the State policy of integrating coal resources and launched six major green financial products. The SME finance department has been greatly strengthened through exercising embedded risk management. In order to maintain the fast development of our SME businesses, we introduced the financing program namely "Zhu Li Dai". Also, a "Qian Ying Zhan Yi" plan was launched to specifically meet the comprehensive financial needs of the innovative and high growth enterprises. Moreover, we sped up the establishment of new sub-centres under the small enterprise credit centre, which resulted in a rapid growth of SME business. We also actively developed the non-residential mortgage loan and credit card businesses, resulting in constant optimization of our retail loan structure. We steadily advanced the cross-border Renminbi business, accelerated the development of emerging businesses such as cash management, investment banking, assets custody, financing market and corporate pension annuity, and innovatively introduced electronic channel services such as direct banking, i-wealth management and mobile banking for iPhone, so that the intermediate business showing optimal momentum.

In 2010, the Bank dedicated much efforts in risk prevention and internal control compliance. Specifically, the "Three Rules and One Guideline" were strictly implemented, according to which we organized various measures for risk pre-warning and took stress tests, strictly controlled loan extension to local government financing platforms and closely monitored the total amount of loans granted to the real estate and "high pollution, high energy consumption and excess capacity" sectors. We also adopted workflow optimization scheme and infrastructure enhancement plan for the credit risk management, clarified the accessing threshold of customers for credit policy, accelerated the shift into the use of 10-category classifications for risk assets and reinforced the management of category provisions. At the same time, we intensified our efforts in the compliance management and internal control and applied harsh punishment on repeated misconducts, while guarding the risks arising from the international money laundering and terrorist related financing. On the other front, all levels of personnel were held accountable for the prevention of similar faults. As we kept a tight control and prevention, no serious incidence of misconducts and faults happened during the year.

In 2010, the Bank strengthened the internal management and achieved an all-round improvement in the performance assessment system based on various indicators. Moreover, budget management, capital management, pricing management and financial management were performed to our satisfaction. The Bank exercised strict control over the growth of staff headcounts and tried to achieve a balanced distribution of front office, middle office and back office staff. Dual-dimensional assessment of the performance and ability of Head Office staff was conducted and professional position sequence management remuneration and benefits system was refined in order to further promote staff performance. Furthermore, more resources were devoted to managing demand for IT services and deepening IT development and upgrades, and therefore the bank-wide operation of the system was stable during the year. We also expedited the transformation of our accounting counter procedure and completed the three-year work planning for bank-wide procedure optimization.

In 2010, the Bank proceeded well on the path to internationalization and comprehensive operations. The collaboration between Wing Lung Bank and the Bank was enhanced, and remarkable results arising from the integration of businesses with an increase in net profit were witnessed. USD clearing and trade settlement business of New York Branch began to take shape and constant improvement in its risk and compliance management expertise was evident. The HK Branch focused on cross-border Renminbi business and pro-actively innovated new products by leveraging on domestic and overseas business collaborations. The London Representative Office directed its efforts towards survey and liaison work. Official approval for the establishment of the Taipei Office had been obtained. In addition, CMB Financial Leasing Co., Ltd. developed further businesses in the leasing operations of large equipment, aircrafts and vendor leasing business, with its profitability ranking the top among domestic peers. CMB International Capital Corporation Ltd. made a breakthrough in its IPO business. The acquisition of the equity interests in CIGNA & CMC Life Insurance and Tibet Trust Company and the preparation for the launch of futures settlement business were in progress.

In 2010, the Bank provided financial services to the Shanghai Expo and the Asian Games as a way to fulfill the corporate social responsibilities. Our overall brand image continued to be widely recognized by the public. We were named as the bank with the highest price-to-book value ratio in the world by the *Financial Times* of the U.K. and were voted as the Best Commercial Bank, the Best Retail Bank, the Best Private Bank, the Best SME Loan Bank, the Best Cash Management Bank in China and the World's Best Call Centre by authoritative financial media around the world such as *Euromoney, Asiamoney* and *Global Finance* (USA), and were also listed in the Hang Seng Corporate Sustainability Index Series.

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

Looking forward into 2011, we will follow the guideline of "looking into the future, seizing the opportunities, cultivating the innovation, developing steadily" and gear up to gain an insight into the challenges and opportunities that may arise in our operation and management. Last but not least, the Bank is committed to deepening the Second Transformation through management reform. With our spirits of innovation, attitude for changes and diligence, we will compose a new chapter of sustainable growth for China Merchants Bank.

Han Mingzhi
Chairman of the Board of Supervisors

Service

We are here just for you

CMB is committed to providing quality and efficient financial services to its customers. We have the service philosophy of "We are here just for you". At the early stage of its establishment, CMB was the first bank among the domestic peers to introduce a new concept of service – standing up to serve you, serving you with smile and door-to-door service. Our outstanding services earned credits from all over the society. In recent years, in line with the changes in customers' demand, CMB has put great efforts in establishing a new model of customer service, with three main aspects of providing service, supporting service and supervising service. CMB consistently improves the level of service

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5.1 Analysis of general operating status

In 2010, as the global economy was painstakingly regaining momentum after the financial crisis while China's economy and finance was also evolving in a highly uncertain and complicated way, the Group tightened its grips on assets & liabilities management and financial management while carried on with the Second Transformation. Overally speaking, the Bank maintained an optimal development trend, which is reflected in the following aspects:

Profitability was constantly being improved. In 2010, the Group accomplished a net profit attributable to shareholders of the Bank of RMB25.769 billion, a net interest income of RMB57.076 billion and a net non-interest income of RMB14.680 billion, representing an increase of RMB7.534 billion or 41.32%, an increase of RMB16.712 billion or 41.40% and an increase of RMB3.127 billion or 27.07% respectively as compared with the previous year. ROAA and ROAE attributable to the shareholders of the Bank were 1.15% and 22.73% respectively, representing an increase from 1.00% and 21.17% for 2009. Our operating efficiency was significantly improved, which was driven by i) a higher net interest income brought about by effective rise of risk pricing capacity; ii) a lower cost-to-income ratio achieved by the enhancement in intensive and delicacy management; and iii) a solid growth of net fee and commission income due to concentrated efforts on developing intermediate business.

The scale of assets and liabilities expanded fast. As at the end of 2010, the Group's total assets amounted to RMB2,402.507 billion, representing an increase of RMB334.566 billion, or 16.18%, as compared with the beginning of the year. Loans and advances amounted to RMB1,431.451 billion, representing an increase of RMB245.629 billion, or 20.71%, as compared with the beginning of the year. Deposits from customers amounted to RMB1,897.178 billion, representing an increase of RMB289.032 billion, or 17.97%, as compared with the beginning of the year.

The quality of our assets remained sound. As at the end of 2010, the Group had non-performing loans of RMB9.686 billion, representing a decrease of RMB46 million as compared with the beginning of the year. The non-performing loan ratio was 0.68%, a decrease of 0.14 percentage point as compared with the beginning of the year. The non-performing loan coverage ratio (allowance for impairment loss on loans/non-performing loans) was 302.41%, an increase of 55.75 percentage points as compared with the beginning of the year.

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5.2 Analysis of Income Statement

5.2.1 Financial highlights

	2010	2009
	(In millions of RMB)	
Net interest income	**57,076**	40,364
Net fee and commission income	**11,330**	7,993
Other net income	**2,933**	3,132
Insurance operating income	**353**	359
Operating expenses	**(32,634)**	(26,207)
Provision for insurance claims	**(278)**	(355)
Share of profits in associates	**48**	42
Share of profits in joint ventures	**16**	27
Impairment losses on assets	**(5,501)**	(2,971)
Profit before tax	**33,343**	22,384
Income tax	**(7,574)**	(4,149)
Net profit attributable to the Bank's shareholders	**25,769**	18,235

In 2010, the Group accomplished a profit before tax of RMB33.343 billion and an effective income tax rate of 22.72%, representing an increase of 48.96% and 4.18 percentage points respectively as compared with 2009.

The following table sets out the impact on the profit before tax of the Group for 2010 by changes in major income/loss items.

Changes in profit before tax

	(In millions of RMB)
Profit before tax for 2009	**22,384**
Changes in 2010	
Net interest income	16,712
Net fee and commission income	3,337
Other net income	(199)
Insurance operating income	(6)
Operating expenses	(6,427)
Provision for insurance claims	77
Impairment losses on assets	(2,530)
Share of profits in associates & joint ventures	(5)
Profit before tax for 2010	**33,343**

5.2.2 Net operating income

In 2010, the net operating income of the Group was RMB71.756 billion, representing an increase of 38.21% as compared with 2009. Net interest income accounted for 79.54%, representing an increase of 1.79 percentage points from the previous year; non-interest net income accounted for 20.46%, representing a decrease of 1.79 percentage points from the previous year.

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

	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)
Net interest income	**79.54**	77.75	84.24	82.51	86.50
Net fee and commission income	**15.79**	15.40	13.91	15.67	10.11
Other net income	**4.09**	6.03	1.65	1.72	3.39
Insurance operating income	**0.49**	0.69	0.18	–	–
Share of profits in associates & joint ventures	**0.09**	0.13	0.02	0.10	–
Total	**100.00**	100.00	100.00	100.00	100.00

5.2.3 Net interest income

In 2010, the Group's net interest income amounted to RMB57.076 billion, representing an increase of 41.40% from the previous year, mainly due to the increase in the volume of interest-earning assets and the gradual increase of net interest margin.

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

	2010			2009		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, excluding percentages)					
Interest-earning assets						
Loans and advances	**1,371,641**	**66,842**	**4.87**	1,176,589	52,022	4.42
Bond investments	**318,471**	**9,178**	**2.88**	275,702	8,552	3.10
Balances with central bank	**246,000**	**3,546**	**1.44**	196,619	2,957	1.50
Placements with banks and other financial institutions	**214,503**	**4,947**	**2.31**	157,333	2,307	1.47
Total interest-earning assets and interest income	**2,150,615**	**84,513**	**3.93**	1,806,243	65,838	3.65

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	2010			2009		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(In millions of RMB, excluding percentages)					
Interest-bearing liabilities						
Deposits from customers	**1,672,500**	**20,724**	**1.24**	1,407,731	19,614	1.39
Placements from banks and other financial institutions	**295,820**	**4,842**	**1.64**	250,885	3,928	1.57
Issued debts	**40,082**	**1,871**	**4.67**	39,376	1,932	4.91
Total interest-bearing liabilities and interest expense	**2,008,402**	**27,437**	**1.37**	1,697,992	25,474	1.50
Net interest income		**57,076**			40,364	
Net interest spread			**2.56**			2.15
Net interest margin			**2.65**			2.23

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

	2010 compared with 2009		
	Increase/(decrease) due to		**Net increase/**
	Volume	**Interest rate**	**(decrease)**
	(In millions of RMB)		
Assets			
Loans and advances	9,525	5,295	14,820
Bond investments	1,233	(607)	626
Balances with central bank	707	(118)	589
Placements with banks and other financial institutions	1,318	1,322	2,640
Changes in interest income	12,783	5,892	18,675
Liabilities			
Deposits from customers	3,222	(2,112)	1,110
Placements from banks and other financial institutions	738	176	914
Issued debts	33	(94)	(61)
Changes in interest expense	3,993	(2,030)	1,963
Changes in net interest income	8,790	7,922	16,712

5.2.4 Interest income

In 2010, the Group accomplished an interest income of RMB84.513 billion, an increase of 28.37% as compared with 2009, mainly due to the increase in the size of interest-earning assets and the rise in yields. Interest income from loans and advances still accounted for the majority of the interest income of the Group.

Interest income from loans and advances

In 2010, the interest income from loans and advances of the Group was RMB66.842 billion, representing an increase of RMB14.820 billion or 28.49% as compared with the previous year. In 2010, benefiting from the constant improvement of our loans and advances risk pricing capability and the gradually emerging effect of interest rate increase, the average yield of loans and advances of the Group increased by 0.45 percentage point to 4.87% as compared with the previous year.

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

	2010			2009		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, excluding percentages)					
Corporate loans	**800,990**	**39,723**	**4.96**	628,127	31,728	5.05
Retail loans	**444,447**	**22,426**	**5.05**	294,616	14,679	4.98
Discounted bills	**126,204**	**4,693**	**3.72**	253,846	5,615	2.21
Loans and advances	**1,371,641**	**66,842**	**4.87**	1,176,589	52,022	4.42

Interest income from debt investments

In 2010, the interest income from bond investments of the Group increased by RMB626 million or 7.32% as compared to the previous year, and the average yield of bond investments was 2.88%, a decrease of 0.22 percentage point as compared to the previous year.

Interest income from placements with banks and other financial institutions

In 2010, the interest income from placements with banks and other financial institutions of the Group increased by RMB2.640 billion or 114.43% as compared to the previous year, and the average yield for placements with banks and other financial institutions was 2.31%, up by 0.84 percentage point as compared to the previous year, which was primarily attributable to an increase in the volume of placements with banks and other financial institutions and the gradual rise of interest rate of inter-bank funds, in an environment of increasingly tightened liquidity.

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5.2.5 Interest expense

In 2010, the interest expense of the Group was RMB27.437 billion, an increase of RMB1.963 billion or 7.71% as compared to the previous year, which was primarily attributable to the increase in volume of deposits from customers.

Interest expense on deposits from customers

In 2010, the Group's interest expense on deposits from customers increased by RMB1.110 billion or 5.66% as compared to the previous year. It was because 1) average balance of deposits from customers increased by 18.81%, and 2) demand deposits took a higher proportion and time deposits took a lower proportion, causing average cost to decrease by 0.15 percentage point as compared to the previous year, thus leading to a relatively smaller change in interest expense on deposits from customers as compared to the previous year.

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

	2010			2009		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(In millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**560,923**	**3,516**	**0.63**	417,710	2,553	0.61
Time	**476,989**	**9,392**	**1.97**	430,478	8,943	2.08
Subtotal	**1,037,912**	**12,908**	**1.24**	848,188	11,496	1.36
Deposits from retail customers						
Demand	**357,082**	**1,842**	**0.52**	283,102	1,356	0.48
Time	**277,506**	**5,974**	**2.15**	276,441	6,762	2.45
Subtotal	**634,588**	**7,816**	**1.23**	559,543	8,118	1.45
Total deposits from customers	**1,672,500**	**20,724**	**1.24**	1,407,731	19,614	1.39

Interest expense on placements from banks and other financial institutions

In 2010, the interest expense on placements from banks and other financial institutions of the Group increased by 23.27% as compared to the previous year, which was primarily attributable to an increase in the volume and the average cost of 0.07 percentage point for placements from banks and other financial institutions as compared to the previous year.

Interest expense on issued debts

In 2010, interest expenses on issued debts decreased by 3.16% as compared to the previous year, while there is relatively smaller change in the volume and average cost of issued debts.

5.2.6 Net interest spread and net interest margin

In 2010, the net interest spread of the Group was 2.56%, up by 41 basis points as compared to the previous year. The average yield of the interest-earning assets was 3.93%, up by 28 basis points as compared to the previous year while the average cost of total interest-bearing liabilities was 1.37%, down by 13 basis points as compared to the previous year.

With the average yield of the interest-earning assets increasing and the average cost of total interest-bearing liabilities under effective control, the net interest margin of the Group was 2.65%, up by 42 basis points as compared to the previous year.

5.2.7 Net fee and commission income

In 2010, the net fee and commission income of the Group increased by RMB3.337 billion or 41.75% as compared to the previous year, which was primarily attributable to the increase in bank card commission and agency service fees. The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

	2010	2009
	(In millions of RMB)	
Fee and commission income	**12,409**	9,153
Bank card fees	**3,710**	2,599
Settlement and clearing fees	**1,386**	1,077
Agency service fees	**3,062**	2,477
Commissions from credit commitment and loan business	**1,114**	723
Commissions from custody and other trustee businesses	**1,793**	1,541
Others	**1,344**	736
Fee and commission expense	**(1,079)**	(1,160)
Net fee and commission income	**11,330**	7,993

Bank card commission increased by RMB1.111 billion or 42.75% as compared to the previous year, which was primarily attributable to the steady increase in POS service charge.

Settlement and clearing fees increased by RMB309 million or 28.69% as compared to the previous year, which was primarily attributable to the increase in remittance and settlement volume as a result of the steady expansion of business scale and customer base.

Agency service fees increased by RMB585 million or 23.62% as compared to the previous year, which was primarily attributable to the rapid growth of income from insurance agency, bond issue agency and fund agency services.

Commissions from credit commitment and loan business increased by RMB391 million or 54.08% as compared to the previous year, which was primarily attributable to the increase in commission from letters of international guarantees, international factoring, personal loans and other commitment businesses.

Commissions from custody and other trustee businesses increased by RMB252 million or 16.35% as compared to the previous year, which was mainly due to the increase in income from entrusted wealth management business.

Other fee and commission income increased by RMB608 million or 82.61% as compared to the previous year, which was mainly due to the rapid growth of financial consultancy fee.

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5.2.8 Other net income

In 2010, the other net income of the Group decreased by RMB199 million or 6.35% as compared to the previous year, which was mainly due to the estimated losses on financial instruments designated at fair value through profit or loss; timely realization in the previous year of the available-for-sale financial assets that reaped a higher gains on spread.

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

	2010	2009
	(In millions of RMB)	
Net trading profit/(loss) arising from:		
– Foreign exchange	**1,356**	1,252
– Securities, derivatives and other trading activities	**591**	66
Net gains on financial instruments designated at fair value through profit or loss	**(172)**	611
Net profit/(loss) on disposal of available-for-sale financial assets	**151**	722
Distributions from investment in funds	**15**	10
Net gains on disposal of fixed assets	**20**	2
Rental income	**217**	149
Bills spread income(Note)	**593**	–
Others	**162**	320
Total other net income	**2,933**	3,132

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

5.2.9 Operating expenses

In 2010, operating and management expenses of the Group were RMB32.634 billion, representing an increase of 24.52% as compared to 2009. The cost-to-income ratio was 39.69%, representing a decrease of 4.76 percentage points as compared to 2009. The significant decrease of cost-to-income ratio was primarily due to a significant increase in net operating income and a steady rise in expenses. Depreciation of fixed assets and rental expenses increased slightly as compared to the previous year. Staff costs and other general and administrative expenses increased by 26.14% and 28.10% respectively as compared to 2009 due to increased headcounts along with business expansion. Business tax and other surcharges increased by 32.73% as compared to 2009, which was in line with the increase in the net operating income of the Group.

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

	2010	2009
	(In millions of RMB)	
Staff costs	**16,002**	12,686
Business tax and surcharges	**4,153**	3,129
Depreciation of fixed assets	**2,497**	2,194
Rental expenses	**1,936**	1,917
Other general and administrative expenses	**8,046**	6,281
Total operating and management expenses	**32,634**	26,207

5.2.10 Impairment losses on assets

In 2010, impairment losses on assets of the Group was RMB5.501 billion, an increase of 85.16% as compared to 2009.

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

	2010	2009
	(In millions of RMB)	
Assets impairment charged/(released) on		
– Loans and advances	**5,570**	3,073
– Investments	**(13)**	(83)
– Investments in associates	**–**	1
– Other assets	**(56)**	(20)
Total impairment losses on assets	**5,501**	2,971

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In 2010, impairment losses on loans was RMB5.570 billion, representing an increase of 81.26% as compared to 2009. This is mainly because the Group, with prudence as its principle, amended the provisioning policy for some types of loans, including higher provision rates for loans to local government financing platforms in 2010.

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In 2010, the investment value of some debts for which the impairment loss had been provided previously was partly restored, and credit exposure to the issuers was partially mitigated, therefore allowances for impairment loss previously recognized on debts investments was appropriately reversed, with a total released amount of RMB13 million.

Impairment losses on other assets consisted primarily of impairment losses on repossessed assets. In 2010, the provision for impairment losses on other assets of the Group was RMB56 million.

5.3 Analysis of balance sheet

5.3.1 Assets

As at 31 December 2010, the total assets of the Group amounted to RMB2,402.507 billion, representing an increase of 16.18% as compared to the end of 2009. The increase in total assets was primarily due to the increase in loans and advances to customers, investment, cash and balances and placements with banks of the Group.

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

	31 December 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Total loans and advances to customers	**1,431,451**	**59.58**	1,185,822	57.34
Allowance for impairment losses on loans and advances to customers	**(29,291)**	**(1.22)**	(24,005)	(1.16)
Net loans and advances to customers	**1,402,160**	**58.36**	1,161,817	56.18
Investments	**394,176**	**16.41**	377,072	18.23
Cash and balances with banks and other financial institutions	**38,211**	**1.59**	56,544	2.73
Balances with the central bank	**285,705**	**11.89**	208,554	10.09
Placement with banks and other financial institutions	**235,464**	**9.80**	221,194	10.70
Investment in associates and joint ventures	**443**	**0.02**	466	0.02
Fixed assets	**18,397**	**0.77**	16,008	0.78
Intangible assets	**2,620**	**0.11**	2,477	0.12
Deferred tax assets	**3,706**	**0.15**	2,786	0.13
Goodwill	**9,598**	**0.40**	9,598	0.46
Other assets	**12,027**	**0.50**	11,425	0.56
Total assets	**2,402,507**	**100.00**	2,067,941	100.00

5.3.1.1 *Loans and advances to customers*

As at 31 December 2010, total loans and advances to customers of the Group amounted to RMB1,431.451 billion, representing an increase of 20.71% as compared to the end of previous year; the percentage of total loans and advances to customers to the total assets was 59.58%, representing an increase of 2.24 percentage points as compared to the end of the previous year.

Distribution of loans to customers by product type

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

	As at 31 December 2010		As at 31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Corporate loans	**870,515**	**60.81**	701,396	59.15
Discounted bills	**64,948**	**4.54**	102,549	8.65
Retail loans	**495,988**	**34.65**	381,877	32.20
Total loans and advances to customers	**1,431,451**	**100.00**	1,185,822	100.00

Corporate loans

As at 31 December 2010, the Group's total corporate loans amounted to RMB870.515 billion, representing an increase of 24.11% as compared to the end of the previous year. Total corporate loans accounted for 60.81% of the total loans and advances to customers, an increase of 1.66 percentage points as compared to the end of this year. In 2010, while taking into account the regulatory requirements, capital adequacy, risk degree and loan pricing, the Group rationalized the size and speed of granting corporate loans, thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 31 December 2010, discounted bills amounted to RMB64.948 billion, representing a decrease of 36.67% as compared to the end of previous year. Over the years, as the loss rate of discounted bills was relatively low and the capital consumption was relatively small, the Group kept striving to expand this business. Confronted with the complicated and variable economic and financial environment in 2010, the Group managed to expand the business volume and speed up circulation, achieved a sound result in its bill business under a shrinking but still competitive market environment through active credit approval policy and scale control, active reduction of bill discounting and diversified measures such as policy promotion, intensified operation as well as two-way market making.

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Retail loans

With active development of retail loans business in recent years, the percentage of retail loans business in the portfolio of loans and advances kept increasing. As at 31 December 2010, retail loans amounted to RMB495.988 billion, representing an increase of 29.88% as compared to the end of the previous year, accounting for 34.65% of its total loans and advances, representing an increase of 2.45 percentage points as compared to the end of the previous year, which was primarily due to the diversified development of retail loans business.

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

	As at 31 December 2010		As at 31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Retail housing loans	**298,997**	**60.28**	273,659	71.66
Credit card receivables	**54,916**	**11.07**	40,314	10.56
Personal operational loans	**64,609**	**13.03**	27,154	7.11
Other personal loans(Note)	**77,466**	**15.62**	40,750	10.67
Total retail loans	**495,988**	**100.00**	381,877	100.00

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

5.3.1.2 Investments

Analysis on investments in foreign currency debts

As at 31 December 2010, the Group had a balance of investments in foreign currency bonds of US$5.935 billion, among which US$2.964 billion was held by the Company and US$2.971 billion was held by WLB and its subsidiaries (hereinafter referred to as "WL Group").

As at the end of December 2010, the investments in foreign currency bonds held by the Company are categorized as follows: 34.6% of the foreign currency bonds are issued by the PRC government and Chinese companies; 28.3% by overseas governments and institutions; 31.3% by overseas banks and 5.8% by overseas companies. The Company has made an allowance for impairment of US$95 million for its investments in foreign currency debts, with an evaluated unrealized profit of US$34 million.

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

Investments

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

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

	31 December 2010		31 December 2009	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(In millions of RMB, excluding percentages)			
Financial assets at fair value through profit or loss	**16,967**	**4.31**	16,855	4.47
Available-for-sale investments	**272,370**	**69.10**	244,916	64.95
Held-to-maturity securities	**97,614**	**24.76**	80,201	21.27
Investment receivables	**7,225**	**1.83**	35,100	9.31
Total investments	**394,176**	**100.00**	377,072	100.00

Financial assets at fair value through profit or loss

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

	31 December 2010	31 December 2009
	(In millions of RMB)	
PRC government bonds	**1,467**	755
The People's Bank of China bills ("PBOC")	**54**	1,319
Debts issued by policy banks	**357**	790
Debts issued by commercial banks and other financial institutions	**2,685**	4,696
Others[1]	**12,404**	9,295
Total financial assets at fair value through profit or loss	**16,967**	16,855

Note: (1) Consists of other bonds, equity investments and investments in funds, derivative financial instruments and hedging instruments.

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Available-for-sale investments

As at 31 December 2010, the available-for-sale financial assets of the Group increased by RMB27.454 billion or 11.21% as compared to the end of the previous year, representing 69.10% of the investments of the Group in securities and other financial assets, which was the largest investment category of the Group. The increase in this category was mainly due to the need to manage assets and liabilities and improve operating efficiency and performance.

The domestic and worldwide financial markets experienced major twists and turns in 2010. The Renminbi bond market was on a roller coaster ride over the year. The bond yield curves headed down during the first three quarters. Following the announcement of interest rate hike by the PBOC in October, together with the increasingly tightened monetary policies and high inflation expectation, the bond market dropped sharply towards the end of the year. In the first half of 2010, the Bank started to use floating-rate and mid-term products with lower risk exposures to replace those long-term products with higher risk exposures and those low yielding short-term products. Meanwhile, the Bank increased the credit bond investments in the primary market. In the second half of the year, the Bank resolutely sold some long-term fixed-rate bonds before the long-term bond market dropped sharply and covered positions moderately when the yields rose to a high level. Thus the adjustments made to the bond portfolio were successful.

As for the foreign currency business, as the US Federal Reserve implemented a policy of quantitative easing and continually injected liquidity into the market, which sustained a low yield rate of the U.S. bonds for the year. At the same time, the overall recovery of the U.S. economy was encouraging and credit spreads gradually narrowed. The bank optimized its portfolio and replaced low yielding government guaranteed bonds by relatively higher yielding credit bonds associated with Chinese companies.

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

	As at 31 December 2010	As at 31 December 2009
	(In millions of RMB)	
PRC government bonds	**27,533**	18,199
Debts issued by the PBOC	**18,970**	25,058
Debts issued by policy banks	**43,493**	47,167
Debts issued by commercial banks and other financial institutions	**105,388**	101,892
Other debts	**75,727**	51,404
Equity investments	**1,235**	1,178
Fund investments	**24**	18
Total available-for-sale investments	**272,370**	244,916

Held-to-maturity securities

As at 31 December 2010, the net amount of held-to-maturity securities of the Group increased by RMB17.413 billion or 21.71% as compared to the end of previous year. Held-to-maturity investments are held for the Company's strategic purpose on a long-term basis. In 2010, the Group grasped the market interest rate movement and acquired certain relatively higher-yield debts into its held-to-maturity investments category. The increase in held-to-maturity investments was mainly attributable to increase in PRC government bonds and debts which enjoyed better preferential tax treatment, while investment in other types of debts maintained at constant level or reduced.

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

	As at 31 December 2010	As at 31 December 2009
	(In millions of RMB)	
PRC government bonds	**45,069**	22,760
Debts issued by the PBOC	**12,945**	12,210
Debts issued by policy banks	**4,172**	4,360
Debts issued by commercial banks and other financial institutions	**32,988**	38,738
Other debts	**2,620**	2,317
Total amount of held-to-maturity securities	**97,794**	80,385
Less: allowance for impairment losses	**(180)**	(184)
Net amount of held-to-maturity securities	**97,614**	80,201

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Investment receivables

Investment receivables are unlisted PRC certificated bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 31 December 2010, the Group's net investment receivables amounted to RMB7.225 billion, representing a decrease of RMB27.875 billion as compared to the end of 2009.

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

	As at 31 December 2010	As at 31 December 2009
	(In millions of RMB)	
PRC government bonds	**5,291**	5,600
PBOC bills	**–**	16,889
Debts issued by commercial banks and other financial institutions	**1,994**	1,714
Other debts	**–**	10,959
Total investment receivables	**7,285**	35,162
less: Provision for impairments	**(60)**	(62)
Net investment receivables	**7,225**	35,100

Carrying value and market value

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

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

	As at 31 December 2010		As at 31 December 2009	
	Carrying Value	**Market/ Fair Value**	Carrying Value	Market/ Fair Value
	(In millions of RMB)			
Held-to-maturity listed investment	**94,513**	**93,429**	72,217	75,302

5.3.1.3 Goodwill

In compliance with the PRC accounting principles, the Group took an impairment test at the end of 2010 for the goodwill arised from the acquisition of WLB and decided that provision for impairment was not necessary. As at 31 December 2010, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.598 billion.

5.3.2 Liabilities

As at 31 December 2010, the total liabilities of the Group amounted to RMB2,268.501 billion, representing an increase of 14.85% as compared to the end of 2009, which was primarily due to a steady growth in deposits from customers.

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

	As at 31 December 2010		As at 31 December 2009	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from customers	**1,897,178**	**83.63**	1,608,146	81.42
Deposits from banks and other financial institutions	**203,011**	**8.95**	186,201	9.43
Placements from banks and other financial institutions	**79,012**	**3.48**	78,918	4.00
Certificates of deposit issued	**5,053**	**0.22**	4,462	0.23
Subordinated debts issued	**31,232**	**1.38**	31,271	1.58
Other debts issued	**–**	**–**	4,998	0.25
Other liabilities	**53,015**	**2.34**	61,162	3.09
Total liabilities	**2,268,501**	**100.00**	1,975,158	100.00

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Deposits from customers

The Group has been consistently focusing on expanding deposit business. Deposits from customers maintained steady growth. As at 31 December 2010, deposits from customers of the Group amounted to RMB1,897.178 billion, representing an increase of 17.97% as compared to the end of 2009. Deposits from customers accounted for 83.63% of the total liabilities of the Group and were the major funding source of the Group.

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

	As at 31 December 2010		As at 31 December 2009	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**664,947**	**35.05**	520,734	32.38
Time	**528,632**	**27.86**	448,391	27.88
Subtotal	**1,193,579**	**62.91**	969,125	60.26
Deposits from retail customers				
Demand	**413,888**	**21.82**	359,783	22.37
Time	**289,711**	**15.27**	279,238	17.37
Subtotal	**703,599**	**37.09**	639,021	39.74
Total deposits from customers	**1,897,178**	**100.00**	1,608,146	100.00

In 2010, the retail customer deposits flew to various investments as a result of expected domestic inflation and the launch of high-yield wealth management products. As at 31 December 2010, the percentage of retail deposits to total deposits from customers of the Group was 37.09%, representing a decrease of 2.65 percentage points as compared to the end of 2009.

As at 31 December 2010, the percentage of demand deposits to total deposits from customers of the Group was 56.87%, representing an increase of 2.12 percentage points as compared to the end of 2009. Among the figures, the proportion of corporate demand deposits accounted for 55.71% of the corporate deposits, representing an increase of 1.98 percentage points as compared to the end of 2009, and the proportion of retail demand deposits accounted for 58.82% of the retail deposits, representing an increase of 2.52 percentage points as compared to the end of 2009.

5.3.3 Shareholders' equity

	As at 31 December 2010	As at 31 December 2009
	(In millions of RMB)	
Paid-up share capital	**21,577**	19,119
Capital reserve	**37,508**	18,399
Surplus reserve	**8,418**	6,653
Investment revaluation reserve	**(1,311)**	(230)
Hedge reserve	**3**	–
Regulatory general reserve	**16,812**	14,976
Foreign exchange translation reserve	**(526)**	(22)
Retained profits	**42,806**	27,592
Proposed profit appropriations	**8,719**	6,296
Total shareholders' equity	**134,006**	92,783

5.3.4 Market share of major products or services

According to the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions published by the People's Bank of China in December 2010, the market share and ranking of the Bank among the 32 national small-and-medium-sized banks in terms of loans and deposits as at the end of the reporting period are as follows:

Items expressed in RMB	Market share (%)	Ranking
Total deposits	11.62	1
Total savings deposits	20.96	1
Total loans	10.35	2
Total personal consumption loans	23.19	1

Note: From 2010, PBOC had applied new classifications for all financial institutions in the PRC based on their total assets in preparing the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions, being large-sized banks, small-and medium-sized national banks and small-and-medium-sized local banks, etc.. The small-and-medium-sized national banks are China Merchants Bank, Agricultural Development Bank, Export-Import Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, Evergrowing Bank, China Zheshang Bank and Bohai Bank; and Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank,Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, JinanBank, Weihai Bank, Linshang Bank, Ping An Bank and Bank of Chongqing.

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5.4 Loan quality analysis

In 2010, the Group took proactive actions to cope with the changes in the complex external economic and financial environment and complied strictly with regulatory requirements. By closely adhering to the policies of "Implementing transformation, Optimizing process, Solidifying foundation and Enhancing management" for credit risk management, the Company implemented whole workflow optimization of credit risk and comprehensively promoted infrastructure of risk management. During the reporting period, our credit assets was in a sound situation as demonstrated by steady growth in scale, high quality of borrowers and sufficient provision for impairment losses.

As at the end of December 2010, total loans and advances of the Group was RMB1,431.451 billion, representing an increase of RMB245.629 billion or 20.71% as compared to that at the end of last year; the non-performing loan ratio was 0.68%, representing a decrease of 0.14 percentage point as compared to that at the end of last year; whereas the non-performing loan allowance coverage ratio was 302.41%, representing an increase of 55.75 percentage points as compared to that at the end of 2009.

5.4.1 Distribution and migration of loans by 5-tier loan classification

	As at 31 December 2010		As at 31 December 2009	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	**1,407,546**	**98.33**	1,161,971	97.99
Special Mention	**14,219**	**0.99**	14,119	1.19
Substandard	**2,730**	**0.19**	2,961	0.25
Doubtful	**2,659**	**0.19**	2,791	0.23
Loss	**4,297**	**0.30**	3,980	0.34
Total loans and advances to customers	**1,431,451**	**100.00**	1,185,822	100.00
Total non-performing loans	**9,686**	**0.68**	9,732	0.82

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard, doubtful and loss loans. During the reporting period, asset quality of the Group has persistently improved as the ratios of non-performing loans and special mention loans both dropped. As at the end of December 2010, the amount of non-performing loans was RMB9.686 billion, decreasing by RMB46 million from the end of the previous year, and the ratio of non-performing loans was 0.68%, a decrease of 0.14 percentage point as compared with the end of the previous year. Special mention loan balance was RMB14.219 billion, up by RMB100 million as compared to that at the end of the previous year, whereas the special mention loan ratio was 0.99%, a decrease of 0.20 percentage point as compared to that at the end of the previous year.

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

	As at 31 December 2010				As at 31 December 2009			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	870,515	60.81	8,016	0.92	701,396	59.15	8,009	1.14
Working capital loans	516,749	36.10	5,734	1.11	454,969	38.37	6,427	1.41
Fixed asset loans	273,056	19.07	1,326	0.49	196,059	16.53	646	0.33
Trade finance	48,563	3.39	465	0.96	36,848	3.11	379	1.03
Others(2)	32,147	2.25	491	1.53	13,520	1.14	557	4.12
Discounted bills(3)	64,948	4.54	–	–	102,549	8.65	–	–
Retail loans	495,988	34.65	1,670	0.34	381,877	32.20	1,723	0.45
Personal housing loans	298,997	20.89	428	0.14	273,659	23.07	390	0.14
Credit card receivables	54,916	3.84	1,040	1.89	40,314	3.40	1,133	2.81
Operating retail loans	64,609	4.51	62	0.10	27,154	2.29	54	0.20
Other personal loans(4)	77,466	5.41	140	0.18	40,750	3.44	146	0.36
Total loans and advances to customers	1,431,451	100.00	9,686	0.68	1,185,822	100.00	9,732	0.82

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

(2) Consists primarily of corporate mortgage loans, including non-performing discounted bills.

(3) Excludes non-performing discounted bills described in Note (2). Once discounted bills are classified as non-performing, the Company will classify them as non-performing corporate loans.

(4) Consists primarily of retail loans secured by monetary assets, automobile loans, home improvement loans, education loans and general consumer loans.

Based on the maintenance of a proper composition of credit approvals for various businesses and credit risk pricing, the Group can maximize returns while reducing risks. The Group provided its customers with tailored comprehensive financial solutions according to the operating scale, portfolio of principal businesses and financing channels of customers. By utilizing short maturities and quick turnovers of supply chain finance and international trade finance, the information flow, stock flow and cash flow of the respective corporate clients were under close risk surveillance. We put in place and refined the relevant working systems such as Administrative Measures for Working Capital Loans, Administrative Measures for the Uses of Working Capital Loans, Administrative Measures for Fixed Asset Loans Management, and Administrative Measures for the Uses of Fixed Asset Loans whereby substantial risk items involved in credit approvals for various businesses were under control and positive results were evident.

This was reflected by the fast growth in such businesses as fixed assets loans, trade finance and retail loans and a balanced improvement in asset quality for various businesses during the reporting period. As at the end of December 2010, the non-performing loan ratio of corporate loans was 0.92%, representing a decline of 0.22 percentage point as compared to that at the end of last year. The non-performing ratio of the retail loans was 0.34%, representing a decline of 0.11 percentage point as compared to that at the end of the previous year.

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5.4.3 Distribution of loans and non-performing loans by industry

	As at 31 December 2010				As at 31 December 2009			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio[1]	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio[1]
	(in millions of RMB, excluding percentages)							
Corporate loans	**870,515**	**60.81**	**8,016**	**0.92**	701,396	59.15	8,009	1.14
Manufacturing	**253,454**	**17.71**	**2,680**	**1.06**	194,388	16.39	2,888	1.49
Transportation, storage and postal services	**131,555**	**9.19**	**852**	**0.65**	109,580	9.24	529	0.48
Wholesale and retail	**116,068**	**8.11**	**1,711**	**1.47**	80,244	6.77	1,749	2.18
Property development	**113,182**	**7.91**	**896**	**0.79**	90,527	7.63	1,092	1.21
Generation and supply of electric power, gas and water	**62,519**	**4.37**	**411**	**0.66**	65,984	5.56	457	0.69
Leasing and commercial services	**50,174**	**3.51**	**439**	**0.87**	46,353	3.91	446	0.96
Construction	**33,781**	**2.36**	**217**	**0.64**	26,230	2.21	86	0.33
Water, environment and public utilities management	**31,894**	**2.23**	**61**	**0.19**	28,626	2.41	11	0.04
Mining	**28,702**	**2.01**	**0**	**0.00**	19,779	1.67	–	–
Financial Services	**9,036**	**0.63**	**65**	**0.72**	6,706	0.57	72	1.07
Others[2]	**40,150**	**2.78**	**684**	**1.70**	32,979	2.79	679	2.06
Discounted bills	**64,948**	**4.54**	**–**	**–**	102,549	8.65	–	–
Retail loans	**495,988**	**34.65**	**1,670**	**0.34**	381,877	32.20	1,723	0.45
Total loans and advances to customers	**1,431,451**	**100.00**	**9,686**	**0.68**	1,185,822	100.00	9,732	0.82

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

(2) Consist primarily of education, culture, sports, and social welfare, etc.

During the year of 2010, under the guidelines of "setting definitive thresholds, encouraging the growth of some sectors while restraining the expansion of others, attempting at portfolio management, and strengthening structural adjustment", the Company continued to conduct in-depth researches on credit policies towards different industries, channel credits and composition of credit assets in an appropriate manner, thus capital efficiency was enhanced. In 2010, credit policies covering 39 industries and 12 types of customers and credit approvals were in place which clearly defined the limits and thresholds on credit approvals, and refined the credit approval system, as thus improving loan approval efficiency.

The Group took steps to speed up the adjustments to loan structure. Based on risk profile of various industries and regions, differential treatments among industries and customers such as limits on proportions, loan balances, special treatment for short-listed customers, and centralized approval and granting at Head Office were applied which aimed to prevent concentration of risks. The Group pushed on with self-reviews and corrective actions for projects related to local government financing platforms, and tightened the loans to the real estate sector, with stringent credit risks control over loans to the "high pollution, high energy consumption and excess capacity industries" and those of backward technologies. Accordingly, increase in loans and fluctuation of loan quality associated with risk-sensitive industries were under proper control. As a result, a balanced growth of credits and optimized industry distribution were achieved in the reporting period.

In 2010, the increase in the loans by the Group were primarily contributed by the corporate loans granted to the manufacturing, wholesale and retail industries, and retail loans. The newly increased loans of the above industries accounted for 85.09% of the Group's total loan growth. As at the end of the reporting period, the NPL ratio for most industries declined as compared to the end of the previous year.

5.4.4 Distribution of loans and non-performing loans by region

	As at 31 December 2010				As at 31 December 2009			
	Loan balance	**Percentage of total (%)**	**Non-performing loan**	**Non-performing loan ratio (%)(1)**	Loan balance	Percentage of total (%)	Non-performing loan	Non-performing loan ratio (%)(1)
	(in millions of RMB, excluding percentages)							
Head Office	**94,149**	**6.58**	**2,238**	**2.38**	76,583	6.46	2,578	3.37
Yangtze River Delta	**350,522**	**24.49**	**2,140**	**0.61**	312,010	26.31	2,011	0.64
Bohai Rim	**225,999**	**15.79**	**833**	**0.37**	186,598	15.73	876	0.47
Pearl River Delta and west side of Taiwan Strait	**232,236**	**16.22**	**1,226**	**0.53**	203,807	17.19	1,259	0.62
North-eastern China	**83,462**	**5.83**	**371**	**0.44**	64,708	5.46	413	0.64
Central China	**158,873**	**11.10**	**1,183**	**0.74**	130,771	11.03	749	0.57
Western China	**179,784**	**12.56**	**1,306**	**0.73**	142,684	12.03	1,437	1.01
Overseas	**21,076**	**1.47**	**32**	**0.15**	12,362	1.04	38	0.31
Subsidiaries	**85,350**	**5.96**	**357**	**0.42**	56,299	4.75	371	0.66
Total customer loans	**1,431,451**	**100.00**	**9,686**	**0.68**	1,185,822	100.00	9,732	0.82

Note:

(1) Represents the ratio of non-performing loans to the total loans in the same category.

Under the guidance of the unified credit strategy, the Group formulated appropriate regional credit policies while taking into account different regional resources, features of industry clusters and financial environment, so as to maximize the regional reward to risk. In 2010, new loans were mainly extended in the Bohai Rim and Yangtze River Delta while credit support to the West was also amplified. The Group concentrated its support to the pillar industries and quality customers with stronger competitive strengths and healthy growth in the above mentioned regions in order to achieve an optimal regional credit structure. During the reporting period, the non-performing loan ratios in most areas were falling except that in Central China, which reported a slight increase.

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

	As at 31 December 2010				As at 31 December 2009			
	Loan balance	Percentage of total (%)	Non-performing loan	Non-performing loan ratio (%)[1]	Loan balance	Percentage of total (%)	Non-performing loan	Non-performing loan ratio (%)[1]
	(in millions of RMB, excluding percentages)							
Unsecured loans	**306,669**	**21.42**	**1,540**	**0.50**	263,666	22.23	1,575	0.60
Guaranteed loans	**362,528**	**25.33**	**3,737**	**1.03**	283,055	23.87	3,695	1.31
Collateralized loans	**608,136**	**42.48**	**3,718**	**0.61**	461,945	38.96	3,805	0.82
Pledged loans	**89,170**	**6.23**	**691**	**0.77**	74,607	6.29	657	0.88
Discounted bills	**64,948**	**4.54**	**–**	**–**	102,549	8.65	–	–
Total customer loans	**1,431,451**	**100.00**	**9,686**	**0.68**	1,185,822	100.00	9,732	0.82

Note: (1) Represents the ratio of non-performing loans attributable to a division to the total loans of such division.

In a macroeconomic environment with growing risks, the Group has effectively alleviated the credit risks through a bunch of measures such as more requirements or collaterals and third-party guarantees. As at the end of the reporting period, the percentage of collateralized loans and guaranteed loans increased by 3.52 and 1.46 percentage points respectively as compared to those at the end of the last year whilst the unsecured loans declined by 0.81 percentage point as compared to that at the end of the last year. Non-performing loan ratios under different types of guarantees all declined, resulting in a balanced optimization of asset quality.

5.4.6 Loans to the top ten individual customers

Top ten borrowers	Industry	Loan balance as at 31 December 2010 (in millions of RMB)	% of net capital	% of total loans
A	Transportation, storage and postal	6,210	3.74	0.43
B	Transportation, storage and postal	5,000	3.01	0.35
C	Public administration and social organization	4,505	2.71	0.32
D	Leasing and commercial services	3,719	2.24	0.26
E	Transportation, storage and postal	3,420	2.06	0.24
F	Transportation, storage and postal	3,282	1.98	0.23
G	Transportation, storage and postal	2,700	1.63	0.19
H	Leasing and commercial services	2,636	1.59	0.19
I	Leasing and commercial services	2,622	1.58	0.18
J	Transportation, storage and postal	2,500	1.51	0.17
Total		**36,594**	**22.05**	**2.56**

As at the end of the reporting period, the loan balances of the Group's largest single borrower amounted to RMB6.210 billion, representing 3.74% of the Group's net capital. The loan balances of top ten single borrowers totalled RMB36.594 billion, representing 22.05% of the Group's net capital, and of 2.56% of the Group's total loan balance, respectively.

5.4.7 Distribution of loans by overdue term

	As at 31 December 2010		As at 31 December 2009	
	Amount	Percentage of the total loans (%)	Amount	Percentage of the total loans (%)
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	4,395	0.31	3,741	0.31
Overdue more than 3 months but within 1 year	947	0.06	2,114	0.18
Overdue more than 1 year but within 3 years	2,570	0.18	2,362	0.20
Overdue more than 3 years	4,247	0.30	3,914	0.33
Total overdue loans	12,159	0.85	12,131	1.02
Total loans to customers	1,431,451	100.00	1,185,822	100.00

As the Group's capability of identifying credit risks and managing credit risks enhanced successively, the overdue loans of the Group saw a further reduction, with its percentage to the total loans decreasing from 1.02% at the end of the last year to 0.85% as at the end of the reporting period. In particular, percentage of the loans overdue more than 3 months to the total loans registered a sharp drop.

5.4.8 Restructured loans

	As at 31 December 2010		As at 31 December 2009	
	Amount	Percentage of the total loans (%)	Amount	Percentage of the total loans (%)
	(in millions of RMB, excluding percentages)			
Restructured loans	1,531	0.11	1,569	0.13
Of which: restructured loans overdue more than 90 days	892	0.06	898	0.08

Note: Restructured loans refer to substandard and doubtful loans after restructuring

The Group imposed strict and prudent control over restructuring of loans. As at the end of the reporting period, the percentage of the Group's restructured loans was 0.11%, representing a decrease of 0.02 percentage point as compared to that at the end of the last year.

5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the total repossessed assets of the Group amounted to RMB1,050 million, and after deduction of allowances for impairment losses of RMB987 million, the net repossessed assets amounted to RMB63 million.

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5.4.10 Changes of allowances for impairment losses on loans

The Group adopted two methods of assessing impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was any objective evidence indicating that a loan was impaired, the impairment losses amount would be measured as the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable through profit or loss of the current period. Loans which were considered individually insignificant and for which there was no objective evidence showing that an impairment has been incurred according to individual assessments were grouped in a pool of loans with similar credit risk characteristics for the purpose of impairment testing. Based on the result of the testing, the Group would determine allowances for impairment losses on loans assessed on a portfolio basis.

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

	2010	2009
	(in millions of RMB)	
As at 1 January	**24,005**	21,608
Charge for the year	**6,241**	4,016
Releases for the year	**(671)**	(943)
Unwinding of discount[(1)]	**(110)**	(106)
Recoveries of loans and advances previously written off	**48**	155
Write-offs	**(152)**	(772)
Transfers in/out	**34**	46
Foreign exchange rate movements	**(104)**	1
As at 31 December	**29,291**	24,005

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

The Group continued to adopt a stable, prudent and adequate policy for making provisions. As the end of the reporting period, allowances for impairment losses on loans amounted to RMB29.291 billion, representing an increase of RMB5.286 billion from the end of the previous year, which was primarily due to the increase of loan scale. The non-performing loan allowances coverage ratio was 302.41%, representing an increase of 55.75 percentage points compared to the end of the previous year, and the allowance-to-loan ratio was 2.05%, representing an increase of 0.03 percentage point as compared with that at the end of the previous year, which indicated that the capability to resist risks was further enhanced.

5.5 Analysis of capital adequacy ratio

As at 31 December 2010, the capital adequacy ratio and core capital adequacy ratio of the Group were 11.47% and 8.04% respectively, representing an increase of 1.02 percentage points and 1.41 percentage points respectively as compared with those at the beginning of the year, while the capital adequacy ratio and core capital adequacy ratio of the Bank were 11.21% and 8.70% respectively, representing an increase of 1.16 percentage points and 1.34 percentage points respectively as compared with those at the beginning of the year. The capital adequacy ratio rose in 2010 as the proceeds of RMB21.567 billion from the rights issue of A Shares and H Shares were fully used to replenish capital so as to further enhance the Bank's capital base.

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

	As at 31 December 2010	As at 31 December 2009
	(in millions of RMB)	
Core capital		
Paid-up ordinary share capital	**21,577**	19,119
Reserves	**106,402**	69,154
Total core capital	**127,979**	88,273
Supplementary capital		
General provisions for loans and advances	**21,180**	16,057
Term subordinated debts	**30,000**	30,000
Total supplementary capital	**51,180**	46,057
Total capital base before deductions	**179,159**	134,330
Deductions:		
Goodwill	**9,598**	9,598
Investments in unconsolidated subsidiaries and other long-term investments	**1,661**	1,168
Investments in commercial real estate	**1,946**	2,166
Total capital base after deductions	**165,954**	121,398
Risk-weighted assets	**1,446,883**	1,161,776
Core capital adequacy ratio	**8.04%**	6.63%
Capital adequacy ratio	**11.47%**	10.45%

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5.6 Segment operating results

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

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

Business segments

The main business of the Group are corporate banking, retail banking and treasury business. For more information about the products and services of the respective main businesses, please refer to section headed "Business Operations". The following table summarizes the operating results of the business segments of the Group for the periods indicated.

	Jan-Dec 2010 (after adjustment)(Note)		Jan-Dec 2010 (before adjustment)		Jan-Dec 2009	
Items	**Profit before tax from the segments**	**Percentage (%)**	**Profit before tax from the segments**	**Percentage (%)**	Profit before tax from the segments	Percentage (%)
	(in millions of RMB, excluding percentages)					
Corporate banking	**25,391**	**76.15**	**25,074**	**75.20**	12,708	56.77
Retail banking	**6,400**	**19.19**	**6,635**	**19.90**	2,196	9.81
Treasury business	**2,350**	**7.05**	**1,556**	**4.67**	7,007	31.31
Other businesses and adjustments	**(798)**	**(2.39)**	**78**	**0.23**	473	2.11
Total	**33,343**	**100.00**	**33,343**	**100.00**	22,384	100.00

Note: The format of disclosure for the performance, assets and liabilities of the Group's segments for 2010 was revised. To better facilitate bank operation and performance management, the Bank launched a new version of management accounting system in 2010. The data of the new version relies more on detailed division of businesses and is more direct as to the information collected upon products, customer attributes and operating units while less allocating factors would arise, so as to serve the purpose of delicacy management. Moreover, in view of the trend of integrated operation for the treasury business, the system clearly separates financial market businesses from traditional regional businesses, so that treasury businesses for regional markets (e.g. movement of funds between the Bank's branches and other banks and negotiation of bills in regional markets) previously grouped under the treasury business segment have been reclassified as corporate banking items and only the treasury business at headquarters level would maintain its status quo. Such revised management can better reflect our development strategies and allocation of resources, and thus facilitating the management and operation decision process.

Due to practical difficulties, comparative figures for 2009 have not been restated according to the logic and assumptions following the above changes. Segments information for 2010 is displayed in accordance with both the above method and method previously used.

Geographical segments

The major outlets of the Group are located in relatively affluent regions and some large cities in other regions of China. In 2010, the Group revised the definition of geographical segments to align with its operation and meet its performance management.

The following table sets forth the segment results of the Group by geographical segments in the periods indicated (before revision).

	2010		2009	
	Revenue	**Percentage (%)**	Revenue	Percentage (%)
	(in millions of RMB, excluding percentages)			
Eastern China	**28,070**	**39.15**	19,404	37.42
Southern and Central China	**21,941**	**30.61**	19,617	37.84
Western China	**6,713**	**9.36**	4,315	8.32
Northern China	**12,051**	**16.81**	5,797	11.18
Overseas	**2,917**	**4.07**	2,715	5.24
Total	**71,692**	**100.00**	51,848	100.00

The following table sets forth the segment results of the Group by geographical segments in the periods indicated (after revision).

	2010		2009	
	Revenue	**Percentage (%)**	Revenue	Percentage (%)
	(in millions of RMB, excluding percentages)			
Head Office	**11,681**	**16.29**	13,416	25.88
Yangtze River Delta	**15,554**	**21.70**	10,791	20.81
Bohai Rim	**10,777**	**15.03**	5,880	11.34
Pearl River Delta and West Side of Taiwan Strait	**12,049**	**16.81**	7,571	14.60
Northeast China	**3,435**	**4.79**	1,750	3.38
Central China	**6,909**	**9.64**	4,708	9.08
Western China	**7,581**	**10.57**	4,711	9.09
Overseas	**506**	**0.71**	396	0.76
Subsidiaries	**3,200**	**4.46**	2,625	5.06
Total	**71,692**	**100.00**	51,848	100.00

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5.7 Other Information

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

The Group's off-balance sheet items include derivatives, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating lease commitments, capital commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and contingent liabilities. Credit commitments are the most important component. As at the end of 2010, the balance of credit commitments was RMB659.970 billion. For details of the contingent liabilities and commitments, please refer to the section headed "Contingent Liabilities and Commitments" in "Notes to the Financial Statements" of this Report.

5.7.2 Outstanding overdue debts

As at the end of 2010, the Group did not have any outstanding overdue debts.

5.8 Business operations

5.8.1 Retail Banking Segment

The Company provides retail customers with diversified retail banking products and services, including retail loans, deposits, debit cards, credit cards, wealth management services, investment services, agency sale of insurance products and fund products, forex trading, and foreign exchange services, of which "All-in-one Card", "credit card", "Sunflower Wealth Management", personal online banking and "i Wealth Management" have won wide spread recognition. The Company provides the above-mentioned services and products via varied channels, including branches and sub-branches, self-service centers, online banking, direct banking and mobile banking.

The year 2010 saw a complex and volatile financial environment at home and abroad. Against such background, the Company successively seized the opportunities arising from macro economic adjustment and market growth to aggressively promote the Second Transformation of the retail banking segment, intensify the focus on cost and revenue, strengthen the customer service and constantly enhance expertise. As the transformation proceeds, retail banking segments will maintain a fast and healthy growth.

Retail non-interest income business

The Company has been committed to developing wealth management business, and gradually establishing a wealth management system which is oriented towards "customer assets management" and further enhancing our wealth management expertise over the years, so as to achieve a steady growth in our high-end customers mix and total customer assets under management. We also aimed at achieving a rapid growth in the retail non-interest income as well as a full recognition by the customers through product innovation, expanding our product range, selecting appropriate wealth-management products for our customers and improving customers' assets allocation and comprehensive wealth management services.

In 2010, we recorded a retail non-interest income of RMB7,101 million, increasing by 21.05% as compared to that in the previous year and accounting for 53.99% of non-interest income of the Company. Amongst which, commission income from bank cards (including credit cards) was RMB3,595 million, an increase of 43.28% as compared to that in the previous year; income from fund agency services was RMB1,185 million, an increase of 6.37% as compared to that in the previous year; income from agency sale of insurance was RMB873 million, an increase of 63.18% as compared to that in the previous year; income from wealth management was RMB495 million, a decrease of 18.18% as compared to that in the previous year; income from trustee agency services amounted to RMB194 million, an increase of 12 times as compared with the previous year; and income from bullion trading was RMB28.46 million, an increase of 540% as compared to that in the previous year.

In 2011, the Company will fully exploit its potential, expand the scope of market research and analysis, constantly enhance the wealth management expertise, further take advantage of its channel distribution strength and step up its efforts in developing fund agency business while growing insurance agency business, advancing the development of brokerage wealth management business, banking wealth management business and foreign exchange business, improving retail gold investment business, progressively promoting POS consumption by debit cards and credit cards and speeding up the growth of e-payment business, in order to promote the continuous and steady growth of the Company's retail non-interest income.

Bank card business

All-in-one cards

The Company has always been devoted to the expansion of cardholder base of "All-in-one card" and continued to improve integrated wealth management services offered by the cards with a view to achieve higher customer satisfaction and better awareness towards the brand of All-in-one card. In the Second Transformation in 2010, under the customer-oriented principle, the Company steadily revised the cardholders' mix by increasing the proportion of high-end customers while keeping a stable growth in the issuance volume of new cards. As at 31 December 2010, the Company had issued a cumulative total of 56.94 million All-in-one cards, including 3.57 million cards newly issued during the year. Total deposit balance of All-in-one cards was RMB536.917 billion, accounting for 82.56% of the total retail deposits. Average balance per card was RMB9,430, increasing by RMB639 as compared to that at the beginning of the year.

Credit cards

In 2010, the Company continued to consolidate the foundation, refine products and services and press forward with the transformation of the credit card business, which have delivered remarkable results with a new business model focusing on value and efficiency coming into being. We were also actively exploring an effective customer development model so as to constantly optimize our customer structure while trying to secure a proper growth in scale. For the fragmented customer groups, we offered them a series of tailored products, such as introducing the CMB American Express Card carrying a Centurion logo, launching the new Young Card and Hello Kitty Fans Gold Card, etc., which further enriched our product mix. Under the main theme – the "Extraordinary Four Seasons" – of our marketing campaign, we reinforced our customer development efforts and realized greater value out of customers. In terms of brand recognition, CMB credit cards remained the industry leader, whereby a third-party survey found that our credit cards are the "most used and welcome credit cards". As for customer experience, we have been putting great efforts in providing agreeable payment and product & service experiences so as to secure our leading position in credit card service. Our credit card business received a number of awards including the "Best Call Centre in China (Asian Pacific)" and the "Best Customer Service Provider in China". As for now, our credit card business remains in a clear leading position in the key cities in China.

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As at the end of the reporting period, the Company had issued 34.77 million credit cards in total, including 4.04 million cards newly issued during the year. The total number of cards in circulation was 17.54 million, while the cumulative transaction value via credit cards for the year was RMB392 billion and the average transaction value per month of each card in circulation was RMB1,854. The percentage of the revolving balances of credit increased to 35.35% from 33.50% as at the end of the previous year. Interest income from credit cards amounted to RMB3,072 million, an increase of 32.30% as compared to that in the corresponding period of the previous year. Non-interest income from credit card was RMB3,273 million, an increase of 29.47% as compared to that in the corresponding period of the previous year.

In 2011, our credit card business will take full advantage of the emerging opportunities as the central government adheres to its policy of "expanding internal demand and boosting consumption", and continue to improve our brand image and competitive edge while intensifying the Second Transformation. We will continue to enhance our customer development efforts, consolidate customer base, improve operating efficiency, refine customer service, realize potential value of our customers, keep on with on-site operation and optimize internal workflow, so as to provide better payment and customer service experience. Through these means, we expect to make progress in establishing a highly efficient, intensively operated and sustainable development model.

Private banking business

Our private banking business adhered to the motto of "It's our job to build you an everlasting fortune", whereby our local senior customer service managers join hands with the globally recruited investment experts to form "1+N" expert teams to provide our high-asset-value customers with an overall, personalized, private and comprehensive wealth management services following logical strict rules of "Four-Step Spiral-Up Workflow".

Meanwhile, through providing systematic and professional market research and analysis reports to customer service managers and private banking customers, we have provided guidance to them on optimized asset allocation in a changing financial market environment. The private banking built up an open product platform and presented a more complete range of products in a bid to improve the private banking products and value-added services. During the reporting period, the Company had launched certain products such as private equity funds, open-ended private equity funds, equity and debenture related funds custody plans, artifact investments and en primeur investments, aiming to meet customers' diverse needs.

In 2010, the customer mix of the Company's private banking enjoyed a growth rate of 42%, and the total assets of private banking customers under management grew by 49%. As at the end of the reporting period, the Company had established 20 private banking centres in 16 major cities across the country, which further extended the coverage of customer service of private banking.

Retail loans

The Company provides retail customers with various loan products. In 2010, the Company continued to accelerate the diversified expansion process of personal loans, and increased the risk pricing of personal loans and the return on capital. While remaining focusing on the promotion of personal housing loans, the Company vigorously developed the non-housing loans, such as personal commercial properties loans, personal consumption loans and personal operational loans, so that our profitability of retail loans was significantly improved. At the same time, the Company spared no efforts in products innovation. Targeting at the segment markets of personal commercial properties loans and personal operational loans, new products known as "Retail Shop Loans" and "Market Loans" were launched in 2010 which gratified various financing needs of customers, thereby further enhancing our market competitiveness.

The Company continued the optimization of personal loan processing workflows, centralised the middle and back office operational process for retail loans, reduced costs and enhanced efficiency. We have built an electronic loan service platform and, with our centralised after-lending service platform, customer satisfaction was further improved and operating cost was cut down. We continued to improve our risk management system, and through the tools applied in advanced risk identification, measurement, control and management, further enhanced our risk management expertise. As at 31 December 2010, the total retail loans amounted to RMB482.736 billion, increasing by 30.97% as compared to that at the end of the previous year, and the weighted average floating band of interest rates of new retail loans increased by 20.07 percentage points from last year. Non-performing retail loan ratio significantly decreased over the previous year to 0.33%.

Looking forward to 2011, in order to achieve coordinated growth in efficiency, scale and quality, the Company will further proceed with diversified expansion process of personal loans, successively upgrade the return on capital for personal lending business, reinforce the refined operation and management, further lower the operating cost and enhance the risk management expertise.

Retail customer deposits

The retail deposit products of the Company mainly consist of demand deposit, time deposit and call deposit. Retail customer deposit provided substantial low-cost funding for the Company. In 2010, to cope with the complex and severe domestic and international financial market environment, the Company actively widened saving deposit channels and succeeded in maintaining a stable growth of retail customer deposits. As at 31 December 2010, the total retail customer deposits amounted to RMB650.369 billion, increasing by 10.84% from the end of the previous year. Demand deposits accounted for 60.19% of total retail customer deposits. The total retail customer deposits accounted for 35.95% of the total customer deposits, decreasing by 2.48 percentage points from the end of the previous year. For the year 2011, through the persisting effort to strengthen coordination between the corporate and private businesses, vigorously develop agency issuance and agency payment service, launch high-quality wealth management products in

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a bid to optimize customer deposit structure and customer assets allocation, and strengthen customer development, we intend to accelerate the continuous and stable growth in the scale of retail customer deposit.

Customers

For the past few years, the Company kept on developing quality customers, solidifying customer base, revising and optimizing customer structure, so as to provide support to our business development. In order to enhance customer experience, we were the first in the industry to introduce the service philosophy embodied in Sunflower Wealth Management and Diamond Wealth Management, which further customer management intensified by combining the development strategy of "We are here just for you" with the notion of "Assets Management for Long-Lasting Fortune". As at the end of the reporting period, the Company established and opened 54 branch-level wealth management centers based on the existing Sunflower Wealth Management Centers and Sunflower VIP Rooms, thereby further improving its high-end customer service system.

In 2010, the Company's customer base kept growing at a steady pace with the customer structure further improved. As at 31 December 2010, the total number of retail deposit accounts of the Company was 45.20 million, of which, the total number of Sunflower customers (i.e. high-end customers with daily average assets per month of RMB500,000 or above deposited at the Company) was 670,100, with a growth of 21.18%. Their total deposit balance was RMB290.6 billion. The balance of Sunflower customers' total assets under management of the Company amounted to RMB1,171.7 billion, an increase of 227.3 billion or 24.07% from the end of the previous year, accounting for 67.29% of the balance of customers' total assets under management of the Company, representing a rapid growth in the number of high-value customers.

Brands and marketing

With the sustained efforts of the Company in brand building for its products and services, the Company has been awarded "The Best Retail Bank in China" for three times and "The Best Joint Stock Retail Bank in China" for six consecutive years by *The Asian Banker*. The Company was awarded the honor of 2010 "Best Retail Bank" by *The Financial Times* and "Best Retail Bank" by "Stars of China 2010" of *The Global Finance*. In the "Result Release on the Survey of Preferred Brand Names of Chinese Multimillionaires" held by Chinese Hurun Report in 2010, the Company was recognized as "The Most Preferred RMB Wealth Management Bank" and "The Most Preferred Credit Card Issuer" for China's richest for six consecutive years. The private banking of the Company was awarded "Best Private Bank in China" by *Euromoney*, "Best Private Bank in China" by *The Asset* and "Best Private Bank in China" by *Financial Times* of the U.K..

In 2010, while consolidating the brand advantages of "All-in-one Card", "All-in-one Net", "Sunflower Wealth Management" and China Merchants Bank credit card, the Company continued to refine the "Sunflower Exclusive" value-added services, actively commenced targeted marketing based on customer database, progressively promoted the integration of sales and service processes, and strengthened the promotion of retail banking business and products. The Company had launched as pioneer in 2010 an online interactive banking "i Wealth Management", which enriched and expanded the services and coverage of online banking. Major marketing campaigns in 2010 such as "Sunflower" Cup National Teenager Piano Competition and "The Fourth Wealth Management Education Community Tour" were launched on an ongoing basis. Such efforts in brand building were not only effective in forging closer relations with our customers, but also helpful in developing our customer base and enhancing customer loyalty.

5.8.2 Corporate Banking

The Company provides corporate customers, financial institutions and government agencies with diversified quality banking products and services. As at 31 December 2010, the total corporate loans of the Company were RMB802,327 million, an increase of 21.72% over the previous year, accounting for 59.60% of the total customer loans; the balance of total discounted bills was RMB61,038 million, a decrease of 40.02% over the previous year, accounting for 4.53% of the total customer loans; and the total corporate customer deposits were RMB1,158,543 million, an increase of 23.23% over the previous year, accounting for 64.05% of the total customer deposits.

In 2011, the Company will adhere to the guiding ideology of "deepening transformation, proactive development, stepping up innovation and enhancing management". In practice, we take on every internal and external challenge, with an aim to ensure a smooth progress of the Second Transformation through effective policy advocacy and management reform.

Corporate loans

Corporate loans products of the Company include working capital loans, fixed asset loans, trade finance and other loans such as corporate mortgage loans.

In 2010, the Company actively implemented a customer strategy that equally emphasized small, medium and large customers. The Company provided more supports for quality industries, such as railway, transportation, electricity, telecommunication, modern service, renewable energy, environmental protection and high-tech industries. The Company restricted loans to industries under macro economic control, such as real estate, local government financing platforms and "high pollution, high energy consumption and excess capacity" industries. These all resulted in further optimization of the industry mix of corporate loans. On this basis, the Company pushed forward the Second Transformation in a down-to-earth manner, with developing SME business as its key strategy to realize it. As at the end of the reporting period, the total balance of the Company's SME corporate loans within Mainland China amounted to RMB388.418 billion, an increase of

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RMB80.048 billion over that at the end of last year. The Company's domestic SME corporate loans accounted for 49.72% of the total domestic corporate loans, an increase of 2.04 percentage points as compared with that at the end of the previous year. In addition, the quality of our SME corporate loans assets was further improved. The nonperforming SME corporate loans ratio was 1.46%, a decrease of 0.37 percentage point over that at the end of the previous year. And the non-performing loan ratio at the credit centre for small-sized enterprises retained zero. The specialized financial service model for small-sized enterprises was widely recognized by the market and competent authorities, and was awarded first prize of "2010 Financial Innovation Awards of Shenzhen" and "Advanced Unit in Financial Services for Small-sized Enterprises" in Suzhou city, Jiangsu province by CBRC Jiangsu Office and CBRC Suzhou Office.

In order to promote the SME business, the Company has adopted the measures set out as below:

Firstly, the Company further intensified the specialised organizational construction and reform for SMEs. During the reporting period, the credit centre for small-sized enterprises has established 10 sub-centres in China, extending its presence to the Yangtze River Delta, Pearl River Delta, Bohai Bay Rim, Western Coast of the Taiwan Straits and the Pan-Yangtze River Delta. More than half of our branches have established first-class SME financing sections with embedded risk management which can both promote business and control risk. Significant improvement in marketability and approval efficiency for the SME business was witnessed and the SME business of those branches was effectively promoted. As at the end of the reporting period, the credit centre for small-sized enterprises had granted loans with a cumulative amount of RMB27.762 billion and had a loan balance of RMB18.525 billion, an increase of RMB13.013 billion or 236.08% as compared with that at the beginning of the year. The number of active customers was 3,135, an increase of 2,205 or 237.10% over that at the beginning of the year.

Secondly, the Company actively carried on product innovation to forge a finance brand for the SME business. The Company strived to launch financing products that fit the market circumstances and operational features of SMEs through product innovation authorization and research and development of general financing products to provide SMEs with personalised and full-range services. In the first half of the year, the Company designed and launched "Zhu Li Dai (助力貸)" program for SME financing, through which highly operational financing products were offered to meet the specific financing needs of SMEs. The program helped SMEs break the funding bottlenecks to gain faster growth.The Company also launched certain new products, such as intellectual rights pledge loans, machinery and equipment mortgage loans, retail business mortgage loans secured by transfer of rights to rental incomes and chain-store loans, etc.. The Company has set up a product system characterized by "Ding Dan Dai（訂單貸）", "Lian Bao Dail（聯保貸）" and "Professional Market Loans", as well as "Xiao Dai Tong（小貸通）" branded service to promote our "Specialized Financing Solutions for Small-sized Enterprises". Besides, the Company has comprehensively launched the "Qian Ying Zhan Yi" Plan which targets at identifying, in the coming three years, 1,000 small and medium-sized enterprises across the country which pursued growth by innovations. According to the program, full range of financial services including finance and investment banking consultancy will be provided to those enterprises in order to quicken their growth and ultimately the common growth of our business.

Thirdly, the Company strengthened the risk management for SME loans. In 2010, the Company took proactive actions to minimize risks originated from SME corporate loans. The Company introduced a set of significant rules on SME double endorsement authorization, risk manager's co-ordinative operation code, loan granting officer dispatched to SME's finance department. A new bank-wide computerized credit risk management system was implemented, which enabled the Company to design suitable modules for the inspection and approval of loan applications and after-lending reviews according to the forms of business and trades of small-sized enterprises. The Company put in effect the optimization of the entire process of credit risk management for small-sized enterprises, and tightened the control over the credit risks associated with SMEs with all kinds of risk management tools.

Fourthly, the Company improved its credit risk pricing ability for SME corporate loans. While expediting product innovation for SMEs and strengthening risk management, the Company placed great emphasis on improving its risk pricing ability for SME corporate loans. Product innovation for SMEs and effective risk management have not only reduced the credit risks, but also increased loan approval efficiency and shortened the loan-granting procedures. In addition, with those measures, the financing services could better serve the market and meet the demands of SMEs, thus further expanding our competitive edge and improving our risk pricing ability for SME corporate loans. In 2010, our risk pricing level for SME corporate loans remained higher than the overall level of the Company's corporate loans, and the weighted average floating band of interest rates increased by 5.12 percentage points over that throughout 2009.

Syndicated Loans

In 2010, for the purpose of enhancing inter-bank cooperation and information sharing, and diversifying risks associated with large amount loans, the Company vigorously promoted syndicated loan business. As at the end of 2010, the balance of syndicated loans amounted to RMB59.317 billion, representing an increase of RMB15.109 billion or 34.18% as compared to the beginning of the year.

Discounted bills

In 2010, taking into consideration of the combined factors of total amount of loans, liquidity, yield and risks, the Company effectively drove the development of discounted bills. As at 31 December 2010, the balance of discounted bills loans was RMB61.038 billion.

Corporate client deposits

The Company attaches great importance to enhancing the returns on corporate client deposits and strives to increase the percentage of low cost demand deposits to total corporate client deposits. With the expansion of innovative services such as online corporate banking and cash management, as well as higher quality marketing, cooperation between the Bank and corporate clients were effectively enhanced. As a result, large amount of low cost demand deposits were obtained.

As at 31 December 2010, demand deposits accounted for 56.56% of the total corporate client deposits, representing an increase of 2.13 percentage points as compared to that at the end of the previous year, which was 13.12 percentage points higher than that of time deposits. The high proportion of demand deposits helped reducing interest expenses on deposits.

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Non-interest income business

While strengthening the growth of interest income, the Company also steps up its efforts to maximize the percentage of non-interest income to total income from corporate banking business. In 2010, the external market environment has been improved as compared with that in 2009, while non-interest income business underwent rapid growth. The Company made great efforts in promoting the development of the innovative businesses including underwriting of debt financing instruments, financial advisory, asset custody, corporate wealth management, wealth management for financial institutions, third party custody, online corporate banking channels, cash management, business card, annuity, precious metal operations and leasing, etc.. Meanwhile, the Company continued to maintain the growth of income from traditional businesses including domestic and international settlement, acceptance, guarantee and commitments in order to ensure the diversification of the sources of non-interest income. While continuing to strengthen product innovation, the Company further strengthened product operations and compliance management as well as the brand building of key products. As a result, the marketing and customer application indicators for various core products continued to make breakthroughs. In 2010, non-interest income of the Company was RMB6.518 billion, representing an increase of RMB2.605 billion or 66.57% over the previous year.

With regard to online corporate banking business, the number of customers increased rapidly to a total of 147,689, representing an increase of 43.46% as compared with the same period of last year. The application ratio by online corporate banking customers improved further, and the number of customers continued to increase; the integrated counter-replacement ratio reached 45.08%, which outperformed its peers in China. The Company has issued the online corporate banking service U-BANK7 and is the first bank to launch 3G corporate mobile phone banking, highlighting its leading role in the innovation of online corporate banking in China.The online corporate banking business has grown to a stage with independent profitability and sales volume. It can effectively support the Company's overall development and fully demonstrate the Company's advantage of advanced science and technology.

As for cash management, there has been a remarkable increase in the comprehensive yield from our products, which contributed remarkably to the Company's efforts in developing and retaining basic customers, absorbing and expanding low-cost corporate settlement deposits, improving the utilization ratio and turnover ratio of banking facilities granted to customers and promoting the cross selling of other corporate and retail products. The number of customers using cash management services reached 142,939. The balance of proprietary corporate deposits from customers using cash management services exceeded RMB750 billion, while the balance of corporate loans exceeded RMB500 billion. The Company was awarded the honor of "China's Best Domestic Cash Management Bank" for the fifth consecutive year by *Asia Money*, and for the year again, the" Best Cash Management Bank" by *Economic Observer*, *CFO* and *China Business*.

With regard to corporate wealth management, in 2010, the Company timely capitalized market trends by launching a series of new wealth management products and services, including "Go Fortune Account" (點金賬戶) and pledge of wealth management products. These products related to investments on treasury bonds traded in inter-bank bonds market, central bank notes, bank bill acceptance and other financial assets. In 2010, the sale of our corporate wealth management products reached RMB450.8 billion. Corporate wealth management business has played a critical role in strengthening non-interest income, attracting new customers and enhancing brand recognition for the Company. During the reporting period, the Company recorded income from wealth management on behalf of customers of RMB383 million, income from fund agency service of RMB5.90 million, income from trustee agency services of RMB1.40 million and income from insurance agency of RMB500,000.

As for the international business, the Company took advantage of the economic recovery to continuously deepen business collaboration, proceed with business development and intensify its efforts in business innovation, which delivered satisfactory business growth. During the reporting period, the cross-border RMB settlement amount exceeded RMB28.2 billion, representing 5.53% of the market share; at the global annual meeting of the Factors Chain International ("FCI"), the Company ranked first in China in export factoring services, and jumped up 3 places from last year in global ranking to reach the fifth; the market share of international dual factoring business was close to 20%, representing a significant increase as compared with that at the end of the previous year. Our domestic and overseas, on-shore and off-shore coordinated businesses grew considerably, accounting for 40% of the total settlement amount. The major breakthroughs were made in export buyer's credit and overseas syndicated loan. A total of 7 projects were entered into for the whole year with total contract value of approximately US$700 million. In 2010, the Company completed international settlements of US$227.3 billion and foreign exchange settlements of US$91.5 billion, while cumulative balance of trade finance amounted to US$16.7 billion, among which RMB2.5 billion belongs to import financing, accounting for 15% of the total trade finance; US$500 million goes to assets transfer by forfaiting, and international factoring made US$2.4 billion. As a result, fee-based income from international business amounted to RMB2 billion. As at the end of 2010, our market share in international settlement, foreign exchange settlement, foreign currency deposits remained stable.

With regard to offshore business, performance indicators of the Company such as offshore deposits, loans, settlements and profits continued to rank the first among domestic peers in terms of market share. As at 31 December 2010, deposits from offshore customers amounted to US$4.793 billion, representing an increase of 27.20% as compared to that at the beginning of the year; while credit assets of offshore customers reached US$2.428 billion, representing an increase of 81.19% as compared to that at the beginning of the year; credit assets continued to be of good quality, with new non-performing loan and new overdue assets remained zero. Cumulative incomes from fee-based businesses reached US$36.3183 million, representing an increase of 88.49% over the previous year.

With regard to businesses with financial institutions, as at 31 December 2010, the balance of placements from other financial institutions reached RMB198.520 billion, representing an increase of RMB22.621 billion or 12.86% as compared to that at the beginning of the year. The balance of over-the-counter asset business with other financial institutions such as inter-bank placements and credit assets transfer of repurchase nature amounted to RMB26.826 billion as at the end of the reporting period, representing an decrease of RMB30.594 billion as compared to that at the beginning of the year. As for third party custody business, the Company had 3.78 million clients, including 410,000 new clients. The balance of funds under third-party custody amounted to RMB107.150 billion, while the amount of funds under third-party custody ranked the third among all domestic peers and the number of clients ranked the first among domestic joint stock commercial banks respectively. The Company sold wealth management products in a total amount of RMB183.5 billion through inter-bank channels. The accumulated amount of cross-border RMB agency clearing service from and to other financial institutions amounted to RMB70.4 billion, while the total number of clearing accounts reached 19 as at the end of the reporting period. The margin trading and short selling business was carried out in partnership with all the three groups of securities firms and a total of 2,429 accounts were opened, ranking the first among the joint stock commercial banks and the third among all peers respectively; the gold business of"Yi Jin Tong (一金通)"developed smoothly; the total number of gold trading agency accounts was 359,900 and their accumulative trading volume totaled 72.78 tons, among which the total volume of gold trading on behalf of institutional customers amounted to 22.50 tons.

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With respect to the asset custody business, in 2010, the Company managed to overcome the unfavourable conditions arising from high fluctuations in the domestic stock market, with income from custody fees, assets under custody and deposits under custody all reaching record high. The Company recorded a profit from custody business of RMB811 million and an income from custody fees of RMB321 million, representing an increase of 69.31% and 55.07% respectively over the same period of last year; the balance of assets under custody of RMB320.923 billion, representing an increase of 54.20% as compared to that at the beginning of the year, and daily average deposits under custody of RMB30.046 billion, representing an increase of 18.42% over the same period of last year. In the industry, the Company ranked the first in volume increase of custody fund and the fourth in newly-added fund, with all custody indicators and market shares remaining the best among small and medium-sized custody banks. Our 6S Comprehensive Service Platform was granted the "Award of Financial Innovation of People's Government of Shenzhen"and the Bank was awarded the "Best Professional Custody Bank in China", the "Preferred Brand of Innovative Customer Satisfaction in the Huazun Assets Custody Market in China", the "Best Joint-Stock Bank in the Huazun Assets Custody Market in China" and the "Golden Sunshine Best Innovation Award of Private Equity Fund" by authoritative media at home and abroad.

As for annuity business, the total number of individual accounts of newly contracted annuity customers was 172,800 in 2010, the entrusted assets of the newly contracted (including those under ancillary custody) reached RMB4.338 billion and the newly added custody assets reached RMB7.293 billion.

With respect to investment banking business, the Company succeeded in a rapid development in 2010. As at 31 December 2010, the revenue of investment banking business was RMB1.043 billion, representing an increase of 78.60% over the same period of last year. In 2010, the Company seized the opportunity of the domestic inter-bank bond market development to strengthen marketing efforts and vigorously expand the underwriting business of debt financing instruments. A total income of RMB428 million of the underwriting business of debt financing instruments for the whole year was achieved, representing an increase of 76.13% over the same period of last year through. Besides, the Company also focused on expanding the distinctive financial consulting business on mergers and acquisitions, private equity, IPOs and government financial advisory services, As a result, the Company achieved a total revenue of the exclusive financial consulting business of RMB615 million, representing an increase of 89.81% over the same period of last year.

As for corporate card business, through public and private coordinated marketing activities, the Company issued a total of 153,734 corporate cards for the whole year as at the end of the reporting period. Total revenue from corporate cards amounted to RMB92,617,400 for the whole year of 2010, representing an increase of 56.18% over the same period of last year, among which the non-interest income from domestic transactions was RMB43,179,700, the non-interest income from overseas transactions was RMB10,951,000 and the income from recurring interest, the interest from cash advance loan and the overdue fine was RMB38,486,700.

Customer base

Over the past 23 years, the Company has developed 392,800 corporate depositors and 22,100 corporate borrowers, including domestic industry leaders and large enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinationals. Meanwhile, the Company has been striving to develop small and medium-sized enterprises to form a balanced customer mix with large, medium and small customers reasonably proportioned. In addition, the Company's products and services have been widely recognized by our clients who maintain a high level of satisfactions with our services.

5.8.3 Treasury

Operating strategy

As for the RMB business, in early 2010, the Company conducted an in-depth research of various aspects such as the macro economy, monetary policies, capital market conditions and the CPI trend at home and abroad and predicted that the possibility of the Chinese central bank policies would be less likely to change in the first half of the year. However, it would be more likely for the Chinese central bank to raise interest rates and the reserve rate in the second half of the year. To this end, the Company gradually shifted its investments from higher-risk long-term bonds and lower-yield short-term bonds to floating-rate and medium-term bonds with relatively low risks, and increased the investments in debentures in the primary market during the first half of the year. In the second half of the year, as the yield of the long-term bonds dropped significantly, the Company resolutely reduced part of long-term fixed-rate debts and seized the opportunity of the market rebound to successfully adjust its investment portfolio and considerably lower the duration of the portfolio. As at the end of the reporting period, the average duration of the debt investments denominated in RMB was 2.67 years.

With respect to the foreign currency business, as the Federal Reserve of the United States implemented the quantitative easing policy, more liquidity was injected to the market, which made the market yields of the U.S. bonds remain at a low level during the year; meanwhile, the overall U.S. economy recovered gradually and its credit spreads narrowed. Based on this, taking the strict credit risks control into consideration, the Company moderately increased investments in medium and long-term credit bonds, which subsequently gained a relatively high interest income. In addition, the Company also vigorously exploited a variety of trading strategies including derivatives instruments to grasp the arbitrage trading opportunities and conducted range trading to gain spread income. As at the end of the reporting period, the average duration of the debt investments denominated in foreign currencies was 2.17 years.

Operating results

For the twelve months of 2010, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 2.91%, down 26 basis points as compared with 2009. The decrease in investment yield was mainly due to the decrease in the floating rate bonds, newly conducted investments, reinvestment of matured securities as a result of lower market yield. From January to December 2010, the Company's annual yield on financial assets under reverse repo agreement and placements to other financial institutions was 2.41%, up by 90 basis points as compared with 2009.

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As at the end of December 2010, the Company's proprietary investment portfolio reached RMB374.285 billion, up by 6.25% from the end of the previous year. In addition, assets under management on behalf of customers denominated in both foreign currencies and RMB reached RMB179.753 billion, up by 49.83% from the end of 2009. In 2010, the Company's income from wealth management on behalf of customers reached RMB879 million, an increase of 7.33% from 2009.

Business development

In 2010, the Company actively explored the business to achieve continuous, stable and long-term profitability by means of strengthening innovation, upgrading quotation ability, optimizing the platform strategies and improving dealing methods. In 2010, the number of wealth management products launched by the Company reached 1,762, with a total issue value of RMB1,651.4 billion, representing an increase of 34.37% as compared with the same period of last year. In 2010, the Company actively positioned itself as a market maker. The Company's interbank bond transaction volume exceeded RMB13 trillion, ranking first among the domestic banks in the bond market in a row since 2009.

5.8.4 Product Pricing

Loans

The interest rates of RMB-denominated loans of the Company are regulated by the PBOC. The interest rate of RMB-denominated corporate loans is not permitted to be lower than 90% of the relevant PBOC benchmark rate. The interest rate of residential mortgage loans is not allowed to be lower than 70% of the benchmark rate. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions.

The Company prices its products based on various criteria, such as the borrower's financial condition, value of collaterals, the intended use and term of the loan, cost of loan, credit risk and other risks, expected return, consolidated income, the Company's market position and the prices of competitors. The Company uses the self-developed risk pricing calculator, the consolidated analysis statement system for corporate customers and the self-compiled Product Pricing Manual to guide the pricing of various loans. The branches are allowed to set prices at their own discretion within the established ranges of these internal benchmark prices so as to compete in the market with greater flexibility.

Deposits

Under current PRC laws and regulations, interest rates of the Company's RMB-denominated demand deposits and general term deposits shall not be higher than relevant PBOC benchmark rates. However, the Company is permitted to provide negotiated term deposits to insurance companies and the National Council for Social Security Fund in accordance with the assets and liabilities management policies and the market rate conditions. The PBOC has liberalized the control on the interest rates of inter-bank RMB-denominated loans and deposits between financial institutions, so that the Company is permitted to negotiate such interest rates at its own discretion with other financial institutions. In addition, the Company is permitted to negotiate the interest rates of the foreign currency deposits (other than those denominated in U.S. dollars, Euros, Japanese Yen or HK dollars) with an amount less than US$3 million. Interest rates of inter-bank foreign currency deposits and the foreign currency deposits of non-PRC residents are generally not subject to PRC regulatory restrictions.

Pricing for non-interest based products and services

The Company priced its various intermediary business services based on reasonably estimated costs under the principles of rationality, openness, integrity and consistence with quality and in strict compliance with the requirements imposed by regulatory authorities. Before applying such service prices, the Company will fulfill relevant procedures on reporting and public announcement, and provide inquiries available on counters, by telephone and via internet and so on. In addition to formulating the "China Merchants Bank's Regulations on the Price Management of Intermediary Business Services", the Company has established the price management committees of intermediary business services at its Head Office and branches respectively, with subordinated service price management offices, taking charge of daily service price management. Furthermore, the Company has also established a relatively complete multiple-layer supervision and inspection mechanism.

5.8.5 Distribution Channels

The Company provides products and services via multiple distribution channels. As at 31 December 2010, in 87 cities across Mainland China, the Company had 73 branches, 749 sub-branches, 2 exclusive branch-level operation centers (a credit card center and a small enterprise credit center), 1 representative office, 1,913 self-service centers and 8,193 cash self-service machines (including 2,860 automatic teller machines and 5,333 cash recycle machines) and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd.; two wholly-owned subsidiaries, namely Wing Lung Bank Ltd. and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States; and a representative office in London, the United Kingdom. In addition, the representative office of the Company in Taiwan was officially opened on 15 March 2011. The efficiently operated outlets of the Company are primarily located in China's relatively more economically affluent regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium-sized cities in other regions.

The Company also makes efforts in developing and improving e-banking channels such as online banking and direct banking, which is highly recognized and has effectively relieved the pressure on the business outlets of the Company. In 2010, the integrated counter-replacement ratio in respect of retail e-banking channels reached 82.43%; whereas it was 45.08% in respect of corporate e-banking channels. As at 31 December 2010, the total cumulative number of online retail banking transactions was 331,667,000, up by 34.59% as compared to that in the previous year; and the accumulated transaction amount was RMB10,519.354 billion, up by 94.15% as compared to that in the previous year. In particular, the accumulated number of online banking transactions was 215,343,900, up by 33.54% as compared to that in the previous year; and the accumulated transaction amount was RMB97.730 billion, up by 40.71% as compared to that in the previous year. The number of transactions done through U-BANK, the online corporate bank, was 28.50 million, up by 10.51% as compared to that in the previous year. In respect of direct banking, as at 31 December 2010, the Company sold various types of wealth management products, such as funds, through direct banking for a total amount of RMB56,743 million. The total transaction amount with Quick & Easy Wealth Management (快易理財) phone banking was RMB290,382 million and the number of newly opened accounts reached 0.924 million, both representing a significant increase as compared to that in the corresponding period of the previous year.

In November 2010, the Company launched the innovative mobile banking for iPhone, which was well received by users. As at the end of February 2011, the download broke 350,000 and received top user rating and ranking among Apple's financial software in App Store.

In respect of services provided for small enterprises, as at 31 December 2010, the small enterprise credit center has set up 30 sub-centers, amongst which, 11 first-tier centers in Suzhou, Hangzhou, Shanghai, Nanjing, Ningbo, Beijing, Dongguan, Shenzhen, Xiamen, Qingdao and Fuzhou, 7 second-tier centers in Nantong, Wenzhou, Wuxi, Taizhou, Changzhou and Wuhu and 12 third-tier centers in Changshu, Zhangjiagang, Kunshan, Ruian, Jiangyin, Wujiang, Yixing, Taicang, Cixi and Yuyao, and commenced to set up a first-tier

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center in Foshan and 2 second-tier centers in Quanzhou and Yangzhou. These subcenters have built over 60 marketing teams in total, and owned a small enterprise service network in major cities in Yangtze River Delta, which is expanding to second and third-tier cities. Meantime, financial service bases for small enterprises were set up in major cities in Pearl River Delta and Bohai Rim Area, exploring the feasibility of exclusive operation service model therein. Besides, the small enterprise credit center launched a "Partnership Project" service channel with characteristics of small businesses through the cooperation with local governments, federation of industry and commerce, chambers of commerce and associations, aiming to forge a channel to explore customer, barrier to prevent risk, platform to develop customer and vehicle to service brand, and had achieved initial results. In 2010, the Company hosted a roadshow for "Partnership Project" across the country, and organized special events in 8 major cities including Beijing, Shanghai and Shenzhen, thereby strengthening the progress of the project in local areas. 76 events in total associated with "Partnership Project" were organized this year by the small enterprise credit centre, in which the number of persons participated was above 7,700 person-times. More than 2,000 members were enrolled at the small enterprise club and over 150 regional risk advisors were engaged in those events.

5.8.6 Overseas businesses

Hong Kong Branch

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

The cardholder of "Hong Kong All-in-one Card" can withdraw cash from ATM and pay with their cards via POS through "China UnionPay", "Hong Kong JETCO" and "EPS" in Hong Kong, Mainland China and overseas, and enjoy the counter and online remittance services of those places. The cardholder of "Hong Kong Bank-Securities Express" may trade Hong Kong stocks through online banking and direct banking, enjoying unparalleled ease and convenience in investment and wealth management.

In 2010, relying on strengths of the brand of China Merchants Bank, domestic-overseas interactive development and providing comprehensive products and services which meet the specific requirements of the customers, the development of the intermediary business boosted and in turn achieved satisfactory performance.

New York Branch

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

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

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

The year of 2010 was the second year of full operation of the New York Branch. The infrastructure has been further enhanced and strengthened. Results of the investigation performed by the regulatory authorities were satisfactory, financial indicators were outperformed and a breakeven before provision was achieved for the year with a slight surplus. The business model has been gradually established. The Branch seized the opportunities for Chinese banks arising from the changes in the US financial market and prudentially launched a number of basic businesses. The Branch provided syndicated loans and direct loans to a series of leading enterprises in various industries. Meanwhile, the Branch has also played an important role in facilitating Chinese companies "going global" and foreign enterprises "coming into China". It provided domestic and overseas integration services for customers, and strived to satisfy the diversified financial service demands of customers arising from their international operations.

5.8.7 Information Technology and Research & Development

The Company highly stresses the building of and investments in IT infrastructure. In 2010, while maintaining the operation safety of the information system, we focused on strengthening the IT infrastructure building and normative research & development management and improved the basic management levels with great efforts to provide systematic protection capability for business development.

As for the performance on fortifying IT system protection, our overall operation of the information system was stable and the performance indicators of the UnionPay system continued to lead our peers in China. The system supported the steady operation of business during the year. At the same time, the Company allocated more resources into research & development, of which 1,399 development projects were completed, accelerated the progress of system integration, provided support to our core business operation and met the needs for management and development.

With respect to further deepening IT management reform, we stressed enhancing infrastructure management. As a result, we have established a more comprehensive IT process management system and risk management system, and issued the "Policies of China Merchants Bank on IT Risk Management". Ultimately, the professional capability and delicacy level of IT management was improved.

In strengthening IT infrastructure building, we started the planning for the third generation IT system, accelerated the construction of the Shanghai Data Center and Hangzhou Software Center so as to ensure the sustainable development of our information technology and adequate backup force for business development.

5.8.8 Businesses of Wing Lung Group

Profile of Wing Lung Bank

Wing Lung Bank Limited ("WLB"), founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with prudence, service with sincerity" in providing personalized and sincere service to the public. The principal operations of WLB and its subsidiaries ("WL Group") comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities broking, wealth management service, insurance business, financial lease, property trustee and nominees service. As of 31 December 2010, the registered capital of WLB was HK$1.5 billion.

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Business operation overview of Wing Lung Group

For the year ended 31 December 2010, Wing Lung Group recorded a consolidated profit after tax of HK$1.349 billion, representing a significant increase of 52.50% over last year, which was mainly driven by the net interest income. Non-interest income also increased significantly. During the year, Wing Lung Group recorded a net interest income of HK$1.529 billion, representing an increase of 14.82% as compared to that of 2009. Loan-to-deposit ratio was 66.33%, which is higher by 10.81% than that of 2009. The net interest margin for the year was 1.33%, up by 3 basis points as compared with the year of 2009. Non-interest income was HK$1.075 billion, representing an increase of 18.92% as compared to that of 2009. Net fees and commission income amounted to HK$426 million, representing an increase of 11.59% from that of 2009. The insurance business achieved a net operating income of HK$86.81 million, representing a sharp increase of 16 times over 2009. Revenue from foreign exchange trading amounted to HK$286 million, representing an increase of 113.07%. Impairment charge for credit losses was HK$85.18 million, representing an increase of 9.31% from that of 2009. Operating expenses amounted to HK$1.028 billion, a decrease of 10.70% as compared to that of 2009, primarily due to the additional provision made for the Lehman Brothers Minibond incident in 2009. The cost-to-income ratio for 2010 was 39.49%.

At the end of 2010, the consolidated total assets and net assets of WL Group increased by 16.85% and 11.80% to HK$137.075 billion and HK$12.750 billion respectively when compared to the end of 2009. As at 31 December 2010, the capital adequacy ratio and core capital adequacy ratio of WL Group were 14.87% and 9.65% respectively, and the average liquidity ratio for the Reporting Period was 44.70%, all above statutory requirements.

For detailed financial information on WL Group, please refer to the 2010 annual report of WLB, which is published at the website of WLB (www.winglungbank.com).

Deposits

As at 31 December 2010, total deposits of WL Group grew by 12.95% to HK$104.250 billion as compared with that at the end of 2009.

Among the various kinds of deposits, Hong Kong Dollar deposits increased by HK$2,817 million or 4.66%; US Dollar deposits after translation increased by HK$4,532 million or 37.62%; and deposits in other foreign currencies after being translated into Hong Kong Dollar surged by HK$4,600 million or 23.26%, among which RMB deposits after translation rose substantially by HK$6,122 million or 336.83%.

WLB will continue to closely monitor market developments and formulate corresponding measures, such as to offer RMB deposits products to meet market demand. Meanwhile, WLB will further collaborate with the Company so as to step up business promotion and provide customers with quality services, aiming at widening the customer base and increasing the collaboration efficiency.

Advances to customers

As at 31 December 2010, WL Group's total advances to customers, including trade bills, grew by 33.38% to HK$70.515 billion as compared with that at the end of 2009. Overall loan quality remained sound with a non-performing loan ratio of only 0.60%.

With respect to corporate banking business, the balance of loans amounted to HK$32.596 billion as at 31 December 2010, an increase of 48.02% over that at the end of 2009. During the Reporting Period, WLB devoted efforts to obtaining loans for overseas enterprises which secured by guarantee from China enterprises, syndicated loans, corporate loans to enterprises in China and Hong Kong as well as bilateral loans and the result was remarkable. In order to expand the revenue base, WLB actively explored non-interest income business, including acting as the receiving bank for IPO issues and the dividend paying bank for listed companies. WLB will continue to strengthen its collaboration with the Company providing a one-stop financial service to customer in Hong Kong and China, so as to broaden customer base. Moreover, WLB will also focus on promoting cross-selling products to customers with the aim of boosting overall profit growth.

As to commercial banking business, the balance of loans amounted to HK$2,291 million as at 31 December 2010, representing an increase of 162.72% as compared to that at the end of 2009, which was mainly contributed by construction loans and mortgage loans. To cater for the funding needs of the small and medium sized enterprises, WLB is committed to support the SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited. Moreover, WLB places emphasis on promoting Usance Letter of Credits and Renminbi Non-delivery Forward Contract, so as to achieve growth in business volume and loan balance. WLB will continue to join force with the Company to launch Cross-border Renminbi/Discount Notes Financing Guarantee business in order to further promote cross-border trade settlement in Renminbi. With respect to the hire purchase and lease business, WLB focuses on expanding equipment financing due to stiff competition in vehicles financing business and expectation of the increase in demand of machinery by the manufacturers, aiming at improving overall capital returns.

As for the mortgage and personal loan business, as at 31 December 2010, total loans amounted to HK$25.788 billion, representing an increase of 3.19% from the end of 2009. Of the total, residential mortgage loan balance amounted to HK$8,911 million, representing a decrease of 5.49% as compared with that at the end of 2009. WLB will closely monitor the market development and take flexible measures and competitive lending strategy to secure its market share. Meanwhile, WLB will also promote personal overdraft, tax loans and personal loans to widen the interest margin and enhance profitability. In order to increase sources of income, WLB offered wine loan business in mid January 2011 to tap the high-end market.

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Investments

As at 31 December 2010, WL Group's debt securities investment amounted to HK$23.973 billion, representing a decrease of 16.96% from that at the end of the previous year. As at 31 December 2010, WL Group's foreign currencies (including Hong Kong dollar) debt securities investment amounted to HK$23.468 billion. Within which debt securities investment amounted to HK$518 million representing debt securities related to PIIGS (Portugal, Italy, Ireland, Greece and Spain), the related debt securities will be matured on or before the year end of 2011. More than 91.05% of the foreign currencies (including Hong Kong dollar) debt securities were rated A3 or above and their risks were comparatively low.

Treasury

In 2010, given the increase in foreign exchange trading due to the high volatility of the US Dollar against major global currencies, coupled with the Renminbi related transactions, the performance of foreign exchange trading business was better-than-expected with the revenue rose sharply by 71.41% to HK$123 million as compared to that of 2009. Revenue from foreign money exchanges amounted to HK$44.05 million, representing an increase of 16.49% over 2009. In addition, income from foreign exchange swaps achieved remarkable growth. Total revenue from foreign exchange business grew by 113.07% as compared to that of 2009.

WLB was strongly supported by the Company, WLB devoted efforts to seize opportunities arising from the Renminbi related business through actively participating in Renminbi related transactions and expanding non-trading Renminbi accounts, so as to increase trading volume and related revenue. WLB also strived to develop proprietary trading business by introduction of spot and options proprietary transactions, thereby increasing income streams. In order to acquire corporate clients, "Corporate Desk" provide corporate customers with various treasury products in line with the prevailing market conditions.

Wealth management

WL Group's wealth management business realized a revenue of HK$30.35 million in 2010, representing an increase of 5.97% as compared to 2009.

WLB will continue to focus on developing its wealth management service branded "Sunflower", with a view to providing a comprehensive financial service platform to customers. To strive for high net-worth customers in China, WLB placed emphasis on strengthening its collaboration with the Company's branches in the Pearl River Delta region. In addition to the Roadshow programs on Capital Investment Entrant Scheme, WLB also arranged high-end customers in China to participate in the activities for selected customers held in Hong Kong in order to establish good relationships with them and introduce WLB's wealth management service, aiming at seizing business opportunities. WLB is committed to diversifying the types of wealth management products so as to cater for customers' wealth management objectives and risk taking capabilities. WLB will continue to strengthen sales force training and product analysis so as to provide customers with professional wealth management service, thus enhancing corporate image.

Credit card

WLB issued more than 240,000 credit cards as at 31 December 2010, about the same level as that at the end of 2009. The credit card receivables amounted to HK$385 million, down 8.89% from the prior year-end. Merchant business turnover was HK$2,905 million, representing a sharp increase of 25.42% as compared to that of 2009, reflecting the rigorous efforts in promoting the merchant business and the continuous growth of the local consumption market.

Since WLB issued the world's first diamond credit card "Luxe Visa Infinite" and the first "World MasterCard for Business" in the Greater China, high-end individual and corporate customers has been in a steady growth. WLB will further strengthen the close collaboration with the Company. The first cooperation will be the sharing of shopping privileges available in Shenzhen, Dongguan, Shanghai, Beijing and Guangzhou attached to credit cards issued by WLB and the Company as well as holding joint promotion programs in Hong Kong. All these are intended to provide customers with more favorable offers so as to stimulate spending. Meanwhile, in order to attract and retain customers, WLB will continue to launch a number of flexible cash revolving and spending reward programs.

Securities broking

In 2010, Wing Lung Securities Limited ("Wing Lung Securities") realized a commission income of HK$211 million, representing a decrease of 10.12% as compared to that of 2009. The decrease was mainly attributable to weak investor sentiment amid emergency of unfavourable global economic news in the first half of 2010. Given the downplaying concerns over the sovereign debt problem in Europe and the improvement in financial results of the companies in the second half of 2010, the global stock market turned around with increasing transaction volume. This, along with the active IPO activities, caused the securities trading volume of Wing Lung Securities to rebound gradually.

Wing Lung Securities will keep on launching various promotion programs and fabulous offers in the hope of attracting more new customers and retaining existing customers. To provide customers with efficiency and convenience service, Wing Lung Securities has launched various innovative services including online securities account opening service as well as SMS notification of IPO allotment result and order execution result service. Continuous effort has been placed on upgrading the facilities of the securities centres and standard of professionalism of the staff, so as to deliver quality service to customers.

Insurance

Wing Lung Insurance Company Limited ("Wing Lung Insurance") realised a gross premium income of HK$592 million in 2010, representing a decrease of 1.91% as compared to that of 2009. Total insurance claims declined by 20.22% to HK$322 million, as such underwriting business recorded a profit of HK$16.93 million, indicating a remarkable improvement as compared to that in 2009.

Wing Lung Insurance is focusing more on profitability instead of market share, thus the insurance business sustains a stable growth. In order to increase its overall revenue, Wing Lung Insurance seeks to establish a more balanced business structure through securing more bancassurance and personal insurance business. Wing Lung Insurance will continue to closely collaborate with the Company internally and externally so as to expand the corporate customer mix and related revenue.

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Branches

WLB is speeding up the construction and renovation of branches to extend the network. Metro City Branch, Tseung Kwan O and Shing Yip Street Branch, Kwun Tong were officially opened and Macau Branch was also opened for business on 10 December 2010. WLB has a total of 41 banking offices, including headquarters and branches in Hong Kong at present.

Currently, WLB has 2 branches, a sub branch and a representative office in the PRC, a branch in Macau and two overseas branches, located respectively in Los Angeles and Cayman Islands.

Human resources

As at 31 December 2010, the total number of employees of Wing Lung Bank is 1,726 (31 December 2009: 1,711), of which 1,575 are in Hong Kong, 109 are in the PRC, 23 in Macau and 19 are overseas.

Progress of Integration with WLB

After the acquisition of WLB, the Company attached great importance to integration of business, and prepared a detailed integration plan. We aim to enhance the coordination of domestic and overseas business and strengthen our key competencies, so as to achieve the objectives of "lay a foundation within one year, achieve remarkable results within three years and obtain success within five years". In 2010, guided by the abovementioned policy and objective, we gradually streamlined cross-border business introducing process, and coordinated business has been conducted properly. Key competencies were enhanced, business projects were steadily carried out, and initial signs of synergies were emerged. The second stage of integration has been gradually realized.

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and WLB jointly put great efforts and focused on the main business opportunity arising from demand from cross-border financial market. Sharing the customer resources and connecting the domestic and overseas business brought new breakthrough to us and obtained sound effect. The Company and WLB worked together in various areas, such as accepting guarantees from domestic enterprise as security for loans granted to overseas entity, accepting guarantees from overseas entity as security for loans granted to domestic enterprise, international settlement, trade finance, financial market trading business, receiving business for IPO, import bill advance by overseas institution (海外代付), cross-border Renminbi trade settlement, Account Opening Witnessed by CMB Manager (見證開戶), wealth management, and sharing merchant offers for credit card businesses. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with loans of HK$15,687 million and corporate deposits of HK$3,543 million, realized income from intermediary business for corporate customers of HK$175 million. The Company has successfully recommended individual customers to WLB with loans of HK$137 million and deposits of HK$130 million, and total assets under management amounted to HK$359 million respectively. Value of securities trading through our referred customers amounted to HK$1.072 billion. The number of Hong Kong and mainland merchants that provide merchant offers for credit cards issued by Wing Lung Bank and China Merchants Bank were 67 and 52 respectively. During the reporting period, WLB successfully launched the featured innovative services of being a dividend distributing bank for listed companies, Offshore China-Hong Kong Express Link, Professional Investor Program and the Capital Investment Entrant Scheme. WLB has also extended the service of "Account Opening Witnessed by CMB Manager" to other areas outside the Pearl River Delta so as to further improve its financial product portfolio.

Secondly, operational management was continually strengthened and key competencies were gradually enhanced. Under the guidance of new management concept, WLB, drawing support from CMB, continued to improve its internal operation procedure and ability, with the processes relating to the accounting, deposits, credit cards, loans and documentary bills successfully streamlined. WLB also constantly improved its direct banking capability. Renovations and image building for its branches and outlets are underway. Tseung Kwan O Metro City branch and Kwun Tong Shing Yip Street branch were opened while upgrading works for Mongkok Branch and the Sunflow Center in Tsim Sha Tsui branch were completed. The Macau branch of WLB were officially opened in December 2010. On the other hand, short message service, online securities account opening service, 24 hours electronic channel service were launched and the call center was rebuilt.The IT system building is being rolled out with the goal to "establish an integrated cross-border service platform featuring cross-border services". Mainframe production system has been upgraded while the preparation work for the replacement of core system is ongoing. Encouraging results were obtained in the upgrades of business system and management information system. At the same time, the communications and interactions between the two banks have been increasing, fostering a deepened cultural exchange between them.

5.8.9 Business of CMB Financial Leasing

CMB Financial Leasing Co., Ltd. ("CMBFL") was one of the first five pilot bank-affiliated financial leasing firms approved by the State Council. It is wholly owned by the Company. On 26 March 2008, the CBRC granted the approval to establish CMBFL in Shanghai with a registered capital of RMB2 billion. CMBFL are guided by national industrial policies. It provides financial services such as financial leasing, asset management and investment and financial advisory to customers including large-and-medium scale equipment producers in aviation transportation, power and telecommunication and mining and manufacturing industries and SMEs.

After nearly three years of hard work, CMBFL had made a good start and gained rapid development. In 2010, CMBFL fulfilled all operating targets, making an unique contribution to the Second Transformation. The cumulated net profit for CMBFL for the year was RMB266 million. The lease assets as at the end of the year were RMB22.5 billion, with ROA and ROE ranked among top 3 out of 9 financial leasing companies belonging to the banking industry. Balance of vendor lease assets amounted to RMB1.8 billion. Professional aviation and shipping lease business also achieved rapid development.

5.8.10 Business of CMB International Capital

CMB International Capital Corporation Limited ("CMBIC") is a licensed corporation and wholly-owned subsidiary of the Company in Hong Kong. Currently, the principal business scope of CMBIC and its subsidiaries mainly cover investment banking, securities brokerage, assets management and direct investment business. As of 31 December 2010, CMBIC had a registered capital of HK$250 million and 74 employees.

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In 2010, CMBIC set up an investment banking team of professionals and obtained all licences necessary for the business. With its efforts to solicit customers and mandates of projects, CMBIC successfully opened a new page to render its first overseas IPO sponsorship. At the same time, the rapid growth of CMBIC's agency business, the stable asset management business development and the good trend in the development of each principal business further broadened the business potential of the Company. As of 31 December 2010, total asset of CMBIC was HK$901 million, an increase of 10.15% as compared to the beginning of the year. Net asset was HK$377 million, an increase of 10.56% as compared to the beginning of the year. Realized operating income amounted to HK$143.1406 million in 2010, an increase of 223.64% over the corresponding period of the previous year. Realized net profits were HK$35.2381 million, an increase of 638.74% over the same period of the previous year.

5.8.11 Business of China Merchants Fund Management

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

As at 31 December 2010, CMFM reported total asset of RMB769 million and net asset of 568 million with 184 employees. CMFM operated 17 open-ended mutual funds, 4 social security portfolios, 22 annuity portfolios, 22 private wealth management portfolios and 1 QFII portfolio. The total assets under management were nearly RMB65 billion, an increase of 17 billion as compared to the end of 2009, resulting in a markedly expansion in market shares. In 2010, the overall investment performance of CMFM's open-ended funds was on an upward trend and investment performance of the non-public equity products ranked among the top in the sector. In 2010, CMFM realized an operating income of RMB566 million, an increase of 11.86% as compared to the same period of last year; and a net profit of RMB163 million, an increase of 15.60% as compared to the same period of last year.

5.9 Risk Management

5.9.1 Credit risk management

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

Risk Control Committee of the Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management strategy, policies and authorizations approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. The Company separately reviews the credit risk according to business risk and approval system. The decision-making entities include: Committee of Loan Assessment of Head Office, Professional Committee of Loan Assessment of Head Office, Risk Control Committee of Branch and Professional Committee of Loan Assessment of Branch. Based on business origination, due diligence, review and approval of credit, loan granting and post-loan management, the Company has established a credit risk management system with clear workflow. By utilizing a number of management measures, including formulation of credit policies, access approval, classificatory review and approval, credit inspection, risk warning, management of institutional clients, collecting and accountability for the settlement issue of non-performing assets, category provisions and internal rating, the Company developed and introduced advanced quantitative modeling tools for risk management and risk management systems to ensure an effective implementation of the risk management workflow. The Company managed risk assets in accordance with the classification specified by regulations. Based on assessments on, among others, borrowers' ability to repay, guarantor's position, conditions of pledges and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under a sophisticated internal classification system. A certain category was first assigned by an account manager or risk control officer and then reviewed by credit risk management departments of the Head Office and branches according to their respective authorizations.

In 2010, the macro-economy showed signs of gradual recovery in a complex and unpredictable environment. However, in light of the launch of a number of strict regulatory policies, the Bank's management of credit assets business was faced with significant challenges. The Company fully appreciated the current complexity and the lagged effect of credit risks, and implemented all measures to comply with the state's macro-economic control policies and monetary policies. By closely adhering to the guidelines of "Implementing transformation, Optimizing process, Solidifying foundation and Enhancing management" for credit risk management, the Company promoted a culture of risk management, and focused on the workflow optimization scheme and infrastructure enhancement plan, as to enhance the transparency and consistency of risk management, so that an improvement in capital efficiency was achieved. During the reporting period, by clarifying the accessing threshold for credit policy, the Company set up a risk pricing management system, push forward the risk managers cooperation and team building, improved the centralized credit and risk management on Group customers, enhanced the risk pre-warning system, optimized the provisioning policies, and implemented a new generation of online credit risk management system, thus laying a solid foundation for credit risk management. Meanwhile, the Company complied with regulatory requirements and enhanced the supervision on risks of key aspects. According to the requirements of "Three Rules and One Guideline" issued by the CBRC, the Company continued to enhance the supervision on uses of fund, review every case and strengthen risk inspection of loans extended through local government financing platforms, and took timely measures to control loan extension and made rectifications. Furthermore, the Company implemented strict credit policies towards the real estate industry and closely monitored the total amount of loans granted to it. The Company also actively reduced and terminated loans to "High pollution, high energy consumption and excess capacity" sectors. As a result, the collection and settlement issues attached to risk assets were satisfactorily resolved, and the credit structure and asset quality of the Company improved consistently during the reporting period.

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5.9.2 Liquidity risk management

Liquidity risk refers to the risk that the Company is not able to satisfy its customers' needs of application of new loans, repayment of debts due and reasonable financing, or the risk that the Company is not able to satisfy these funds at reasonable cost. The Company carried out an unified management through the internal funds transfer pricing mechanism ("FTP").

In 2010, the Company formulated the "China Merchants Bank Liquidity Management Policies" and built a liquidity management system that focused on limits management. The Company speeded up the construction of liquidity management system, optimized the functions of account position system and treasury business management system, and developed a liquidity management function in the second generation PBOC system, which provided a solid foundation for company to promote its liquidity management level. The Company enhanced the management of consolidated financial statements of liquidity risk and issued the "Measures of China Merchants Bank for Liquidity Management based on consolidated financial statements" and since the third quarter of 2010, the liquidity risk profile based on consolidated financial statements has been analyzed and reported periodically.

In 2010, domestic monetary policy tended to shift back to the prudent stance and the market liquidity was tightened up, though not in a smooth way. As the Central Bank maintained a moderately loose monetary policy, it obviously strengthened the control on liquidity and provided guidance on balancing credit extensions in order to manage inflation expectations. Due to the changes of monetary policy, the Company made a timely adjustment of its liquidity management policy through various measures based on macro and market analysis, including strengthening proactive management, properly allocating resources and balancing the expansion of domestic and foreign currency assets and liabilities. Meanwhile, the Company was more actively involved in carrying out market operations and enhancing allocation of funds, so as to ensure that the liquidity of the Company in terms of domestic currency and foreign currencies was in a safe and stable state.

5.9.3 Market risk management

Market risk is the risk of possible loss caused by the fluctuations of the fair value or future cash flows of the Company's financial instruments because of changes in market prices of observable market factors such as exchange rates, interest rates, commodities prices and equity prices.The Company's market risk is mainly attributed to its proprietary trading activities. The Company adheres to the principle of prudent management when dealing with market risk and bears market risk within the extent specified by the board of directors. For those new businesses risks of which are hard to quantified and assessed, and emerging countries and emerging markets associated with higher risk, the Company adopts restrictive strategy so that overall market risk is contained in an acceptable level.

The domestic and worldwide financial markets experienced major twists and turns in 2010. The Renminbi bond market was on a roller coaster ride over the year. The bond yield curve flattened and headed down during the first three quarters. Following the announcement of interest rate hike on 19 October, together with the increasingly tightened austerity measures and high inflation expectation, the bond market dropped sharply towards the end of the year. We saw vigorous cross-border capital flows in the foreign exchange market stimulated by the lingering European sovereign debt crisis and the quantitative easing policy of the U.S. Federal Reserve. The yields of U.S. treasury bonds were pressed down by overseas risk-averse capitals, while higher fluctuations of major currencies during the year and an accelerating pace of Renminbi exchange rates towards the year end were observed.

The Company has formulated investment strategies based on the detailed studies it conducted on the situations of the domestic and worldwide macroeconomies, monetary policies, market liquidity and the trend of CPI. During the year, the investment portfolio of the Company mainly comprised PRC government bonds, bonds issued by PBOC, debt securities issued by policy banks, large domestic enterprises of high credit ratings and commercial banks. We have timely reduced the holdings of credit bonds and foreign currency bonds. Consequently, we obtained a relatively stable investment return and maintained a satisfactory level of various market risk indicators.

5.9.4 Interest rate risk management

Interest rate risk refers to the risk of unfavorable fluctuation of interest rates, term structure etc. which results in losses of gross profit and economic value from bank accounts. The interest rate risk faced by the Company includes the benchmark risk, re-pricing risk, yield curve risk and option risk. In particular, benchmark risk and re-pricing risk are the primary risk faced by the Company. In adherence to our prudent approach in risk management, the Company's overall objective of interest rate risk management is to achieve steady growth of net interest income and economic value under acceptable range of interest rate risk exposure. The Company mainly uses the scenario simulation analysis, re-pricing gap analysis, duration analysis, stress test and other methods to measure and analyze interest rate risk.

In 2010, the Company formulated several rules and regulations, including "China Merchants Bank Methods for Measuring Bank Account Interest Rate Risk", to build a complete policy system comprising administrative measures, methods of measurements, hedging process and related practices. As the methods for measuring risk was improved by the Company through various ways, we achieved a higher quality level in risk measurement. The Company is practicing active, forward-looking interest rate risk management and researched on and developed solutions for the hedging of interest rate risk which fits its own characteristics. We attempted to hedge interest rate risk at balance sheet level and achieved the objectives of risk management as expected. Meanwhile, to comply with the business structure of assets and liabilities and the change in interest rate characteristics, the Company has carried out some helpful researches on interest rate risk management for balance sheet items. The Company improved the interest rate risk management based on consolidated financial statements, and since the third quarter of 2010, the interest rate risk profile based on consolidated financial statements has been analyzed and reported periodically.

In 2010, People's Bank of China had twice raised the RMB benchmark deposit and loan interest rates, in which one-year term deposit interest rate increased by 0.5%, showing that China entered into the rate rising cycle. In light of the characteristics of our interest rate risk, the rise of benchmark deposit and loan interest rates is more likely to make positive impact on the net interest income of the Company. We always take a long-term perspective and will further enhance interest rate risk management to realize a steady growth of net interest income and economic value.

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5.9.5 Exchange rate risk management

Exchange rate risk refers to the risk of the bank loses its gross profit caused by foreign exchange and foreign exchange derivatives due to the unfavorable fluctuation in exchange rate. Through strict management of exchange rate risk exposure, the Company manages to control the exchange rate risk exposure under acceptable range. The Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, Value at Risk ("VaR") and other methods to measure and analyze exchange rate risk.

In 2010, the Company formulated several rules and regulations, including "China Merchants Bank Management Measures for Exchange Rate Risk", to build a framework of exchange rate risk management policy which focused on limits system. The Company continues to improve the methods for measuring exchange rate risk in order to achieve a higher quality level in exchange rate risk measurement. We also revised the assessment report on exchange rate risk and established an entirely new risk reporting system. The Company improved the exchange rate risk management based on consolidated financial statements, and since the third quarter of 2010, the exchange rate risk profile based on consolidated financial statements has been analyzed and reported periodically.

In 2010, the central parity rate of RMB against US dollars was stable at first and appreciated afterwards, with the accumulative appreciation of RMB at 3% at the end of the year. The Company was highly concerned about the violate fluctuation of the foreign exchange market and dealt with it in a timely manner through various measures, such as adjusting the structure of foreign currency assets and liability, and controlling the foreign exchange exposure and exchange loss.

5.9.6 Operational Risk Management

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, incompetent personnel or IT systems, or external events. By implementing Basel II, the Company aimed to complete operational risk management framework system, strengthened basic operational risk management building in management regime, management procedure, management tools, management system, capital measurement and some other aspects, so as to enhance the capability and effectiveness of operational risk management of the Company. Major measures taken during the reporting period were as follows:

1. The Company formulated and issued the "Policies on Operational Risk Management by China Merchants Bank Co., Ltd." and related management rules, further improved the Company's operational risk management system and standardized the management procedures.

2. The Company developed operational risk management tools, finished the trial runs by the line functions of the Head Office and certain branches, formulated the operational risk control manual for principal businesses and products.

3. The Company undertook in full swing the development and tests for the information system on operational risk management, so as to consistently improve electronic application in its operational risk management. The information system for operational risk management has been under trial operation.

4. Pursuant to the requirements of the section "Standard Measurements" under the "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by the CBRC, two quantitative measurements were conducted on the group and legal person basis in respect of capital subject to operational risk regulation.

5.9.7 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation diminishing as a result of their failure to obey the laws, rules and guidelines. Our goal for the management of compliance risks is to achieve an effective identification and management of compliance risks by establishing a sound compliance risk management framework to facilitate the building of comprehensive risk management system and ensure operations in a legal and compliant manner as well as fulfill a stable development.

By complying with the principles and requirements under "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by CBRC and "Banks and Internal Compliance Departments of Banks (銀行與銀行內部合規部門)" promulgated by Basel Committee, the Company, after implementing its "compliance policies", has established a complete and effective compliance risk management framework and completed an organizational management structure which comprises compliance management committees, heads of compliance issues, compliance officers, legal and compliance departments of head office and branches, management departments of branches and compliance supervisors of sub-branches. The Company has improved three defense lines of compliance risks management and double-line reporting mechanism, and is continually enhancing and improving management mechanism, prevention and control techniques of compliance enforcement, so as to ensure effective management of compliance risk.

Major compliance risks management measures taken by the Company in 2010 included:

1. Enhancing risk management techniques. The Company developed and fully operated the compliance risk management system, established database for compliance risk hazards and compliance events, thereby enhancing the risk management efficiency.

2. Strengthening supervision on major item compliance. The Company formulated and implemented the risk-based "Compliance Risk Management plan for the Company in 2010", so as to strengthen the compliance risk management for major items and innovative businesses. Compliance checks and inspections were initiated and building of long-term mechanism to avoid compliance risk has been facilitated.

3. Promoting the building of organizational system. The Company established the qualification and assessment mechanism for compliance officers in branches, refined the business engagement for the compliance officers and the executive procedure for veto by one vote, enhanced legal compliance department on the professional supporting for the decision made by compliance officers, and promoted each unit within the system to fully develop the function of compliance risk management.

4. Commencing compliance education and training. The Company established compliance training mechanism that closely linked to business operation management for all personnel and branches, thus enhanced the compliance awareness of all personnel.

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5.9.8 Reputation risk management

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

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

In 2010, the Company took the following steps to improve its reputation risk management. Firstly, the Company improved the "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd." and established a bank-wide reputation risk management system, which defines the management mechanism and measures on the reputation risk management, the management procedures and tools, the classification and ranking of risk, the response to and the treatment of reputation-related matters, the follow-up evaluation and accountability issues etc., so as to further improve the Company's operational system in reputation risk management. Secondly, the Company developed the reputation risk management system, which, on the structure of overall reputation risk management, covers all the units and risk points associated with the reputation risk events, thus ensuring continuity among all business sectors and procedures to effectively prevent reputation risk. Thirdly, the Company enhanced education of reputation risk, organized relevant trainings on risk prevention and emergency response, and directed its employees to proactively safeguard the reputation of the Company and embedded the reputation risk management culture in every position and workflow.

5.9.9 Anti-money laundering management

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

During the reporting period, adhering to the principle of "knowing your customer", the Company implemented risk-based philosophy, conducted bank-wide improvement for off-shore customers and due diligence investigation focusing on "three types of customers" for existing customers; strengthened monitoring and analysis on suspicious transactions, and reduced invalid reports on the suspicious events, therefore improved the quality of reports on suspicious transactions. The Company also focused on effectiveness of reports on suspicious transactions to consistently conduct anti-money laundering training.

5.9.10 Implementation of Basel II

In February 2007, the CBRC released the "Guidelines on the Implementation of Basel II Framework by China's Banking Sector", which decided that the first batch of commercial banks would be regulated based on Basel II Framework from 2010 or, with approval, no later than 2013. Driven by the underlying needs to pursue an international strategy and improve operation and management, the Company strives to become one of the first batch of banks to be approved by the CBRC to adopt Basel II.

In February 2010, the Company made an application to the CBRC for preliminary appraisal of Basel II implementation, and was monitored on-site by the preliminary appraisal panel of Basel II implementation of the CBRC in March. In October, the CBRC officially released the "Notice of the CBRC on Issuing Opinion on Preliminary Appraisal of Basel II Implementation by CMB", which highly recognized our achievements in expanding risk management functions, improving supporting policies procedures, optimizing risk quantification management tools and increasing risk management expertise, etc., and expected us to continue to build on the achievements in the implementation of Basel II Framework, thus satisfying all requirements as stipulated therein. Currently, the Company is planning for the overall finalization of the CBRC's Opinion on the preliminary appraisal, and actively prepares various documents necessary for the official application of adopting Basel II. The Company will submit this application within the timeframe required by the CBRC.

Implementation objectives relating to the three pillars in Basel II Framework are set out below:

1. First pillar: credit risk will be assessed with internal ranking approach, covering corporate risk exposure, retail risk exposure and financial institutions risk exposure. Internal model approach will be utilized to assess market risk, and standard approach to assess operation risk.

2. Second pillar: the Company will set up appraisal procedures for internal capital adequacy ratio and submit regular report on the appraisal to competent authorities.

3. Third pillar: the Company will make preparation properly for external disclosures according to the "Guidelines on the Information Disclosure of Commercial Banks' Capital Adequacy Ratio", and disclose relevant information upon the receipt of official approval from the CBRC.

5.10 Changes in external environment and responding measures

5.10.1 Operating environment, macroeconomic changes and their impacts

In respect of the macro economy, a faster shift of the model of development will become the main line of China's economic development during the 12th Five-year Period, the operating environment on which the growth of China's banking industry depends heavily – which features rapid economic growth and high volume of credit creation – is vanishing. The preferred sectors for loan extension, credit structure and quality of loans are areas to feel the most impact. With a quicker pace of market liberalization and internationalization, more and more uncertainties and chaos will emerge, and the step-path of the government's macro economic adjustment will become more unpredictable and much more complex factors have to be taken into account by commercial banks while making decisions for their operation and management. In respect of the financial regulatory system, the Central Bank has signalled a faster move to converge the interest rates of the banking system with the market rates during the 12th Five-year Period, which will lead to narrowing interest spreads and greater operating pressure imposed on commercial banks. Renminbi will continue to appreciate against the US dollar in the next several years, and the banks will face greater market and credit risks. Facing the challenges, the Company will deepen the Second Transformation through management reform while seizing opportunities to continue explore and innovate, therefore ensuring a healthy and steady growth of our businesses.

V Management's Analysis and Discussion

1. The effect of raising interest rates and deposit reserve ratio on our businesses

In the fourth quarter of 2010, the People's Bank of China raised the benchmark interest rates twice for loans and deposits, among which benchmark interest rates for demand deposits remained unchanged, that for the one-year time deposits went up by 50bps and that for the one-year loan went up by 50bps. The increase in the benchmark interest rates for loans and deposits had a positive influence on the Company's interest spread, because: firstly, as the pricing of the Company's loans generally have short renewal periods, the increase in interest rate pushed up the market rates and as a result, the yield of our assets business benefited significantly from the rate rise; secondly, due to a high proportion of our demand deposits, the rate rise has only mild impact on the cost ratio of deposits.

In 2010, the People's Bank of China raised for six times the statutory deposit reserve ratio in order to tighten market liquidity. Our high proportion of current assets limited the impact on the liquidity of the Company. In order to adapt to the changes in monetary policies, the Company has been actively driving forward the Second Transformation and adjusting the assets and liabilities structure to improve our management of liquidity risks, which effectively prevent liquidity risks.

2. New regulatory policies on dynamic provision

In order to comply with the changes in the regulatory rules of the Basel Committee on Banking Supervision and the requirement of prudent management, CBRC declared its requirements on introducing new tools for supervision of dynamic provision ratio. As the detailed guidelines have not been published yet, there are still uncertainties in the implementation standards and progress. The Company has been adhering to rule complying, prudent and adequate provisioning policies, and the provisions made for credit asset impairments comply well with the structure and quality of our risk assets as well as the relevant requirements of the present applicable accounting standards and the current regulatory policies. With the implementation of the new policies for dynamic provision ratio regulation, it is expected that the Company's credit cost will increase in the immediate future but still within the acceptable range and will not have material impact. The Company will, according to the final regulatory requirements released by the authority and the rules of accounting standards, adjust our provisioning policy in time with reference to the accounting standards.

3. Loans extended through local government financing platforms

In 2010, the ministries and committees under the Central Government introduced a series of management and controlling policies on the loans extended through local government financing platforms, requiring the appropriate removal and regulation of platform companies and strengthening the management of financing projects undertaken by the platforms, and also classification of the loans according to the projects' own cash flow coverage, as well as monitoring the total amount of loans. Clearer and stricter regulatory requirements are issued on new credit granting, loan repayment, risk classification, provisioning and capital measurement. In the long-run, the above measures serve as a driving force to the long-term and stable development of China's banking industry.

The Company is fully aware of the self-liquidating risks and rule compliance of the loans extended through local government financing platforms and therefore strictly complies the regulations and follow the inspection process of "Reviewing every case, verifying every monetary record, re-assessment and rectification to ensure compliance". Loans extended through local government financing platforms were thus reviewed and dealt with. Following the general workflow of "Meeting borrowers, signing agreements and filing with competent authorities", we have intensified the adjustments to existing loan structures while re-classifying loan risks in due course and making provisions for possible impairments in order to evaluate and make up for the losses according to the cash flow coverage and project risks. We also exercised a dual control by way of quotas and name-lists on the loans extended through local government financing platforms. The right to approve credit and loans has been taken back by the Head Office, which effectively prevented and resolved such risks. During the reporting period, our loans extended through local government financing platforms were properly restricted, contributing to evident progress in structure optimization and high and stable asset quality.

5.10.2 Key concerns and measures taken in the course of business

1. *Capital management*

In 2010, the Company was resolved to carry on with the strategic transformation in capital management, which included capital measurement, optimizing economic capital allocation and strengthening capital control. As a result, enhancement in capital strength and improvement in capital returns were achieved. In 2011, the Company will further strengthen capital management and improve risk identification and measurement, perfect the measurement and monitoring of capital, keep optimizing asset structure and profit structure to improve the ability to general internal capital. We will also strengthen the capital performance management and optimize allocation of internal economic capital and enlarge the guiding effect of economic capital on our business.

2. *Development trend of net interest margin*

In 2010, the Company extended the Second Transformation and managed to improve its risk pricing capability and optimize the asset-liability structure. Together with the advantageous changes in external environments, we reported a net interest margin of 2.71%, increasing by 43 bps from the previous year. In 2011, the Company will make even greater efforts to press on with the Second Transformation and strive to raise risk pricing of loans with special note on liabilities cost control. We will also actively optimize the assets-liabilities structure, maximize positive effect of interest rate rise on net interest margin, strengthen the management of interest rate risks and facilitate a steady improvement in net interest margin.

3. *Fee and commission income*

One of the major policies of our strategic transformation is to optimize income structure. In 2010, the Company fully explored the potential of our existing channels and products while actively creating new products and new channels aiming at overcoming the adverse effect of the external environment with quality service and active promotional activities. Consequently, a fast growth in fee and commission income was registered, with the credit card fee and agency insurance business being the driving force.

V Management's Analysis and Discussion

In 2011, the Company will further optimize the income structure, capture any market opportunities and innovate in areas such as cross-border Renminbi settlement, cash management and super short-term financing. On the other hand, we will aggressively expand the merge and acquisition financing and investment banking services and enhance the competitive edge of products such as credit card, agency fund and agency insurance. At the same time, assessment of intermediate businesses will be tightened through strict budgeting control, so that the different values of each intermediate business will be highlighted, which is a useful reference for our efforts to optimize the income structure.

4. Cost control

In 2010, the Company attached great importance to cost control, which was reflected by our relentless efforts in refining internal financial management regulations and systems and our insistence in standardized financial management. With various budgeting tools, we strengthened the cost control mechanism, refined the details of financial cost management, regulated audit items and improved the sophistication level of cost management. As a result, we realized a significant drop in the cost/income ratio and an increase in cost efficiency.

In 2011, the Company will further improve our financial management through budget management, strengthen budget control and improve the sophistication level of cost management. Furthermore, we will strengthen full-cost management through scientific analysis, conduct further analysis on investment-yield for branch outlets, so as to improve outlet efficiency and optimize human resource allocation. We also plan to improve personnel efficiency, stress cost efficiency appraisal and perfect the subsequent review mechanism.

5.10.3 Second Transformation

1. Background and motivation of the Second Transformation

In 2009, in face of such external challenges as increased restraint on capital, rapid growing of direct financing and steady advancing interest rate liberalization, etc., and in order to tally with the development trend of modern banking industry, the Company took the lead among domestic peers to propose to transform its operation pattern, and initiated a Second Transformation strategy on the basis of proceeding with the First Transformation which focused on further growth of retail business, fee-based business and SME business and adjustment to operation strategies. Specifically speaking, the Company put forward and carried on the Second Transformation for the following three reasons:

Firstly, it is for us to effectively respond to the changeable operation environment. Recently, the business environment where commercial banks operate has experiencing and will continue to experience drastic and fundamental changes in diverse aspects, varying from economic operation to macro economic control, capital restraint to regulatory policies, direct financing to interest rate liberalization, or from customer needs to inter-bank competition. Amid such circumstances, the Company has to improve its management and carry out transformation to effectively encounter such sharp changes.

Secondly, it is for us to further accelerate a sustainable growth. Restraint on production factors including capital, loan, expense and labour power has become a normal practice in future. The legacy extensive growth mode that largely relied upon a great deal of resources is not realistic to continue, and we must implement the Second Transformation to sustain growth.

Thirdly, it is for us to better build up and consolidate our own business characteristics. Through the First Transformation, we had built up our own distinction and advantages in the development of retail business, fee-based business and SME business. And we will continue to strengthen such achievements and carry on the Second Transformation in light of new environment and conditions, so as to further excel our characteristics and exert advantages while focusing on the efficiency of resources utilisation.

2. *The essence and objectives of the Second Transformation*

The Second Transformation is a transformation as compared with the First Transformation; the former refers to speeding up the transition from the extensive management relying heavily on increased capital and resources consumption to the intensive management relying mainly on enhancing management, the scientific and technological progress and staff performances on the basis of deeply pushing its strategic adjustment of business. The fundamental goal of the Second Transformation is to maximize operational efficiency and to ensure steady growth in earnings. The specific goal of the Second Transformation is to add customer value while ensuring risks under control through reducing capital consumption, raising risk pricing of loans and controlling financial costs.

3. *Performance analysis of the Second Transformation*

In the first year of comprehensive implementation of Second Transformation in 2010, given the tough environment, the Company progressed its Second Transformation steadily and achieved phasic positive results, which are reflected in the following aspects:

- Capital utilization efficiency continued to increase. The Company realized the increase in capital utilization rate through various measures, such as credit scale regulation, economic capital management, development of low capital consuming businesses and improvement in structure of capital liability. As at the end of 2010, the risk-adjusted return on capital (RAROC, profit after tax) was 20.23%, representing an increase of 2.18 percentage points. The capital adequacy ratio of the Company was 11.21%, representing an increase of 1.16 percentage points as compared with last year. The core capital adequacy ratio was 8.70%, representing an increase of 1.34 percentage points as compared with last year. The ROAE was 20.41%, representing an increase of 1.68 percentage points compared with the previous year.

V Management's Analysis and Discussion

- Risk pricing of loans improved notably. With a series of dynamic measures, including specifying the loan pricing policies, strengthening the assessment of loan pricing, enhancing the product innovation ability and improving the integrated service, the Company achieved a significantly higher risk pricing level. As at the end of 2010, the new weighted average floating band of interest rates of retail loans in RMB (weighted at actual amounts, same as below) increased by 20.07 percentage points throughout the year as compared with 2009. The weighted average floating band of interest rates of retail loans in RMB increased by 20.07 percentage points as compared with the whole year of 2009.

- Cost efficiency and manpower capacity increased. Due to the improved cost management, integrated resources and rebuilt workflow etc. cost and expense management and human resources management were strengthened, which achieved a positive result in cost efficiency and employees capacity. As at the end of 2010, the operating expense of the Company was RMB27,144 million, increased by 25.16%, which was 13.99 percentage points lower than the growth rate of net operating income; cost-to-income ratio was 39.63%, decreased 4.43 percentage points as compared with the corresponding period of 2009; net profit per person was RMB590,000, increased by 28.26% as compared with the previous year; average profit per branch was RMB31.29 million, an increase of 26.07% from the previous year.

- The proportion of high-net-worth customer increased steadily. The Company has been constantly increasing the share of high-net-worth customer and their aggregate contribution through enhancing resources integration and streamlined customer management, vigorously promoting business coordination and cross-selling. As at the end of 2010, the Company had 670,100 new retail customers each having an average daily total asset per month of RMB500,000 or above. The proportion of high-net-worth customer increased from 1.31% at the beginning of the year to 1.48%. The Company had 37,018 new corporate customers each contributing total revenue of RMB100,000 or above. The proportion of high-net-worth customer increased from 6.76% at the beginning of the year to 8.70% and their proportion of contribution increased from 92.97% at the corresponding period of the previous year to 93.76%.

- Ensuring that the risk is within control. The Company continued to improve its credit risk management capability through promoting and optimizing the whole process of credit risk management. As at the end of 2010, the non-performing loans ratio of the Company was 0.69%, dropped by 0.14 percentage point as compared with the beginning of the year. Non-performing loan formation rate (including credit cards) was 0.16%, which was 0.1 percentage point lower as compared with the corresponding period of 2009. The non-performing loan allowance coverage ratio was 308.69%, representing an increase of 55.44 percentage points as compared with the beginning of the year.

5.11 Outlook and Measures

In 2011, both domestic and global financial situations remain tough and will be subject to great changes. In an international perspective, although the global economy is expected to continue its growing path, various problems will continue to emerge: the deep-rooted effects of global financial crisis will linger on, uncertain and unstable factors remain numerous, the growth forces in developed economic entities are not strong enough, unemployment rate remain hovering high, sovereign debt risk is increasing, the processes of financial system deleverage and balance sheet amendment are inconsistent and the global economy is experiencing an intricate and imbalanced recovery. In a domestic perspective, the national economy will maintain a relatively rapid growth, however, the severe challenges in terms of greater upward pressure on commodity price, cyclical downturn in imports and exports and the expanding threats from hot money inflow and asset bubble are waiting for us to deal with. Therefore, the task of managing inflation expectations and optimizing the structure of economy is extremely arduous.

Under the tough operation environment, in spite of the grim challenges to our operation and management, many new opportunities emerged, such as the increasing demand from the public for wealth management, vigorous demand for consumption credit, booming of SME economy, springing up of mid-west economy, expedited cultivation of strategic emerging industry, remarkable growth of cross-border RMB currency business and the rising of new information technologies. All these new trends can create new business and value drivers.

Confronted with the opportunities and challenges under the new circumstances, the Company will work towards its mission to become the best commercial bank in China with international competitive edges. In light of the guiding principle of "facing the future, seizing the opportunities, cultivating the innovation, developing steadily", the Company will enhance the Second Transformation through reforming management, working hard to build the eight major systems in respect of customer, capital, risk, product, assessment, organization, channel and operation, aiming to realize transformation of its operational mode. In view of current operation environment, the Company anticipates that advances to customers will increase by approximately RMB210 billion and deposits from customer will increase by approximately RMB300 billion in 2011. The operation management measures the Company will adopt in 2011 are: (1) optimizing the asset and liability management, strengthening the risk pricing ability, improving the management and control of major expense items, so as to effectively and steadily increase profitability; (2) enhancing the corporate settlement deposit, supporting the loan demands from new strategic industries and green business, accelerating the growth of SME business, developing the assets business under compliance, driving the growth of wholesale corporate intermediary business. Efforts will be applied to expand the basis of customer and further enhance the competitive edge of wholesale banking; (3) hastening the steps towards wealth management business and increase the number of high-value costumers, effectively raising the comprehensive contribution from personal loans and enhancing the competitive edges of credit card, with a view to create low-cost operation mode to retail banking, so as to steadily improve the profitability of retail business; (4) strengthening the management of credit risk, liquidity risk, market risk and operation risk, enhancing the construction of internal control and compliance, sparing no efforts to carry out various preparation work for the implementation of Basel II; (5) enhancing IT management on a practical basis so as to give full gear to the task of 3-year plan of workflow optimization; (6) intensifying the employee training and human resources management to enhance the efficiency and ability of employees; (7) continuing to ensure the successful progress of the integration with WLB, and steadily make inroads into internationalized and integrated operation.

Responsibility

Responsibility

Build our future together

CMB has always put much emphasis on the performance of its corporate social responsibility. By adhering to the principle of "Ploughing back to the society", the Bank treats the need to meet its social responsibilities an essential factor to grow its brand value and establish its own corporate culture. Fulfillment of social responsibility has become an integral part of its long-term development strategy. Over the years, its contributory programs have been highly commended, which include green finance, Wealth Management Education Community Tour, poverty relief, Sunflower Children's Growth Fund and Love Sports Field charitable fund. The Bank will infuse the ecology-friendly concept into the financial industry and give up the traditional growth model based on high energy consumption and low outputs, focus on industry development from a green finance perspective, and provide corresponding financial service to green industries.

VI Share Capital Structure and Shareholder Base

6.1 The change in shares of the Company during the reporting period

		31 December 2009		Changes in the reporting period	31 December 2010	
		Quantity (share)	Percentage (%)	**Increases as a result of Rights Issue (share)**	**Quantity (share)**	**Percentage (%)**
I.	**Shares subject to trading moratorium**	–	–	**–**	**–**	**–**
II.	**Shares not subject to trading moratorium**	19,119,490,016	100.00	**2,457,118,869**	**21,576,608,885**	**100.00**
	1. Common shares in RMB (A Shares)	15,658,890,016	81.90	**2,007,240,869**	**17,666,130,885**	**81.88**
	2. Foreign shares listed domestically	–	–	**–**	**–**	**–**
	3. Foreign shares listed overseas (H Shares)	3,460,600,000	18.10	**449,878,000**	**3,910,478,000**	**18.12**
	4. Others	–	–	**–**	**–**	**–**
III.	**Total shares**	19,119,490,016	100.00	**2,457,118,869**	**21,576,608,885**	**100.00**

As at the end of the reporting period, the Company had a total of 738,851 shareholders, including 41,715 holders of H Shares and 697,136 holders of A Shares, and all shares held by A shareholders are not subject to trading moratorium.

Based on the public information available to the Company and its directors, as at 31 December 2010, the Company had met the public float requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

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

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital %	Type of shares	Changes in the reporting period (share)	Number of Shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.[(1)]	/	3,846,371,339	17.83	H shares	441,192,766	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal persons	2,675,612,600	12.40	A Shares not subject to trading moratorium	311,026,228	–	–
3	China Ocean Shipping (Group) Company	State-owned legal persons	1,284,140,156	5.95	A Shares not subject to trading moratorium	147,732,938	–	–
4	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	636,788,489	2.95	A Shares not subject to trading moratorium	73,258,853	–	–
5	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	631,287,834	2.93	A Shares not subject to trading moratorium	72,626,034	–	–
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	556,333,611	2.58	A Shares not subject to trading moratorium	64,002,982	–	–
7	China Communications Construction Company Ltd.	State-owned legal persons	383,445,439	1.78	A Shares not subject to trading moratorium	44,113,192	–	–
8	Shanghai Automotive Industry Corporation	State-owned legal persons	368,079,979	1.71	A Shares not subject to trading moratorium	42,345,484	–	–
9	CNOOC Investment Co., Ltd.	State-owned legal persons	301,593,148	1.40	A Shares not subject to trading moratorium	34,696,557	–	–
10	Hebei Port Group Company Ltd.	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–
10	China Shipping (Group) Company	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–
10	Shandong State-owned Assets Investment Holdings Company Ltd.	State-owned legal persons	258,470,781	1.20	A Shares not subject to trading moratorium	29,735,577	–	–

Notes:

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

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

(3) Rights issue of A shares and rights issue of H shares of the Company were completed on 19 March 2010 and 9 April 2010, respectively, on the basis of 1.3 rights shares for every 10 existing shares.

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

As at 31 December 2010, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of substantial shareholder	Class of shares	Long/short position	Capacity	No. of shares (Shares)	Notes	Percentage of the relevant shares in issue (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	3,886,912,452#	1	22.00	18.01*
China Merchants Steam Navigation Company Ltd.	A	Long	Beneficial owner	2,675,612,600	1	15.15	12.40
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	18,177,752#	1		
		Long	Interest of controlled corporation	1,193,122,100	1		
				1,211,299,852#		6.86	5.61
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	636,788,489	1		
		Long	Interest of controlled corporation	556,333,611	1		
				1,193,122,100		6.75	5.53
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,284,140,156		7.27	5.95
China Shipping (Group) Company	A	Long	Beneficial owner	258,470,781			
		Long	Interest of controlled corporation	695,697,834			
				954,168,615	2	5.40	4.42
JPMorgan Chase & Co.	H	Long	Beneficial owner	31,779,732			
		Long	Investment manager	374,179,491			
		Long	Custodian	140,964,875			
				546,924,098	3	13.99	2.53
		Short	Beneficial owner	20,202,993	3	0.52	0.09
BlackRock, Inc.	H	Long	Interest of controlled corporation	255,080,005	4	6.52	1.18
		Short	Interest of controlled corporation	17,990,213	4	0.46	0.08
Templeton Asset Management Limited	H	Long	Investment manager	196,766,380		5.03	0.91

* As at 31 December 2010, China Merchants Group Ltd. indirectly held an aggregate of 18.58% of the total issued shares of the Company, consisting of 18.38% of the A shares of the Company and 0.20% of the H shares of the Company, respectively.

\# The above numbers of shares were recorded in the interests disclosure forms completed by the relevant substantial shareholders before 31 December 2010. During the period from the date on which the respective substantial shareholders submitted the said forms up to 31 December 2010, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation in accordance with SFO.

VI Share Capital Structure and Shareholder Base

Notes:

(1) China Merchants Group Ltd. held interest in a total of 3,886,912,452 A shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

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

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

(1.3) Shenzhen Yan Qing Investment Development Co. Ltd. held 636,788,489 A shares (Long position) in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd., respectively.

(1.4) Shenzhen Chu Yuan Investment Development Co. Ltd. held 556,333,611 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment Development Colt., referred to in (1.3) above, respectively.

(2) China Shipping (Group) Company held interest in a total of 954,168.615 A shares (Long position) in the Company by virtue of its direct interest in 258,470,781 A shares (Long position) in the Company and interest in 695,697,834 A shares (Long position) in the Company by virtue of its wholly-owned subsidiaries, which held direct interests in the Company:

(2.1) Guangzhou Maritime Transport (Group) Company Limited directly held 631,287,834 A shares (Long position) in the Company; and

(2.2) Shanghai Shipping (Group) Company directly held 64,410,000 A shares (Long position) in the Company.

(3) JPMorgan Chase & Co. held interest in a total of 546,924,098 H shares (Long position) and 20,202,993 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) JPMorgan Chase Bank, N.A. held 168,091,819 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co..

(3.2) JF Asset Management Limited which held 13,611,500 H shares (Long position) in the Company, JPMorgan Asset Management (Taiwan) Limited which held 8,703,782 H shares (Long position) in the Company, JPMorgan Asset Management (Singapore) Limited which held 34,028,400 H shares (Long position) in the Company, JPMorgan Asset Management (Japan) Limited which held 468,235 H shares (Long position) in the Company and JF International Management Inc. which held 229,000 H shares (Long position) in the Company, were all wholly-owned by JPMorgan Asset Management (Asia) Inc.. JPMorgan Asset Management (Asia) Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co..

(3.3) J.P. Morgan Whitefriars Inc. held 12,000,648 H shares (Long position) and 12,164,599 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc..

(3.4) J.P. Morgan Investment Management Inc. held 103,760,432 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.2) above.

(3.5) JPMorgan Asset Management (UK) Limited held 186,251,198 H shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, which in turn was wholly-owned by JPMorgan Asset Management International Limited, which was a wholly-owned subsidiary of J.P. Morgan Asset Management Holdings Inc., referred to in (3.2) above.

(3.6) J.P. Morgan Securities Ltd. held 19,779,084 H shares (Long position) and 8,038,394 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.3) above.

The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 140,964,875 H shares (Long position). Besides, 7,814,333 H shares (Long position) and 15,352,099 H shares (Short position) were held through derivatives as follows:

1,334,000 H shares (Long position) and 2,687,500 H shares (Short position)	–	through physically settled derivatives (on exchange)
571,500 H shares (Short position)	–	through cash settled derivatives (on exchange)
2,329,000 H shares (Long position) and 1,193,099 H shares (Short position)	–	through physically settled derivatives (off exchange)
4,151,333 H shares (Long position) and 10,900,000 H shares (Short position)	–	through cash settled derivatives (off exchange)

(4) BlackRock, Inc. held interest in a total of 255,080,005 H shares (Long position) and 17,990,213 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(4.1) BlackRock Investment Management, LLC held 2,885,316 H shares (Long position) in the Company. BlackRock Investment Management, LLC was a wholly-owned subsidiary of Trident Merger, LLC, which in turn was a wholly-owned subsidiary of BlackRock, Inc.

(4.2) BlackRock Fund Advisors held 169,107,005 H shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company N.A., the latter was deemed to hold interest in 169,107,005 H shares (Long position). BlackRock Institutional Trust Company N.A. held 195,244,856 H shares (Long position) and 138,000 H shares (Short position) in the Company. BlackRock Institutional Trust Company N.A. was a wholly-owned subsidiary of BlackRock Delaware Holdings, Inc., which in turn was wholly-owned by BlackRock Holdco 6 LLC. BlackRock Holdco 6 LLC was wholly-owned by BlackRock Holdco 4 LLC, which in turn was wholly-owned by BlackRock Financial Management, Inc. BlackRock Financial Management, Inc. was a wholly-owned subsidiary of BlackRock Holdco 2 Inc., which in turn was wholly-owned by BlackRock, Inc.

(4.3) BlackRock Capital Management, Inc. held 263,700 H shares (Long position) in the Company. BlackRock Capital Management, Inc. was wholly-owned by BlackRock Institutional Management Corporation. BlackRock Institutional Management Corporation was a wholly-owned subsidiary of BlackRock Advisors, LLC., the latter held 9,443,900 H shares (Long position) and 2,359,000 H shares (Short position) in the Company. BlackRock Advisors, LLC. was wholly-owned by BlackRock Capital Holdings, Inc., the latter was a wholly-owned subsidiary of BlackRock Advisors Holdings Inc.. BlackRock Advisors Holdings Inc. was a wholly-owned subsidiary of BlackRock Financial Management, Inc., referred to in (4.2) above.

(4.4) BlackRock Asset Management Canada Limited held 258,000 H shares (Long position) in the Company. BlackRock Asset Management Canada Limited was wholly-owned by BlackRock Holdings Canada Limited, BlackRock Holdings Canada Limited was a wholly-owned subsidiary of BlackRock (Institutional) Canada Ltd, and the latter was a wholly-owned subsidiary of BR Jersey International LP. BR Jersey International LP was a wholly-owned subsidiary of BlackRock International Holdings Inc., the latter was a wholly-owned subsidiary of BlackRock Advisors Holdings Inc., referred to in (4.3) above.

(4.5) BlackRock Asset Management Australia Limited held 62,500 H shares (Long position) in the Company. BlackRock Asset Management Australia Limited was wholly-owned by BlackRock Australia Holdco Pty Ltd, the latter was a wholly-owned subsidiary of BR Jersey International LP, referred to in (4.4) above.

(4.6) BlackRock Asset Management North Asia Ltd held 13,616,327 H shares (Long position) and 12,225,962 H shares (Short position) in the Company. BlackRock Asset Management North Asia Ltd was wholly-owned by BlackRock HK Holdco Limited, the latter was wholly-owned by BR Jersey International LP, referred to in (4.4) above.

(4.7) BlackRock Investment Management (LUX) held 236,300 H shares (Long position) in the Company. BlackRock Investment Management (LUX) was wholly-owned by BlackRock Luxembourg Holdco S.a.r.l., the latter was a wholly-owned subsidiary of BlackRock Group Limited. BlackRock Group Limited was wholly-owned by BR Jersey International LP, referred to in (4.4) above.

VI Share Capital Structure and Shareholder Base

(4.8) BlackRock Asset Management Ireland Ltd held 22,462,530 H shares (Long position) in the Company. BlackRock Asset Management Ireland Ltd was wholly-owned by BlackRock Investment Management Ireland Holdings Ltd, the latter was a wholly-owned subsidiary of BlackRock Luxembourg Holdco S.a.r.l., referred to in (4.7) above.

(4.9) BlackRock Advisors UK Ltd. held 6,098,906 H shares (Long position) and 3,267,251 H shares (Short position) in the Company. BlackRock International Ltd. held 2,156,511 H shares (Long position) in the Company. Both of them were wholly-owned subsidiaries of BlackRock Group Limited, referred to in (4.7) above.

(4.10) BlackRock Fund Managers Ltd held 264,959 H shares (Long position) in the Company. BlackRock Fund Managers Ltd was wholly-owned by BlackRock Investment Management (UK) Ltd, which was in turn wholly-owned by BlackRock Group Limited, referred to in (4.7) above.

(4.11) BlackRock Asset Management Deutschland AG held 464,500 H shares (Long position) in the Company. BlackRock Asset Management Deutschland AG was wholly-owned by BlackRock Holdings Deutschland GmbH, and the latter was a wholly-owned subsidiary of BlackRock Investment Management (UK) Ltd, referred to in (4.10) above.

Among the entire interest of BlackRock, Inc. in the Company, 500 H shares (Long position) and 55,000 H shares (Short position) were held through cash settled derivatives (on exchange), while 2,359,000 H shares (Short position) were held through 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 (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2010 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

6.4 Undertakings associated with the share reform

The Company implemented a share reform (the "Conversion Scheme") on 27 February 2006. The undertakings of the shareholders whose shares were subject to trading moratorium under the Conversion Scheme were as follows: shareholders without put obligation undertook not to trade or transfer their shares within 24 months from 27 February 2006; shareholders with put obligation undertook not to trade or transfer their shares within 36 months from 27 February 2006. In particular, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Co., Ltd. and Shenzhen Chu Yuan Investment and Development Co., Ltd. undertook not to trade or transfer their shares in the Company before the share price of the Company first reached RMB8.48 or above (after excluding rights and dividend depending on circumstances) in the 12 months after expiry of the aforesaid 36-month lock-up period. The aforesaid shareholders had performed their undertakings (as mentioned above).

Shareholders with put obligation undertook that, after completion of the Conversion Scheme, they would advise the Board of Directors to formulate a long-term incentive plan including share option incentive plan, which should be implemented by the Board of Directors or first submitted to the Shareholders' General Meeting of the Company for approval and then implemented by the Board of Directors according to the relevant regulations of the State.

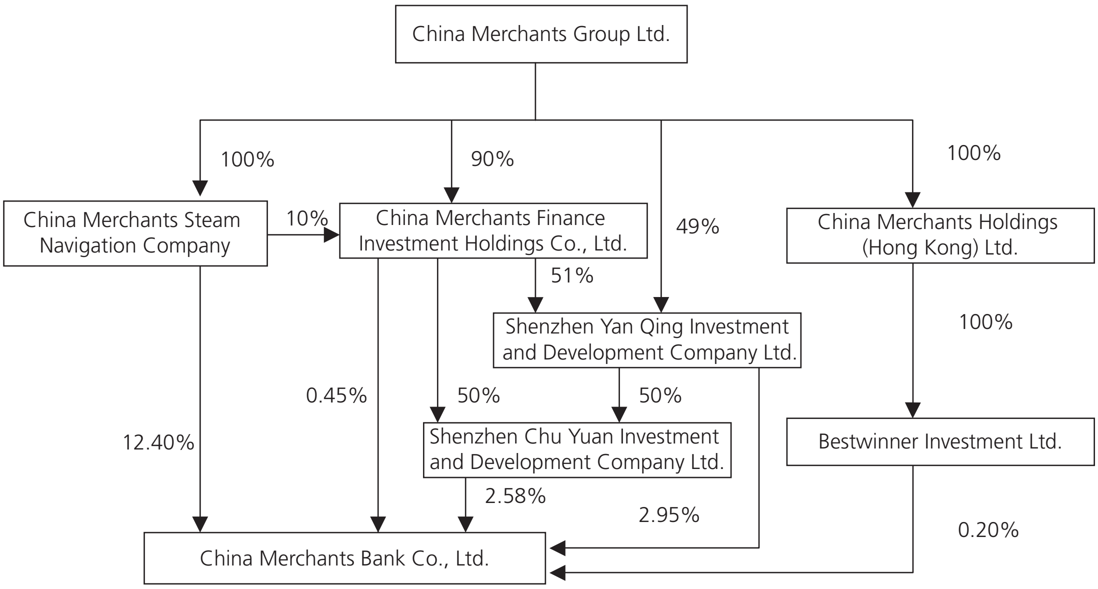
The H-Share Appreciation Rights Scheme for the Senior Management of the Company was approved by the shareholders of the Company at the 2007 First Extraordinary General Meeting held on 22 October 2007. Details of the Scheme were disclosed in the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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

(1) China Merchants Steam Navigation Company Ltd., being the largest shareholder of the Company, was founded on 11 October 1948 with a registered capital of RMB200 million. Its legal representative is Mr. Fu Yuning. It is a wholly owned subsidiary of China Merchants Group Ltd. The said company is mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo; as well as finance, insurance and trust businesses related to transportation.

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

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



Note: As at 31 December 2010, China Merchants Group Ltd. indirectly held an aggregate of 18.58% of the total shares of the Company, in which the A shares it held accounted for 18.38% of that of the Company and the H shares it held accounted for 0.20% of that of the Company.

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

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

VI Share Capital Structure and Shareholder Base

6.7 Particulars on share issuance and listing

2010 rights issue

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

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

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

Shares held by staff

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

6.8 Issuance of subordinated debts

Issuance of subordinated debts in 2008

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

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

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

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

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

7.1 Directors, supervisors and senior management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Aggregate remunerations before tax received from the Company during the reporting period (RMB ten thousand)	Remunerations paid by shareholders' companies or other related companies
Fu Yuning	Male	1957.3	Chairman & Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Wei Jiafu	Male	1950.1	Vice Chairman & Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Li Yinquan	Male	1955.4	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8 – 2013.6	0	0	0	Yes
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Sun Yueying	Female	1958.6	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Wang Daxiong	Male	1960.12	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Fu Junyuan	Male	1961.5	Non-Executive Director	2010.6 – 2013.6	0	0	0	Yes
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2010.6 – 2013.6	0	0	531.00	No
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2010.6 – 2013.6	0	0	346.70	No
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2010.6 – 2013.6	0	0	344.40	No
Wu Jiesi	Male	1951.10	Independent Non-Executive Director	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2010.6 – 2013.6	0	0	30.00	No
Yan Lan	Female	1957.1	Independent Non-Executive Director	2010.6 – 2013.6	0	0	30.00	No
Chow Kwong Fai, Edward	Male	1952.8	Independent Non-Executive Director	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Liu Yongzhang	Male	1956.12	Independent Non-Executive Director	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Liu Hongxia	Female	1963.9	Independent Non-Executive Director	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors	2010.8 – 2013.6	0	0	133.50	No
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Hu Xupeng	Male	1975.10	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Li Jiangning	Male	1959.4	Shareholder Supervisor	2010.6 – 2013.6	0	0	0	Yes
Shao Ruiqing	Male	1957.9	External Supervisor	2010.6 – subject to the requirements of policies and regulations	0	0	30.00	No
Shi Shunhua (note 1)	Male	1962.12	Employee Supervisor	2010.6 – 2011.3	0	0	284.80	No
Yang Zongjian	Male	1957.4	Employee Supervisor	2010.6 – 2013.6	0	0	221.30	No
Zhou Qizheng	Male	1964.11	Employee Supervisor	2010.6 – 2013.6	0	0	210.80	No
Tang Zhihong	Male	1960.3	Executive Vice President	2010.6 – 2013.6	0	0	320.50	No
Yin Fenglan	Female	1953.7	Executive Vice President	2010.6 – 2013.6	0	0	320.40	No
Ding Wei	Male	1957.5	Executive Vice President	2010.6 – 2013.6	0	0	318.30	No

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Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Aggregate remunerations before tax received from the Company during the reporting period (RMB ten thousand)	Remunerations paid by shareholders' companies or other related companies
Zhu Qi(note 2)	Male	1960.7	Executive Vice President	2010.6 – 2013.6	0	0	0	Yes
Tang Xiaoqing	Male	1954.8	Secretary of Party Discipline Committee	2008.12 up to now	0	0	320.40	No
Wang Qingbin(note 3)	Male	1956.12	Executive Assistant President	2009.5 – 2011.3	0	0	267.90	No
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 up to now	0	0	212.80	No
Fan Peng(note 4)	Male	1951.2	Chief Audit Officer	2010.6 – 2011.3	0	0	215.10	No
Lan Qi	Male	1956.6	Secretary of Board of Directors	2010.6 – 2013.6	0	0	212.80	No

Note: 1. Mr. Shi Shunhua, an employee supervisor of the Company, resigned from the position of employee supervisor in March 2011 due to job arrangements.

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

3. It was resolved that Mr. Wang Qingbin was appointed the executive vice president of China Merchants Bank at the 11th meeting of the 8th session of the Board of Directors.

4. As Mr. Fan Peng, Chief Audit officer, had reached the retirement age under the law on 6 February 2011, the 11th meeting of the Eighth Session of the Board of Directors agreed on Mr. Fan Peng's resignation from the position as Chief Audit officer of China Merchants Bank.

5. The aggregate remunerations before tax of the full-time executive directors and senior management members are subject to confirmation. Those sums of remunerations pending confirmation will be disclosed after the payments are approved.

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

Name	Name of Company	Title	Term of office
Fu Yuning	China Merchants Group Ltd.	Chairman	From August 2010 up to now
Wei Jiafu	China Ocean Shipping (Group) Company	President	From November 1998 up to now
Li Yinquan	China Merchants Group Ltd.	Vice President & Chief Financial Officer	From July 2002 up to now
Fu Gangfeng	China Merchants Group Ltd.	Deputy CFO and general manager of the finance division	From May 2008 up to now
Hong Xiaoyuan	China Merchants Finance Holdings Co., Ltd.	General Manager	From May 2007 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief Accountant	From December 2000 up to now
Wang Daxiong	China Shipping (Group) Company	Vice President	From March 2001 up to now
Fu Junyuan	China Communications Construction Co., Ltd	Executive Director & Chief Financial Officer	From September 2006 up to now
Zhu Genlin	Shanghai Automotive Industry Corporation (Group)	Vice President	From August 2010 up to now
Hu Xupeng	Zhonghai Trust Co., Ltd.(note)	Vice President, Secretary of the Board of Directors and Chief Risk Control Officer	From July 2008 up to now
Wen Jianguo	Hebei Port Group Co., Ltd.	Director & Chief Accountant	From July 2009 up to now
Li Jiangning	Shandong State-owned Assets Investment Holdings Co., Ltd.	Vice President	From December 2005 up to now

Note: Zhonghai Trust Co., Ltd. is a subsidiary of China National Offshore Oil Corporation, the Company's shareholder.

7.3 Major career profiles of directors, supervisors and senior management and details of their part-time occupations

Directors

Mr. Fu Yuning, Chairman and non-executive director of the Company. He has been a director of the Company since March 1999. Mr. Fu obtained a doctorate degree from Brunel University, the United Kingdom. He has been the chairman of China Merchants Group Ltd. since August 2010. Mr. Fu has been the chairman of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and an independent non-executive director of Sino Land Company Ltd. (a company listed on the Hong Kong Stock Exchange), and a General Committee Member of the Hong Kong General Chamber of Commerce and a member of Hong Kong Securities and Futures Commission. He has served as the chairman of China Nanshan Development (Group) Inc. and an independent non-executive director of CapitaLand Ltd. (a company listed on the Singapore Stock Exchange).

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

Mr. Li Yinquan, non-executive director of the Company. He has been a director of the Company since April 2001. He obtained a master's degree in economics in the Graduate School of the People's Bank of China and a master's degree in finance in FINAFRICA, Italy, and is a senior economist. He has been the vice president and chief financial officer of China Merchants Group Ltd. since March 2004. He has also been the director of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and the chairman of China Merchants China Direct Investments Ltd. (a company listed on the Hong Kong Stock Exchange).

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

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Mr. Hong Xiaoyuan, non-executive director of the Company. He has been a director of the Company since June 2007. He obtained a master's degree in economics from Peking University and a master's degree in science from Australian National University. Since May 2007 till now, he has been the general manager of China Merchants Finance Holdings Company Ltd., and also a director of China Merchants China Direct Investments Ltd. (a company listed on the Hong Kong Stock Exchange), China Merchants Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange), Great Wall Securities Co., Ltd., China Credit Trust Co., Ltd., and Morgan Stanley Huaxin Fund Management Company Ltd.. He is also the chairman of China Merchants China Investment Management Ltd., China Merchants Finance Investment Holdings Co., Ltd., China Merchants Holdings (U.K.) Co., Ltd., China Merchants Insurance Co., Ltd. and Houlder Insurance Brokers Far East Ltd.. He had also served as the director of China Merchants Energy Shipping Co. Ltd. (a company listed on the Shanghai Stock Exchange) and the deputy general manager of China Merchants Shekou Industrial Zone Co., Ltd.

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

Mr. Wang Daxiong, non-executive director of the Company. He has been a director of the Company since March 1998. He is a university graduate and is a senior accountant. He has been the vice president and chief accountant of China Shipping (Group) Company since December 2004 and the vice president of China Shipping (Group) Company since October 2010. He has also been a non-executive director of China Shipping Container Lines Company Ltd. (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange), an executive director of China Shipping Development Co., Ltd. (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange) and the chairman of the board of China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd. (a company listed on the Shanghai Stock Exchange).

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

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

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

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

Mr. Wu Jiesi, independent director of the Company. He has been an independent non-executive director of the Company since September 2005. He obtained a doctorate degree in economics, completed the postdoctoral research in theoretical economics in Nankai University, and was granted the professor status by Nankai University in 2001. He currently is the non-executive director and vice chairman of the board of the directors of China Aoyuan Property Group Ltd. (a company listed on the Hong Kong Stock Exchange) and the chairman of Kaichen Asset Management Co., Ltd. He is also an independent non-executive director of Beijing Enterprises Holdings Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and China Taiping Insurance International Holdings Company Ltd. (a company listed on the Hong Kong Stock Exchange); a non-executive director of China Water Affairs Group Ltd. (a company listed on the Hong Kong Stock Exchange), Shenzhen Investment Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) and Yinji Group Holdings Ltd.; an independent director of China Life Franklin Asset Management Company Ltd. He was previously the chairman of Guangdong Yue Gang Investment Holdings Company Ltd. and Guangdong Holdings Ltd. (currently GDH Ltd.) from 2000 to 2005; the managing director and chief executive officer of Hopson Development Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) from April 2005 to January 2008.

Mr. Yi Xiqun, independent director of the Company. He has been an independent non-executive director of the Company since October 2007. He obtained a master's degree in economics management engineering from Tsinghua University. He has been the head of Beijing Equity Investment & Development Fund Management Co., Ltd. and the Chairman of Bowei Capital, and has also been an independent non-executive director of SOHO China Ltd. (a company listed on the Hong Kong Stock Exchange) and Zheshang Jinhui Trust Co., Ltd. He had been the president of Beijing Holdings Ltd., the chairman of the board of directors of Beijing Enterprises Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) and the president of Beijing Enterprises Group Company Ltd..

Ms. Yan Lan, independent director of the Company. She has been an independent non-executive director of the Company since June 2007. She obtained a bachelor's degree in French Language and Literature from Beijing Foreign Studies University, a master's degree in international law from Peking University, a doctorate degree in international law from Graduate Institute of International Studies in Geneva, and has been qualified as an avocat in France. She has served as the chief representative in the Beijing Office of Gide Loyrette et Nouel from 1998 to April 2011. From April 2011, She has been appointed by Lazard Ltd. as a managing director and head of Greater China Investment Banking. She is now an arbitrator of China International Economic and Trade Arbitration Commission and one of the legal counsels of ICC CHINA. She also voluntarily serves as the chairman of the International Advisory Committee of Beijing Music Festival, the Chairman of China Heritage Protection Fund (NGO), the vice chairlady of the Women's Forum for the Economy and Society in Asia, an adviser of France's foreign trade and the honorary consul of the Principality of Monaco in Beijing.

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

Mr. Liu Yongzhang, independent director of the Company. He has been an independent non-executive director of the Company since May 2006. He has obtained a master's degree in economics from Shanghai University of Finance and Economics. He has worked in Shanghai University of Finance and Economics since 1983. He is currently a professor of the International Business Administration Faculty, the deputy secretary of the Party Committee of the Shanghai University of Finance and Economics, and has been an independent non-executive director of Shanghai Jin Jiang International Industrial Investment Company Ltd. (a company listed on the Shanghai Stock Exchange).

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

Supervisors

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

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

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

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

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

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Mr. Shao Ruiqing, has been an external supervisor of the Company since May 2006. Mr. Shao obtained a doctorate degree in management and is currently a professor. He has been the deputy dean of Shanghai Lixin University of Commerce since February 2004. Mr. Shao is also the deputy head of China Association of Communications Accountancy, a director of China Institute of Accounting Instructors, the deputy head of Shanghai Association of Communications Accountancy, and the deputy head of Shanghai Association of Communications Accountancy and a doctoral mentor at Shanghai Maritime University. He is also an independent non-executive director of a number of listed companies such as Shanghai Automotive Group Co., Ltd. (a company listed on the Shanghai Stock Exchange) and China Eastern Airlines Corporation Limited (a company listed on the New York Stock Exchange, Hong Kong Stock Exchange and Shanghai Stock Exchange). Mr. Shao is a deputy to the Thirteenth National People's Congress of Shanghai.

Mr. Shi Shunhua, joined the Company in 1996 and has been an employee representative supervisor of the Company since June 2007. He is a postgraduate and an economist. He successively served as the general manager of Xujiahui sub-branch of Shanghai Branch of the Company, the general manager of the Bund sub-branch of Shanghai Branch of the Company, and the assistant general manager of Shanghai Branch, and the deputy general manager of Shanghai Branch of the Company. Since November 2008, he has served as the general manager of Suzhou Branch of the Company.

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

Mr. Zhou Qizheng, joined the Company in 1995 and has been an employee representative supervisor of the Company since June 2010. He is a postgraduate and is a senior economist. He served as the assistant general manager and the deputy general manager of the Credit Management Department of the Head Office of the Company, the deputy general manager of the Risk Control Department of the Head Office of the Company, the deputy general manager of the Wuhan Branch of the Company, the deputy general manager of the Asset Preservation Department of the Head Office of the Company, and the deputy general manager of the Credit Control Department of the Head Office of the Company (in charge of daily management). He has been the general manager of the Credit Control Department of the Head Office Since May 2008.

Senior Management

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

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

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

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

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

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

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

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

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

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

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Mr. Fan Peng, Chief Audit Officer of the Company. He graduated with a bachelor's degree and is a registered accountant. He joined the Company in February 2007 and has served as Chief Audit Officer of the Company since February 2007. He is also a supervisor of both CMB International Capital Corporation Ltd. and CMB Financial Leasing Co., Ltd.. From August 1983 to January 2007, he worked in the National Audit Office, and successively served as a deputy division chief of the Finance Audit Office, the deputy division chief of the Comprehensive Department, the deputy division chief of Commerce & Trade Audit Department (in charge of daily work), the deputy division chief of Economy & Trade Audit Department (in charge of daily work) and the division chief of Finance Audit Department.

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

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

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

The Company offers remuneration to independent directors and external supervisors according to the "Resolution in respect of Adjustment to Remuneration of Independent Directors and External Supervisors"; offers remuneration to executive directors and other senior executives according to the "Policies on Remunerations of Senior Management" of the Company; and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees. Shareholding directors and shareholding supervisors do not receive any remuneration from the Company.

The Board of Supervisors evaluates the performance of directors according to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)" and through the review of the working report of the Directors. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management" and the "Assessment Standards of H-Share Appreciation Rights Scheme for the Senior Management".

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

7.5 H Share Appreciation Rights Incentive Scheme during the reporting period

To further establish and enhance its incentive system for the combined interest of shareholders, the Company and the senior management members, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 2007 First Extraordinary General Meeting held on 22 October 2007. On 30 October 2007, 7 November 2008, 16 November 2009, the Board of the Company made grants for Phases I, II and III under the Scheme respectively. Please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company for details.

Following the rights issue of H Shares in 2010 and Profit Appropriations Scheme for 2009, the Company adjusted the number shares which may be granted and the exercise prices under the H Share appreciation rights for Phases I, II and III in accordance with the relevant regulations. For details of the adjustment, please refer to the announcement dated on 18 February 2011 in respect of the resolutions passed at the 9th meeting of the 8th Session of the Board of Directors which was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

On 18 February 2011, pursuant to the approvals of the 9th meeting of the 8th Session of the Board of Directors, the Company made grants of H Share appreciation rights for Phase IV. Please refer to the announcement in respect of the resolutions passed at the 9th meeting of the 8th Session of the Board of Directors which was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company for details.

7.6 Appointment and resignation of executives during the reporting period

The Board of Directors and the Board of Supervisors of the Company completed their general elections during the year. "Resolutions in Relation to the Eighth Session of the Board of Directors", "Resolutions in Relation to the Shareholder Representative Supervisors and External Supervisors of the Eighth Session of the Board of Supervisors" and "Resolution Regarding the supplement of one candidate For External Supervisor of China Merchants Bank" were considered and passed at the 2009 Annual General Meeting held on 23 June 2010. According to the above resolutions, Ding Anhua no longer served as a director of the Company and Fu Gangfeng was newly elected as a member of the Eighth Session of the Board of Directors (his appointment qualification as a director having been approved by CBRC, Shenzhen Office on 10 August 2010). Save as above, there were no changes to other members of the Board of Directors. Han Mingzhi, Hu Xupeng and Wen Jianguo were newly elected as members of the Eighth Session of the Board of Supervisors, Han Mingzhi's appointment qualification as the Chairman of the Board of Supervisors was approved by CBRC on 9 August 2010. Shi Jiliang and Dong Xiande no longer served as supervisors of the Company. Save as above, there were no changes to other shareholder supervisors and external supervisors of the Board of Supervisors.

During the reporting period, Shi Shunhua, Yang Zongjian and Zhou Qizheng were elected democratically as employee representative supervisors of the 8th Session of the Board of Supervisors by the staff of the Company, whereas Zhou Song no longer served as an employee representative supervisor.

The announcements in relation to the membership of the 8th Session of the Board of Directors and of the 8th Session of the Board of Supervisors of the Company were published on China Securities Journal, Shanghai Securities News, Securities Times, and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 24 June 2010 respectively.

Pursuant to the resolution made on the 5th meeting of the 8th Session of the Board of Directors on 20 September 2010, as Mr. Qin Xiao reached the retirement age, Mr. Qin resigned as the director and Chairman of the Company. The Board proposed Mr. Fu Yuning to be the Chairman of China Merchants Bank.

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7.7 Information about employees

As at 31 December 2010, the Company had 43,089 employees, including 13,225 management staff, 28,640 ordinary staff and 1,224 administration staff. Of these staff, 41,882 employees had associate bachelor education or above, accounted for 97.20%. Currently, the Company has 158 retirees.

7.8 Branches and representative offices

The Company continued to develop network construction in 2010. During the reporting period, 21 domestic branches were approved to commence business, namely Huainan Branch, Zhenjiang Branch, Lijiang Branch, Zibo Branch, Leshan Branch, Yingkou Branch, Hengyang Branch, Linyi Branch, Luoyang Branch, Zhongshan Branch, Guiyang Branch, Yinchuan Branch, Taizhou Branch, Xiangyang Branch, Shijiazhuang Branch, Jincheng Branch, Anyang Branch, Anshan Branch, Honghe Branch, Jining Branch and Huizhou Branch. The Company received approvals for the setting up of 10 branches, namely Zhuhai Branch, Luzhou Branch, Xuzhou Branch, Longyan Branch, Shangrao Branch, Binhai Branch, Dongying Branch, Maanshan Branch, Zhangzhou Branch and Liuzhou Branch. On 28 October 2010, the Company obtained the approval from Taiwan Financial Supervisory Commission to set up its Taipei Representative Office which was officially established on 15 March 2011.

In 2011, the Company will carry on its organic expansion plan by adhering to the principles of "grasping proper rhythm, focusing on efficiency, securing high quality and emphasizing key points", and will emphatically develop its second-tier branches and sub-branches in county level, continuously expand the coverage of sub-branches and self-service machines in the same city and steadily pursue its organic expansion. In establishing its regional framework, the Company will further develop the three major regional markets in Yangtze River Delta, Pearl River Delta and Bohai Economic Rim, and will strengthen its developing advantages and enhance its regional competitiveness in these major regions.

The following table sets out the branches and representative offices as at 31 December 2010:

Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,983	797,421
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	70	2,949	134,197
Huizhou Branch	3 Wenming No. 1 Road, Jiangbei, Huizhou	516000	1	28	–
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	57	2,532	119,082
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	23	1,198	39,908
Yichang Branch	70 Yiling Road, Yichang	443002	5	137	4,256
Huangshi Branch	76 Hangzhou Road West, Development District, Tuanchengshan, Huangshi	435000	5	124	3,674
Xiangyang Branch	20 Changhong Road, Xiangyang, Hubei Province	441100	1	44	470
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	53	2,716	127,351

Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	1,042	37,297
Dandong Branch	Block 11, Nanjinqiao Estate, Zhenxing District, Dandong	118000	4	96	2,926
Anshan Branch	Qianshan Road Central, East District, Anshan	114000	1	23	1,196
Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	40	1,574	48,338
Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	27	1,067	32,642
Leshan Branch	90 Boyang Road Central, Shizhong District, Leshan	614000	1	35	906
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	637	18,506
Xi’an Branch	1 Gaoxin No.2 Road, Xi’an	710001	24	1,041	35,816
Yulin Branch	1-2/F, Changfeng Building, Hangyu Road Central, Yulin	719000	1	43	1,384
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	23	1,175	43,713
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	439	21,349
Changzhou Branch	125 Heping Road South, Changzhou	213003	6	233	7,776
Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	5	173	5,588
Zhenjiang Branch	Block 3, 18 Dianli Road, Zhenjiang	212000	1	79	1,777
Taizhou Branch	28-8 Yinchun Road East, Taizhou, Jiangsu Province	225300	1	55	780
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	14	623	44,535
Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	3	112	5,620
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	26	1,000	35,469
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	16	643	22,908
Yingkou Branch	19 Bohai Street East, Zhanqian District, Yingkou	115000	2	74	1,704
Hangzhou Branch	23 Hangda Road, Hangzhou	310007	26	1,168	53,485
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	16	675	33,314
Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Wenzhou	325000	10	390	20,489
Shaoxing Branch	357 Shengli Road East, Shaoxing	312000	8	303	14,598
Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	3	139	6,410
Taizhou Branch	535 Shifu Road, Taizhou	318000	4	158	6,106

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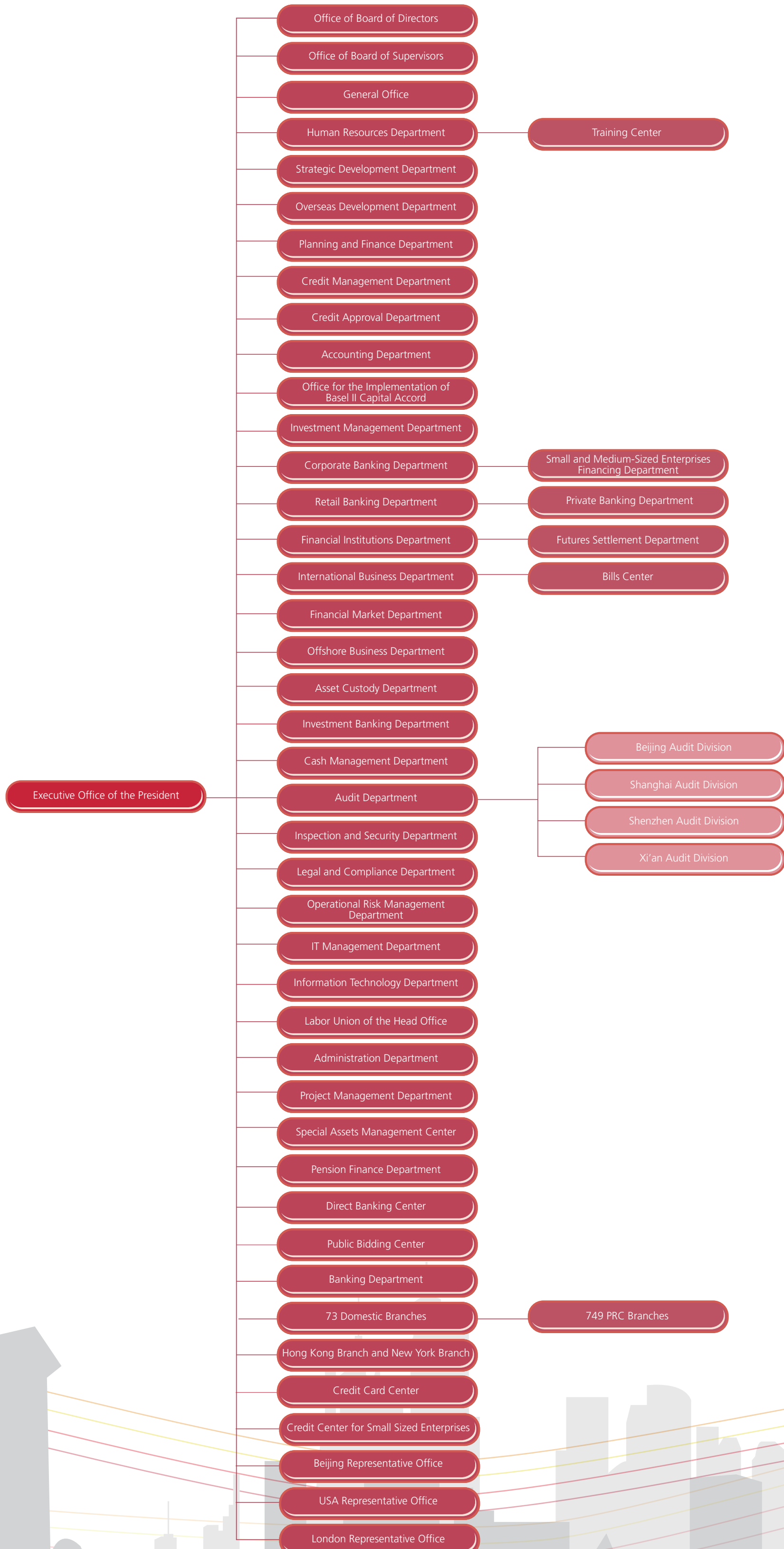
Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	20	824	25,767
Ganzhou Branch	66 Hongqi Street, Zhanggong District, Ganzhou	341000	1	51	2,027
Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	24	915	10,310
Hengyang Branch	Huijing Garden, Hengyang	421000	1	42	1,164
Fuzhou Branch	60 Guping Road, Fuzhou	350003	15	681	19,580
Quanzhou Branch	301 Fengze Street, Fengze District, Quanzhou	362000	8	282	10,101
Qingdao Branch	36 Hong Kong Road Central, 8 Shinan District, Qingdao	266071	17	824	34,558
Weihai Branch	19 Qingdao Road North, Weihai	264200	1	76	2,506
Zibo Branch	A1, 12 Renmin Road West, Zibo	255000	1	74	2,366
Jining Branch	136 Guhuai Road, Jining	272000	1	52	288
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	26	956	38,522
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	757	36,398
Yantai Branch	237 Nanda Street, Yantai	264000	8	280	8,060
Weifang Branch	Building No. 1, Financial Service Zone, Shengli Street East, Weifang	261041	4	145	4,446
Linyi Branch	9 Xinhua No. 1 Road, Linyi	276000	1	57	1,714
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	422	15,124
Kunming Branch	48 Dongfeng Road East, Kunming	650051	20	732	27,114
Qujing Branch	Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	2	51	1,520
Lijiang Branch	222 Changshui Road, Gucheng District, Lijiang	674100	1	35	1,945
Honghe Branch	279 Renmin Road, Gejiu, Yunnan Province	654400	1	32	143
Hefei Branch	436 Changjiang Road Central, Hefei	230061	14	572	23,759
Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	4	93	3,480
Huainan Branch	Central Plaza, Xintiandi, Longhu Road, Huainan	232000	1	58	2,416
Xiamen Branch	862 Xiahe Road, Xiamen	361004	13	516	21,082
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	14	552	20,057
Zhengzhou Branch	39 Huyuan Road, Zhengzhou	450000	16	569	23,670
Luoyang Branch	Xiyuan Building, 7 Nanchang Road, Jianxi District, Luoyang	471000	1	57	1,759
Anyang Branch	30 Jiefang Avenue, Anyang	455000	1	36	78
Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	16	598	20,114

Name of branches	Business address	Postal code	No. of branches	No. of staff	Size of asset (in millions of RMB)
Foshan Branch	Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	13	445	20,909
Zhongshan Branch	Building A3, Phase 3, Shengjing Garden, Zhongshan 4th Road, East District, Zhongshan	528400	1	58	1,528
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	8	324	14,860
Jincheng Branch	249 Zezhou Road, Jincheng	048000	1	24	236
Hohhot Branch	56 Xinhua Street, Hohhot	010010	7	322	17,641
Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	3	176	11,474
Nanning Branch	92-1 Minzu Avenue, Nanning	530022	4	202	9,774
Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	1	77	4,173
Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	1	77	3,740
Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	1	66	2,172
Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	100	34,267
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	7	1
USA Representative Office	509 Madison Aveune, Suite 306, New York, New York 10022, U.S.A	–	1	1	1
London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	2	–
New York Branch	535 Madison Aveune	–	1	32	4,523
Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,560	53,763
Credit Center for Small Sized Enterprises	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	542	18,218
Other assignments				27	–
Total	–	–	830	43,089	2,288,339

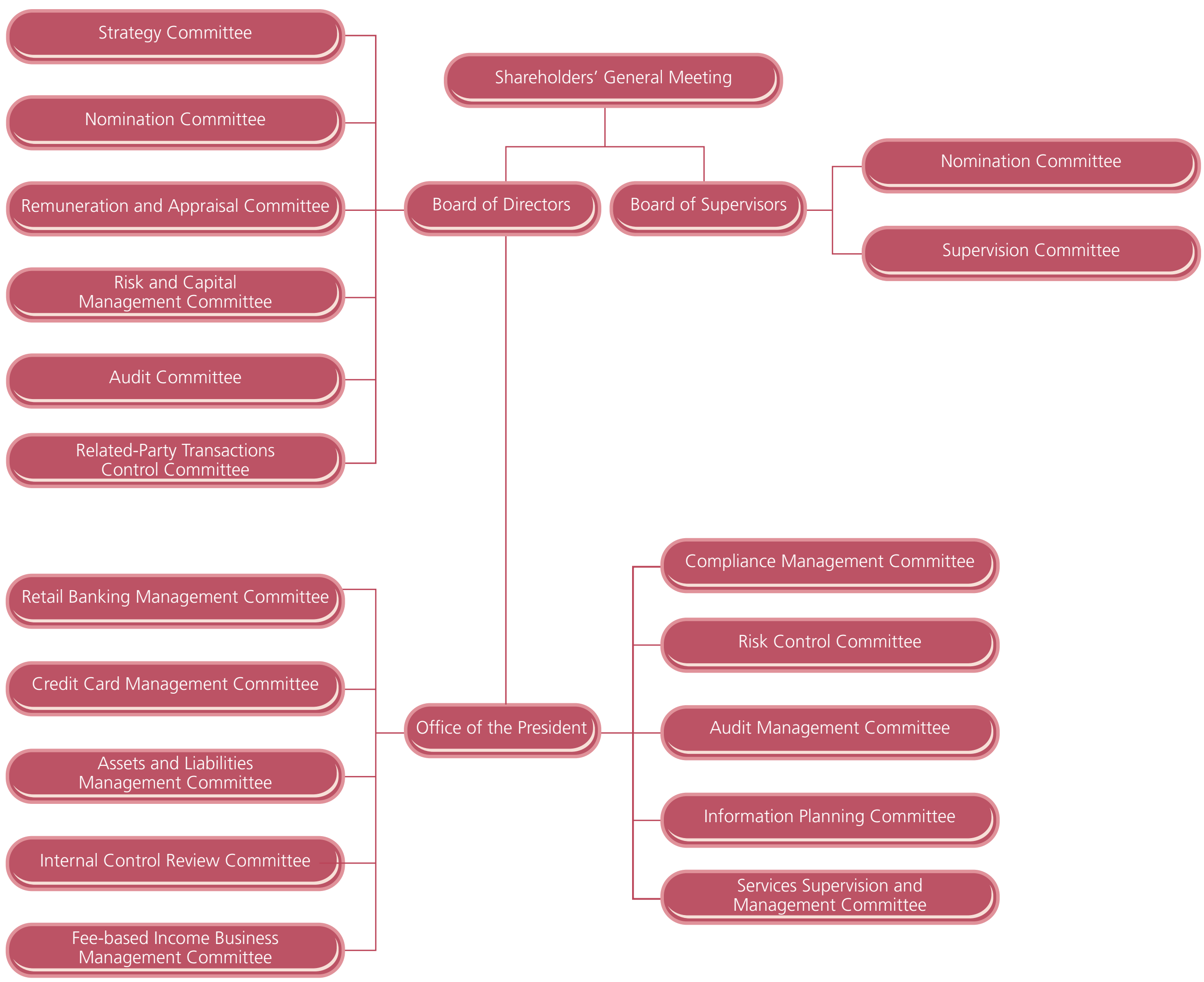
VII Directors, Supervisors, Senior Management, Employees and Organizational Structure

7.9 The Company's Organizational Structure:



VIII Corporate Governance

8.1 Corporate Governance Structure:



VIII Corporate Governance

8.2 Governance

Confronted with the complicated and changing external situation in 2010, the Shareholders' General Meeting, Board of Directors, Board of Supervisors and the specialized committees of the Company had consistently followed the nation's macroeconomic control policy and regulatory requirements, performed duties with diligence, forged ahead and functioned proactively and effectively, successfully completed analysis and review of important issues of the operation and management of the Company, provided solid support for the management team and guaranteed compliant operation, and sustainable and steady development of the Company. Particulars of which are set out as follows:

1. During the year, the Company organized and convened in aggregate 57 meetings of different natures, among which, there were 1 general meeting, 17 board meetings, 28 meetings of the specialized committees of the Board of Directors, 8 meetings of the Board of Supervisors and 3 meetings of the specialized committees of the Board of Supervisors. The Board of Directors and Board of Supervisors organized 9 activities in the form of research and investigation and training.

2. The Board of Directors convened 17 meetings during the year and reviewed 60 resolutions of various kinds. The Board of Directors continued playing the role of decision-making and strategic management, conducted analysis, discussion and review of strategies for major issues in the development of the Company, provided firm support to the "Second Transformation" strategy and five objectives of "Second Transformation" proposed by senior management, continuously strengthened risk management and capital management, attached great importance to the implementation applications and scheduling of New Basel requirements, and guaranteed compliant operation and steady development of the Company.

   During the year, the specialized committees of the Board of Directors diligently organized and convened 28 meetings, i.e. 4 meetings more as compared to that in 2009, and at these meetings, 65 significant resolutions were reviewed and approved, which is 10 resolutions more as compared to that in 2009. The specialized committees of the Board of Directors made full advantage of their expertise and research capability. The matters under their review had covered most of the resolutions proposed to the Board of Directors, thus enhanced the efficiency and scientific decision making ability of the Board of Directors, and promoted the healthy development of various businesses of the Company.

3. The Board of Supervisors convened 8 meetings during the year and reviewed 22 resolutions of various kinds. During the year, the specialized committees of the Board of Supervisors convened 3 meetings, and at these meetings, 4 significant resolutions were reviewed and approved. Through their presence at the meetings of the Board of Directors and the specialized committees of the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors also supervised the convening of the meetings of the Board of Directors, the Board of Supervisors and the Shareholders' General Meetings, reviewed and voted for compliance of procedures, and supervised the performance of Directors.

   During the year, the Board of Supervisors visited Tianjin Branch, Hangzhou Branch, Suzhou Branch and small sized enterprises credit center for investigation and research. Through the investigation and research of branches, the Board of Supervisors had a more comprehensive and in-depth understanding of implementation of the "Second Transformation" by the branches, as well as business development operations and compliance work.

4. During the reporting period, re-election of the Board of Directors, the Board of Supervisors and re-assignment of senior management members were effectively implemented, assuring the smooth transition and operation of the Board of Directors, the Board of Supervisors and senior management.

5. The Company disclosed its significant information in a timely, accurate, truthful and complete manner in strict compliance with the requirements of the laws and regulations on information disclosure in China and overseas, to ensure the shareholders know all important issues faced by the Company in a timely manner and effectively protect the interests of investors. In 2010, a total of more than 190 documents were disclosed through the Shanghai Stock Exchange and the Hong Kong Stock Exchange, among which were periodic reports, announcements, corporate governance documents, shareholders' circulars, proxy forms and reply slips, with 2.10 million words in contents. During the year, the Company established the Accountability System in relation to Serious Faults in Information Disclosure in the Annual Report in order to upgrade the systematic operations of the Company, improve the quality and transparency of information disclosure of annual reports and promote the accountability of the person-in-charge of information disclosure of annual reports.

6. The Company proactively improved the communication with investors. In addition to regular disclosure of information, the Company placed high regard to face to face communication with investors through activities such as results referral conferences, investor event days, online placement roadshows and other roadshows conducted in China and abroad. Such activities satisfactorily served the purpose of effective communication with investors and the media. In 2010, the Company organized and convened 34 results referral conferences, 1 results roadshow, 6 reverse roadshows, attended 44 investment promotion conferences, received 128 visits and telephone conferences from investors, answered more than a thousand telephone enquiries from investors and securities analysts, and handled 275 online messages.

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

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

In the reporting period, the Company won a number of awards, and the significant of them included:

In the selection of "Best Company in Asia" organized by *Finance Asia*, the Company won four prizes, namely "Best Company Management", "Best Corporate Governance", "Best Investor Relations" and "Best Corporate Social Responsibility";

In the report of "Corporate Governance Assessment Summary Report on the Top 100 Chinese Listed Companies for 2010" jointly released by Research Centre for Corporate Governance, Chinese Academy of Social Sciences, and Protiviti China, with its outstanding performance, the Company ranked first on the list of "Top 20 Chinese Listed Companies for Corporate Governance Assessment 2010" and "Top 10 Listed Financial Companies for Corporate Governance Assessment 2010" respectively.

In the "3rd Selection of China Best Board of Directors of Listed Company" organized by *MoneyWeek* (a brand owned by Southern Newspaper Media Group), the Company won top 20 "Best Board of Listed Company Award 2010", as well as the top of "Best Board of Directors of Listed Chinese Companies for Corporate Governance Award 2010" and the third of "Best Board of Directors of Listed Chinese Company for Corporate Social Responsibility Award 2010".

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8.3 Information about general meetings

During the reporting period, the Company convened its 2009 Annual General Meeting in Shenzhen on 23 June 2010. The notice and the convening, holding and voting procedures of the meeting all complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and on *China Securities Journal*, *Shanghai Securities News and Securities Times* on 24 June 2010.

8.4 Board of Directors

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

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

8.4.1 Composition of the Board of Directors

As at 31 December 2010, the Board of Directors of the Company had 17 members, including 8 non-executive directors, 3 executive directors, and 6 independent non-executive directors. All non-executive directors come from large state-owned enterprises where they hold key positions and are experienced in management. Most of them have work experience in financial industry. All 3 executive directors have been engaged in the management of banking operations and have extensive professional experience in this area. The 6 independent non-executive directors are renowned experts in finance, accounting and law who have extensive knowledge of the development of the domestic and overseas banking industry, with one from Hong Kong who is proficient in international accounting standards and Hong Kong capital market.

Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and high professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

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

8.4.2 Appointment, re-election and removal of directors

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

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

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

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

During the reporting period, the Company completed the re-election and appointment of the new sessions of the Board of Directors, the Board of Supervisors and the senior management.

8.4.3 Responsibilities of directors

During the reporting period, all directors of the Company had cautiously, seriously and diligently performed their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. During the year, their attendance of meetings has been satisfactory, with the attendance rates of each director reaching 94.38% or above.

During the reporting period, in the selection of the best chief executive officers in the world organized by *Institutional Investor* in the United Stated, Mr. Ma Weihua, the Executive Director, President and CEO of the Company, was awarded the "Best President in Asia" in the selection of the "Best Senior Management in Financial Institutions in Asia Pacific Region" in 2010. Mr. Li Hao, the Executive Director, the Executive Vice President and Chief Financial Officer, was an award receiver in the Best Directors Of The Year Awards 2010 organized by Hong Kong Institute of Directors.

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

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

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

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

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

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

8.4.5 Attendance at Meeting of the Board of Directors

During the reporting period, the Board of Directors of the company held a total of 17 meetings (2 physical meetings, 3 video meetings and 12 meetings by way of written resolutions), at which major issues involving the strategies, risks, remuneration, audit, finance and operations of the Company were reviewed and approved by the Board of Directors.

The following table sets out the records of attendance of the respective directors at physical board meetings held in the year ended 31 December 2010.

Name of Director	Number of meetings attended/ Number of meetings held
Non- Executive Directors	
Qin Xiao[Note 1]	14/14
Fu Yuning	17/17
Wei Jiafu	16/17
Li Yinquan	17/17
Fu Gangfeng[Note 2]	6/6
Hong Xiaoyuan	17/17
Ding Anhua, Edward[Note 2]	9/9
Sun Yueying	16/17
Wang Daxiong	17/17
Fu Junyuan	16/17
Executive Directors	
Ma Weihua	17/17
Zhang Guanghua	17/17
Li Hao	17/17
Independent Non-Executive Directors	
Wu Jiesi	17/17
Chow Kwong Fai, Edward	16/17
Liu Yongzhang	17/17
Liu Hongxia	17/17
Yan Lan	17/17
Yi Xiqun	16/17

Notes:

1. According to the resolution of the 5th meeting of the Eighth Session of the Board convened on 20 September 2010, Mr. Qin Xiao reached the retirement age and resigned as a non-executive director and the Chairman of China Merchants Bank. The meeting had resolved to propose Mr. Fu Yuning to be the Chairman of China Merchants Bank.

2. According to the resolution of 2009 general meeting convened on 23 June 2010, Mr. Ding Anhua, Edward resigned as a director of the Company and Mr. Fu Gangfeng was appointed as the director of the Eighth Session of the Board of the Company with his qualification approved by CBRC Shenzhen Supervision Bureau on 10 August 2010.

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8.4.6 Meetings of the Board and contents of resolutions

1. The 50th meeting of the Seventh Session of the Board was convened on 4 February 2010 by way of written resolutions. The "Resolution on Material Related-Party Transactions" were considered and passed with 18 out of the 18 directors casting votes.

2. The 51st meeting of the Seventh Session of the Board was convened on 22 February 2010 by way of video conference. The "Resolution regarding the Ratio and Number of Shares to be issued under the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd." was considered and passed with 18 out of the 18 directors casting votes. There were 8 supervisors present at the meeting. The resolution was published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 23 February 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

3. The 52nd meeting of the Seventh Session of the Board was convened on 19 March 2010 by way of written resolutions. The "Resolution on Material Related Party Transactions" was considered and passed with 18 out of the 18 directors casting the vote.

4. The 53rd meeting of the Seventh Session of the Board was convened on 7 April 2010 by way of written resolutions. The "Self-evaluation Report on the Internal Control in relation to the Board of Directors for the year 2009", the "Related Party Transaction Report for the year 2009", the "Special Audit Report on Related Party Transactions for the year 2009" and the "Business Continuity Plan of the New York Branch" were considered and passed with 18 out of the 18 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 8 April 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

5. The 54th meeting of the Seventh Session of the Board was convened on 13 April 2010 in Shenzhen by way of physical meeting. The "Work Report of the Board of Directors for the Year 2009", the "Work Report of the President for the Year 2009", the text and the summary of the "Annual Report for the Year 2009", the "Social Responsibility Report for the Year 2009", the "Accountant 's Report on the Audit of China Merchants Bank for the Year 2009" issued by KPMG Certified Public Accountants, the "2009 Financial Statements and 2010 Budget Report", the "Profit Appropriation Plan for the Year 2009", the "Resolution on Appointing the Accounting Firms for the Year 2010 and their Remuneration", the "Resolution in respect of the Candidate List of the Directors of the Eighth Session of the Board of Directors", "Risk Preferences Statement", the "Regulations on Risk Preferences", "Related Matters Regarding the Authorisation of the Risk Control Committee of the Board and the Senior Management to Examine and Approve the Credit Risk Internal Rating System for", the "Resolution on the Review of Policies on Market Risks and Liquidity Risk Management and the Related Authorization", "Operational Risk Management Policies", the "Accountability Measures for Major Errors in Information Disclosure in Annual Reports" and the "Notice for Convening 2009 Annual General Meeting" were considered and passed with 18 out of the 18 directors casting votes. There were 8 supervisors present at the meeting. The resolutions were published on *China Securities Journal*, *Shanghai Securities News and Securities Times* on 13 April 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

6. The 55th meeting of the Seventh Session of the Board was convened on 28 April 2010 by way of written resolutions. The "First Quarterly Report for 2010" was considered and passed with 18 out of the 18 directors casting votes. The resolution was published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 29 April 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7. The 56th meeting of the Seventh Session of the Board was convened on 31 May 2010 by way of written resolutions. The "Self-inspection Report on the Comprehensive and In-depth Commencement of Specialised Initiatives for the Regulation of Fundamental Financial and Accounting Functions of China Merchants Bank for the Year 2010" was considered and passed with 18 out of the 18 directors casting votes.

8. The 57th meeting of the Seventh Session of the Board was convened on 3 June 2010 by way of written resolutions. The "Resolution on the Postponement on Convening 2009 General Meeting" was considered and passed with 18 out of the 18 directors casting votes. The resolution was published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 4 June 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

9. The 58th meeting of the Seventh Session of the Board was convened on 18 June 2010 by way of written resolutions. The "Resolution on the Material Related Party Transactions" was considered and passed with 18 out of the 18 directors casting the vote.

10. The 1st meeting of the Eighth Session of the Board was convened on 23 June 2010 by way of video conference. The "Resolution on the Election of Chairman of the Eighth Session of the Board of China Merchants Bank", the "Resolution on the Election of Vice Chairman of the Eighth Session of the Board of China Merchants Bank", the "Resolution on the Composition of the Members of Each of the Specialized Committees under the Eighth Session of the Board of China Merchants Bank", the "Resolution on the Appointment of President of China Merchants Bank", the "Resolution on the Appointment of Executive Vice President of China Merchants Bank", the "Resolution on the Appointment of Chief Financial Officer of China Merchants Bank", the "Resolution on the Appointment of Chief Audit Officer of China Merchants Bank" and the "Resolution on the Appointment of Secretary of Board of Directors of China Merchants Bank" were considered and passed with 17 out of the 17 directors casting votes. There were 9 supervisors present at the meeting. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 24 June 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

11. The 2nd meeting of the Eighth Session of the Board was convened on 29 July 2010 by way of written resolutions. The "Resolution on the Confidentiality and Anti-Money Laundering Policies of the New York Branch of China Merchants Bank (2010-2011)" and the "Resolution on the Policies on the Implementation of the Acts of the Office of Foreign Assets Controls of the U.S. Department of the Treasury by the New York Branch of China Merchants Bank (2010-2011)" were considered and passed with 17 out of the 17 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 30 July 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

12. The 3rd meeting of the Eighth Session of the Board was convened on 18 August 2010 in Hohhot by way of physical meeting. The "Working Report of the President for the Interim Period of 2010", the full text and summaries of the "2010 Interim Report", the "Resolution on the Establishment of Township Banks by China Merchants bank", the "Budget Report on the Investment in the Construction of the China Merchants Banks Building in Shanghai ", the "Budget Report of the Investment in the Construction of Credit Card Center of China Merchants Bank" and the "Resolution relating to the Remuneration of Senior Management" were considered and passed with 18 out of the 18 directors casting votes. There were 7 supervisors present at the meeting. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 19 August 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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13. The 4th meeting of the Eighth Session of the Board was convened on 8 September 2010 by way of written resolutions. The "Resolution on the Material Related Party Transactions" and the "Resolution on the Effectiveness of the 2009 Examination for H Shares Appreciation Rights of China Merchants Bank" were considered and passed with 18 out of the 18 directors casting votes.

14. The 5th meeting of the Eighth Session of the Board was convened on 20 September 2010 by way of video conference. The "Resolution on the Appointment of Fu Yuning as the Chairman of China Merchants Bank" and the "Resolution on the Commendation on Comrade Qin Xiao" were considered and passed with 17 out of the 17 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 21 September 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

15. The 6th meeting of the Eighth Session of the Board was convened on 29 October 2010 by way of written resolutions. The "Third Quarterly Report for 2010", the "Regulation for Chief Financial Officer of China Merchants Bank", the "Rectification Report on the Comprehensive and In-depth Commencement of Specialised Initiatives for the Regulation of Fundamental Financial and Accounting Functions of China Merchants bank for the Year 2010", the "Self-Inspection Report on the Establishment and Implementation of Long Term Mechanism for the Prevention of Embezzlement of Funds" were considered and passed with 17 out of the 17 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 30 October 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

16. The 7th meeting of the Eighth Session of the Board was convened on 18 November 2010 by way of written resolutions. The "Resolution on Material Related Party Transactions" was considered and passed with 17 out of the 17 directors casting the vote.

17. The 8th meeting of the Eighth Session of the Board was convened on 30 December 2010 by way of written resolutions. The "Regulations of Strategic Risk of China Merchants Bank" and the "Management Policies on the Information Technology Risk of China Merchants Bank" were considered and passed with 17 out of the 17 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 31 December 2010 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Through the meetings mentioned above, the Board of Directors of the Company considered and passed in aggregate 60 proposals on the Company's strategies, risk, remuneration, auditing, finance and operation.

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

According to the "Resolution on the Profit Appropriation for the Year 2009" considered and passed at the 2009 Annual General Meeting of the Company, the profit appropriation plan of the Company for the Year 2009 was as follows: 10% of the Company's profit after tax RMB17.651 billion in the 2009 audited financial statements (prepared under PRC Accounting standards), which amounted to RMB1.765 billion, was transferred to the statutory surplus reserve. 1% of the total amount of the increased risk assets, totalling RMB4.100 billion, was appropriated to the general reserve. The profit available for distribution to shareholders for the year 2009 was RMB30.777 billion. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company declared a cash dividend (tax included) of RMB2.10 for every 10 shares to all shareholders of the Company or a total cash dividends of approximately RMB4.531 billion, payable in RMB for A Share-shareholders and in HKD for H Share-shareholders. The actual profit appropriation amount in HK Dollars would be calculated based on the average rate of PBOC's RMB/HKD benchmark exchange rates one week before the date of the general meeting (inclusive). The retained profits would be carried forward to the next year. The Board of Directors of the Company had already implemented the above-mentioned dividend distribution scheme.

8.4.8 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2010.

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

8.4.9 Performance of duties by independent non-executive directors

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

During the reporting period, the independent non-executive directors expressed independent opinions on material issues including related transactions of the Company and re-election of the Board of Directors and Board of Supervisors. They made no dissent to the proposals of the Board of Directors nor any non-board proposals and matters during the year.

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

1. The independent non-executive directors received reports from the management and Chief Financial Officer on the operations, financial condition and operating results of the Company in 2010 and on significant matters such as investment and financing activities, and carried out on site inspection on Dongguan Branch. The independent non-executive directors considered that the reports prepared by the management of the Company had fully and objectively reflected the operating results of the Company in 2010 as well as the progress of significant matters, and they recognized and were satisfied with the measures taken by the management team and the results recorded in 2010.

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

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

8.4.10 Attendance of independent non-executive directors at board meetings

Name of independent non executive director	Times of attendance required for the year	Attendance in person (times)	Attendance by proxy (times)	Absence (times)	Remarks
Wu Jiesi	17	17	0	0	
Yi Xiqun	17	16	1	0	Yi Xiqun entrusted Wu Jiesi to exercise the right of voting on the 5th meeting of the Eighth Session of the Board of Directors
Chow Kwong Fai, Edward	17	16	1	0	Chow Kwong Fai, Edward entrusted Liu Hongxia to exercise the right of voting on the 51st meeting of the Seventh Session of the Board of Directors
Liu Yongzhang	17	17	0	0	
Liu Hongxia	17	17	0	0	
Yan Lan	17	17	0	0	

8.5 Specialized Committees of the Board of Directors

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

In 2010, all specialized committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 28 meetings, studied and reviewed 65 proposals which were significant to the sustainable development of the Company and the enhancement of corporate governance, capital plan, implementation of the New Basel Capital Accord, network construction, management of consolidated statements, reputation risk management, credit risk management, market risk management, Operational Risk Management, Strategic Risk Management, IT Risk Management, external auditors, internal control, yearly business review and financial reports, remuneration and incentive packages for senior management, related-party transactions, provisioning policy and risk appetite. All these efforts have improved the efficiency of the Board and made the decision-making of the Board of Directors more scientific, and were beneficial to the healthy development of all our businesses.

The composition and duties of the six specialized committees and their work performed in 2010 are summarized as follow:

8.5.1 Strategy Committee

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

Main authorities and duties:

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

In 2010, the Strategy Committee considered and passed the proposals for the establishment of village bank of China Merchants Bank and measures of China Merchants Bank on Strategic Risk Management.

During the reporting period, the Strategy Committee held 2 meetings by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Non-Executive Directors	
Fu Yuning (Chairman)	2/2
Wei Jiafu	2/2
Wang Daxiong	2/2
Fu Junyuan	2/2
Executive Directors	
Ma Weihua	2/2

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8.5.2 Nomination Committee

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

Main authorities and duties:

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

In 2010, the Nomination Committee considered and passed the resolution regarding the proposal on the re-election of the Eighth Session of the Board of Directors of China Merchants Bank and the resolution confirming the candidates for the directors of the Eighth Session of the Board of Directors.

During the reporting period, the Nomination Committee held 2 meetings by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Yan Lan (Chairman)	2/2
Liu Yongzhang	2/2
Liu Hongxia	2/2
Non-Executive Directors	
Fu Yuning	2/2
Executive Directors	
Ma Weihua	2/2

8.5.3 Remuneration and Appraisal Committee

The current members of the Remuneration and Appraisal Committee, with independent non-executive directors forming the majority of the membership, include Wu Jiesi (chairman), Liu Yongzhang, Yi Xiqun (all being independent non-executive directors), Li Yinquan and Fu Junyuan (both being non-executive directors).

Main authorities and duties:

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

In 2010, the Remuneration and Appraisal Committee considered and passed the resolution for the evaluation of the implementation of the first H Shares Appreciation Rights Scheme and the relevant resolution on the remuneration for senior management.

The Remuneration and Appraisal Committee reviewed the remuneration package of the independent non-executive directors, external supervisors and senior management disclosed in the annual report for 2010 and was of the view that they were in line with the implementation of the Company's relevant polices on remuneration management system and remuneration packages.

During the reporting period, the Remuneration and Appraisal Committee held 1 on-site meeting and 1 Telecommunication Voting Meeting. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Wu Jiesi (Chairman)	2/2
Liu Yongzhang	2/2
Yi Xiqun	2/2
Non-Executive Directors	
Li Yingquan	2/2
Fu Junyuan	2/2

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8.5.4 Risk and Capital Management Committee

Pursuant to the requirement of New Basel Capital Accord, the Company held the first meeting of the Eighth Session of the Board to consider and pass the resolution of changing the name of Risk Management Committee of the Board of Directors into Risk and Capital Management Committee of the Board of Directors. The members of the Risk and Capital Management Committee are Hong Xiaoyuan (chairman), Wang Daxiong and Sun Yueying (all being non-executive directors), Zhang Guanghua (executive director), and Yi Xiqun (independent non-executive director).

Main authorities and duties:

- to monitor the risk management of the Company's exposures to credit risks, market risks and operational risks, etc. by the senior management;
- to conduct regular assessment of the risk position of the Company and to conduct evaluations of the procedures and performances of internal auditors;
- to put forward proposals on the improvement of the risk management and internal control of the Company; and
- to execute other duties as may be delegated by the Board of Directors.

In 2010, the Risk and Capital Management Committee considered and approved the policies of China Merchants Bank on Operational Risk Management, the Measures on Strategic Risk Management, Policies on IT Risk Management, the Risk Preferences Statements, Regulations on Risk Preferences, Primary Policy for Credit Risk Internal Rating System, Report on Doubtful Debt Write-offs and Accountability Tracking and Follow-up Actions for 2009, Report on Credit Risk Management, Market Risk Management and Reputation Risk Management for 2009, Work Arrangements for 2010, the Compliance Risk Management Report for 2009, Working Plan for Consolidation of Accounts for 2010, Policies on Market Risks and Liquidity Risk Management and the Related Authorization, and also Matters Relating to the Examination, Approval and Authorisation of Credit Risk Internal Rating System. In addition, the Committee studied and heard quarterly reports on credit risk management, market risk management and operational risk management, and also progress of implementation of the New Basel Capital Accord as well as analytical report on estimates of quantitative impacts.

During the reporting period, the Risk and Capital Management Committee held 3 physical meetings and 5 meetings by way of written resolutions. The attendance record of the meetings is as follows:

Member	Number of meetings attended/ Number of meetings held
Non-Executive Directors	
Hong Xiaoyuan (Chairman)	8/8
Wang Daxiong	8/8
Sun Yueying	8/8
Executive Directors	
Zhang Guanghua(Note)	4/4
Li Hao(Note)	4/4
Independent Non-Executive Directors	
Yi Xiqun	8/8

Note: On the 1st meeting of the Eighth Session of the Board held on 23 June 2010, the Company considered and passed the resolution of appointing Mr. Zhang Guanghua as a member of Risk and Capital Management Committee, approving the resignation of Mr. Li Hao as the member of Risk and Capital Management Committee.

8.5.5 Audit Committee

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

Main authorities and duties:

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

In 2010, the Audit Committee considered and approved the annual report for 2009 and the interim report for 2010, the auditor's review reports on the interim financial report for 2009 and 2010 respectively, the self-assessment report on internal control for 2009 and management system of China Merchants Bank for person in-charge of finance. In compliance with the requirements of Shenzhen Securities Regulatory Bureau, the Audit Committee considered and approved the 2010 special task plan of China Merchants Bank for the foundation work to regulate financial accounting, self-inspection report on the 2010 special task for the foundation work to regulate financial accounting and the corrective action report on the 2010 special task for the foundation work to regulate financial accounting. The Audit Committee also studied and reviewed the management's report on the operations and the progress of significant matters of the Company for 2009, the auditor's report on auditing for 2009, the internal audit report on auditing work for the first half of 2010 and the auditor's report on auditing plan for 2010.

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

1. Before the auditors commenced the annual audit, the 2010 audit plan of the Company was discussed with auditors and the Company's financial statements for 2010 were considered. The Committee also issued a written consent agreeing to submit the financial statements to the auditors for annual audit.

2. In the course of conducting annual audit and after a preliminary audit opinion being issued by the external auditors, the Audit Committee reviewed the management's report on the operations and the progress of significant matters of the Company for 2010. The Audit Committee exchanged opinions on the significant matters and the audit progress with the external auditors conducting annual audit and reviewed the financial statements of the Company again. The Audit Committee then made written opinions for the above issues.

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3. Before the annual meeting of Board of Directors commenced, the Audit Committee voted on and made a resolution on the Company's Annual Report for 2010 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2010 to the Board of Directors.

During the reporting period, the Audit Committee held 2 on-site meetings and 4 meetings by way of written resolutions and 1 telephone meeting. The attendance record is as follow:

Member	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Liu Hongxia (Chairman)	7/7
Chow Kwong Fai, Edward	6/7
Yan Lan	7/7
Non-Executive Directors	
Sun Yueying	7/7
Ding Anhua, Edward (Note)	4/4
Fu Gangfeng (Note)	3/3

Note: On the 1st meeting of the Eighth Session of the Board held on 23 June 2010, the Company considered and passed the resolution of appointing Mr. Fu Gangfeng as a member of Audit Committee and approving the resignation of Mr. Ding Anhua, Edward as the member of Audit Committee.

8.5.6 Related-Party Transactions Control Committee

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

Main authorities and duties:

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

In 2010, the Related Party Transaction Control Committee considered and approved the report on related transactions for 2009, the audit report on related transactions for 2009, the name list of related parties for 2010 and resolutions on substantial related party transactions with China Merchants Shekou Industrial Zone Company Limited, China Communications Construction Company Limited, Shandong Investment Holdings, China Merchants International Container Terminal (Qingdao), China Merchants International Terminal (Qingdao),China International Marine Containers Group and China Merchants Group Limited. In addition, the committee also studied and reviewed management plans on related party transactions for 2010.

During the reporting period, the Related Party Transactions Control Committee held 1 physical meeting and 6 meetings by way of written resolutions. The attendance record is as follow:

Members	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Chow Kwong Fai, Edward (Chairman)	7/7
Wu Jiesi	6/7
Liu Hongxia	7/7
Non-Executive Director	
Hong Xiaoyuan	7/7
Executive Director	
Zhang Guanghua (Note)	4/4
Li Hao (Note)	3/3

Note: On the 1st meeting of the Eighth Session of the Board held on 23 June 2010, the Company considered and passed the resolution of appointing Mr. Li Hao as a member of Related-Party Transactions Control Committee and approving the resignation of Mr. Zhang Guanghua as the member of Related-Party Transactions Control Committee.

8.6 Board of Supervisors

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

8.6.1 Composition of the Board of Supervisors

The Company's Board of Supervisors comprises 9 members. The Nomination Committee and the Supervision Committee are established under the Board of Supervisors.

8.6.2 How the Board of Supervisors performs its supervisory duties

The duties of the Board of Supervisors are to inspect and supervise the operations and financial activities of the Bank, the performance of directors and the senior management, and to evaluate the duty performance of directors for the year. These duties are performed by holding regular meetings, attending board meetings and special committee meetings of the Board of Directors as nonvoting delegates, attending shareholders' general meetings, reviewing various documents submitted by the Bank, reviewing the work reports and specific reports of the management, conducting investigations, surveys and etc.

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

On 22 February 2010, the 19th meeting of the Seventh Session of the Board of Supervisors was convened by way of video conference. 8 out of the 8 supervisors eligible for voting voted at the meeting. At the meeting, they considered and approved the Resolution Regarding the Ratio and Number of Shares to be Issued under the Rights Issue of A Shares and H Shares by China Merchants Bank.

On 7 April 2010, the 20th meeting of the Seventh Session of the Board of Supervisors was convened by way of written resolutions. 8 out of the 8 supervisors eligible for voting voted at the meeting. At this meeting, they considered and reviewed the Self-inspection Report of the Board of Directors on Internal Control for the Year 2009.

On 12 April 2010, the 21st meeting of the Seventh Session of the Board of Supervisors was convened in Shenzhen. 8 out of 8 supervisors eligible for voting voted at the meeting. At this meeting, the Work Report of the Board of Supervisors for the year 2009, the Work Plan of the Board of Supervisors for the year 2009, the Work Report of the President for the year 2009, the text and the summary of the Annual Report for the year 2009, the Final Account Report for the year 2009 and the Financial Budget Report for the year 2010, the Profit Appropriation Plan for the year 2009, the Social Responsibility Report for the year 2009, the Resolution regarding the appointment of Accounting Firm and Its Remuneration for the Year 2010, the Conclusive Report on the Audit Result in Respect of the Company's Financial Statements for the year 2009 issued by KPMG, the Appraisal Report on the Duty Performance of Directors in the year 2009, the Appraisal Report on the Duty Performance of the Supervisors in the year 2009, the list of candidates for the supervisors of the Eighth Session of the Board of Supervisors were considered and approved.

On 28 April 2010, the 22nd meeting of the Seventh Session of the Board of Supervisors was convened by way of written resolutions. 8 out of 8 supervisors eligible for voting voted at the meeting. The First Quarterly Report of 2009 of the Company was approved at the meeting.

On 4 June 2010, the 23rd meeting of the Seventh Session of the Board of Supervisors was convened by way of telephone conference. 8 out of 8 supervisors eligible for voting voted at the meeting. At this meeting, they considered and passed the Cancellation of the Sub-Resolution of "Proposals for Shareholder Representative Supervisors and External Supervisors for the Eighth Session of the Board of Supervisors".

On 23 June 2010, the 1st meeting of the Eighth Session of the Board of Supervisors was convened by way of video conference. 9 out of 9 supervisors eligible for voting voted at the meeting. At this meeting, they considered and approved the Resolution on the Election of the chairman of the Eighth Session of the Board of Supervisors of China Merchants Bank and the resolutions on the election of each of the specialized committees under the Eighth Session of the Board of Directors of China Merchants Bank.

From 17 August to 18 August 2010, the 2nd meeting of the Eighth Session of the Board of Supervisors was held in Hohhot. 9 out of 9 supervisors eligible for voting voted at the meeting. The Work Report of the President for the first half of the year 2010 and the text and the summary of the Interim Report for 2010 were considered and approved at the meeting.

On 29 October 2010, the 3rd meeting of the Eighth Session of the Board of Supervisors was convened by way of written resolutions. 9 out of 9 supervisors eligible for voting voted at the meeting. The Third Quarterly Report of 2010 of the Company and the Resolution for the Self-inspection Report on the Establishment and Implementation of Long-term Mechanism to Prevent Misuse of Capital were approved at the meeting.

In 2010, the Company convened one general meeting and 17 meetings of the Board of Directors. Supervisors attended the general meeting and were presented at the meetings of the Board of Directors as non-voting delegates, and supervised the law and regulation compliance, voting procedures of the General Meeting and Board of Directors, Directors' attendance, statements made and votings at the general meetings and board meetings respectively.

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

In April 2010, the Board of Supervisors reviewed the Internal Audit Report for the Whole Bank for the Year 2009, the Report on Quality of Credit Assets of the whole Bank for 2009 and the 2009 Prevention Report and Preventive Works Adopted in 2010, together with related materials for reporting purpose.

In May 2010, the Board of Supervisors visited the Tianjin branch and inspected the implementation by the branch of the "Second Transformation" strategy issued by the Head Office and also reviewed the status of loan extension to government financing vehicles. With such research and inspection, the Board of Supervisors gained a comprehensive and systematic understanding of the implementation of the "Second Transformation" by the branches as well as the progression of business workflow improvement, risk control, loan structure and risk pricing levels of the branches.

In October 2010, the Board of Supervisors visited the Hengzhou branch, Suzhou branch and credit center for small-sized enterprises to conduct a study. With such study, the Board of Supervisors gained a comprehensive understanding of the implementation of the "Second Transformation" initiated by the Head Office as well as the results achieved, risk management and compliances practiced by those three institutions.

8.6.5 Operation of the Specialized Committees of the Board of Supervisors

The Nomination Committee and the Supervision Committee are established under the Board of Supervisors, each consisting of 3 supervisors.

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

On 17 March 2010, the 2nd meeting of the Seventh Session of the Nomination Committee under the Board of Supervisors was convened by way of written resolutions. At the meeting, the committee considered and passed the Resolution for the Re-election of the Eighth Session of the Board of Supervisors of China Merchants Bank.

On 7 April 2010, the 3rd meeting of the Seventh Session of the Nomination Committee under the Board of Supervisors was convened by way of written resolutions. At the meeting, the committee considered and passed the Resolution Confirming the Candidates for the Members of the Eighth Session of the Board of Supervisors and the Appraisal Report on the Duty Performance of Supervisors for the Year 2009.

The members of the Seventh Session of the Supervision Committee under the Board of Supervisors were Shao Ruiqing (chairman), Chen Haoming and Zhou Song. The members of the Eighth Session of the Supervision Committee under the Board of Supervisors are Shao Ruiqing (chairman), Hu Xupeng and Zhou Qizheng. The major duties of the Supervision Committee are to carry out inspection on the Company's financial position, assess the duty performance of directors and senior management, and conduct supervision and investigation in the audit of resigning directors and senior management.

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On 7 April 2010, the 3rd meeting of the Seventh Session of the Supervision Committee under the Board of Supervisors was convened by way of written resolutions. At the meeting, the committee considered and approved the Appraisal Report on the Duty Performance of Directors for the Year 2009.

On 18 November 2010, the chairman and the members of the Supervision Committee under the Board of Supervisors attended the 3rd meeting of the Eighth Session of the Risk and Capital Management Committee under the Board of Directors held in Wuxi. At the meeting, the committee heard the discussions made by the Risk and Capital Management Committee under the Board of Directors on the Resolution on Matters Related to Credit Risk Internal Rating System and the Administrative Measures on Strategic Risk Management. The Committee also received the Report on the Updates of Implementation of the New Basel Capital Accord, the Report on New Developments in Bank Regulatory Policies in the PRC and Abroad and Recommendations for CMB, the Report on New Regulatory Policy for Provisioning and the Effects to CMB, the Working Report on the Credit Risk Management for the First Three Quarters of 2010, the Surveillance Report on Market Risk for the First Three Quarters of 2010, and the Report on the Construction Progress of the Operational Risk Management System for China Merchants Bank.

The Board of Supervisors acknowledged the important role of the Risk and Capital Management Committee under the Board of Directors in promoting the Company to establish a comprehensive risk management system, and also satisfied with the operation of the Committee.

8.7 Statement made by the directors about their responsibility on the financial statements

The senior management of the Company provides the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2010 to present a true view of the operating results of the Company. So far as the directors are aware, there are no material uncertainties related to events or conditions during the reporting period that might have a significant adverse effect on the Company's ability of sustainable operation.

8.8 Appointment of accounting firm

According to the resolutions passed at the 2009 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the auditor for domestic business for the year 2010 and KPMG Certified Public Accountants as the auditor for overseas business for the year 2010.

The financial statements of the Group for the year 2010 prepared under PRC GAAP were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2010 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB10.17 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries). The auditor's responsibility statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Certified Public Accountants was RMB1.85 million, mainly covered services in respect of (i) interim financial statements; (ii) results announcement of H Shares; (iii) tax consultation; and (iv) right issues related services. KPMG Certified Public Accountants and KPMG Huazhen Certified Public Accountants have acted as the Company's auditors for more than 3 years.

8.9 Internal Control and Internal Audit

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

1. *Internal Control System*

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

2. *The Internal Control Structure and its Responsibilities*

Under the requirements of the relevant laws, regulations and rules, and taking into account the asset structure, operation mode and business characteristics of the Company, the Company has established a relatively complete corporate governance structure of checks and balances across the Board of Directors, the Board of Supervisors and the senior management. The senior management is responsible for organizing the daily operation of internal control of the Company.

In consideration of the needs for internal management and risk management, the Company established an internal control management structure with clear accountability, diversified specification and well-defined responsibility, which involves all departments, management and staff. Through this structure, the Company established internal control committees under the Head Office and the branches as the platform for studying, decision-making and negotiating the significant matters and management measures relating to the Company's internal control. All departments of the Company are responsible for the establishment and execution of internal control system under their respective business lines. The Company's Audit Department is responsible for comprehensive monitoring and assessment on the implementation of internal control in all business lines and branch institutions. The Company's management staff at all levels are responsible for implementation and monitoring of internal control system under their respective terms and references. All members of the staff are responsible for feedback of significant information regarding the measures of internal control and their implementation.

3. *The Internal Control System of the Company and its Operation*

The Company has put in place an effective internal control system, which ensures that risks arisen in operation and the realization of internal control targets are within the Company's risk appetite.

During the reporting period, the Company organized a number of staff training and management activities, including "Year of Implementation of Internal Control and Crime Prevention", "Sunflower Blossoms, Internal Control Protection and Compliance Escort", so that the staff could further study and implement the "Guidance on the Professional Conduct of Practitioners of Banking Financial Institutions" and maintain its well-established compliance culture and internal control environment. By adhering to the principle of putting regulations and internal control first, the Company strived hard to optimize the system improvement and management of its operation systems. During the reporting period, the Company issued and implemented 185 regulations throughout the bank, including the "Management Measures of Self-inspection and Internal Self-evaluation for Internal Control of China Merchants Bank", "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd." and "Policies on Operational Risk Management by China Merchants Bank Co., Ltd."

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During the reporting period, supported by the newly developed compliance risk management system and the establishment of compliance risk database of head offices and branches, the Company has strengthened its ability of streamlining and identifying the risk points. The publishing of "Compliance Regulations" had defined the basis and standards for 7 business lines, which provides the Company tools and measures for compliance management. Pursuant to the New Basel Capital Accord and relevant requirements of the CBRC, the Company carried on the construction of an operational risk management system and organized the head office business lines to identify the operational risk in existing business, as well as carried on the process analysis, self-investigation and pilot-testing of operational risk and control. The Reputation Risk Management System has basically completed. It defined the structure and responsibility of reputation risk management, management system and measures, management process and tools, risk category and classification, the response and dealing with reputation case, including its post-evaluation and accountability.

During the reporting period, according to the principle of segregation of the front office, middle office and back office, the Company streamlined and improved procedures of credit, accounting and retail; continued to upgrade the hardware facilities and software systems of computers so as to enhance the support and control of IT technology on operating activities and risk management. The risk management systems, including Compliance Risk Management System and the new generation of Credit Risk Management System, have been launched on the business lines throughout the bank.

During the reporting period, the Company complied with the principle of truthfulness, accuracy, completeness, timeliness and fairness in information disclosure, ensuring effective communications within the Company and that between the Company and external parties. There was no material mistake in information disclosure.

During the reporting period, the Company's head office and branches were required to evaluate internal control and comprehensively review their current management status of internal control. The internal review panel was held, so as to review the hidden risks, significant matters or the weakness in operational management process simultaneously. The Company launched internal audit and thorough examinations of business lines system, so as to investigate the implementation of internal control policies and management systems. Consequently, the Company will continue to improve its internal control.

With the improvement of State legal system and its own business development, the Company will continue to improve the completeness, reasonableness and effectiveness of internal control.

As reviewed by the Board of Directors of the Company, no significant defects have been identified in the Company's internal control system in terms of completeness, reasonableness and effectiveness. KPMG Huazhen issued an assurance report on "Self-Assessment of Internal Control by the Board of Directors of China Merchants Bank Co., Ltd. 2010".

4. *Infrastructure Development of Financial Accounting*

To strictly comply with the PRC GAAP, the Company has established a standard accounting process, as well as formulated "China Merchants Bank Accounting Policy Handbook" and accounting systems for various business, for the purpose of improving accountancy management of the Company and increasing the quality level of accountancy management.

Meanwhile, the Company continues completing the building of financial information system and implementing comprehensive Informationization in financial accounting, so as to ensure the truthfulness and completeness of financial accounting information and materials. In 2010, in accordance with [2010] No. 109 "Notice on the Comprehensive and In-depth Commencement of Specialized Initiatives for the Regulation of Fundamental Financial and Accounting Functions by Listed Companies in Shenzhen under the Jurisdiction of Shenzhen CSRC" issued by Shenzhen CSRC, from the end of April to May 2010, the Company conducted self-inspection on the Company's fundamental financial accounting and did not find any material weakness surrounding the fundamental financial accounting in the Company. In view of separate issues and defects in the findings of self-inspection, the Company implemented relevant rectification measures for each case and the comprehensive rectification was completed before 30 October following an establishment a prevention mechanism with long-term effects, resulting in achievements of overall improvement of quality within fundamental financial accounting in the Company and enhancement of the Company's internal control.

8.9.2 Internal Audit

The internal Audit Department of the Company is responsible for inspecting and assessing all the business and management activities of the Company and providing improvement suggestions to the senior management. To resolve the problems identified from audit, the internal Audit Department will follow up the audit findings and require the audited entities to conduct rectification.

The Company has established a complete set of internal auditing mechanisms and set up independent internal audit departments in the head office and each branch. The Company has also established a complete set of auditing mechanisms covering general rules, operation rules and working standards based on the Internal Audit Memorandum of China Merchants Bank. In addition, the Company has set up an inspection system that combines on-site auditing with off-site auditing and coordinates head office auditing with branch auditing. The audit on the whole bank is directly under the management of the head office. Among which, the Audit Department under the head office reported its audit findings directly to the Board of Directors, the Board of Supervisors and the management team, and the appointment of its officers is subject to the approval by the Board of Directors. The Audit Department under the head office has four audit divisions in Beijing, Shanghai, Shenzhen and Xi'an. Internal audit departments at each branch are running on a dual-management and dual-reporting mechanism, with any audit findings reported directly to the Audit Department under the head office.

In 2010, the internal audit departments utilized on-site and off-site means to conduct audit on the status of the credit business, treasury business, international operations, intermediary business, accounting, retail banking and information technology system of the Company. The scope of audit included: any non-compliance with the applicable laws and regulations and internal policies and procedures of the Company; effectiveness of its risk management policies and procedures, generality and effectiveness of its internal control system; and follow-up observation of whether rectification on the shortcomings identified in the audits was done. During the audit process, the Audit Department focused on the inspection and evaluation of critical control procedures and control points as well as effective implementation of problems correction. Meanwhile, with the construction of self-investigation and self-evaluation systems in internal control, the Company strengthened the supervision of internal control management and enhanced the establishment of the self-restriction, self-discipline mechanism of internal control and compliance as well as the improvement of the internal control system of the whole Company.

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8.10 Misconduct Reporting and Monitoring

In 2010, the Company reported no internal cases or external malignant cases of consummated theft and robbery and severe accidents. During the reporting period, the Company adopted the following major preventive measures:

1. A Letter of Responsibilities was signed by all departments at all levels, which elaborated the principle of "One Position with Dual Responsibilities" and the responsibility of case prevention with which the head persons were required to comply.

2. Education activities, including Clean Practice, Case Prevention, Corruption Fighting and Security Guard, as well as special lectures on Clean Education and Security Education, were held continuously. Staffs were organized to visit the Exhibition of National Development of Corruption Fighting and Security Guard in Financial Services Industries. 1,094 discussion forums were held and conduct standard tests were attended by 33,882 people in total. Through these activities, the staffs' consciousness of discipline integrity and case prevention has been improved.

3. Activity of "Year of Implementation of Internal Control and Crime Prevention in the Bank Industry" and the inspection of Corruption Fighting and Security Guard were performed to effectively examine the case risk.

4. Strengthening the administration monitoring and the implementation of the three set of regulations requirements: Accountability of Non-performing Assets Regulations of China Merchants Bank, Advisory Conversation with Cadre and Letter Enquiry Management Measures of China Merchants Bank and the Submission and Registration of Present and Gift-money Management Measures of China Merchants Bank.

5. Strengthening management of abnormal behaviors of employees. Twice investigations on abnormal behaviors of employees were carried out during the year to improve the prevention and control of case risk.

6. Properly investigating integrity reports. We continuously inspected the monitoring and verifying of cases detected by internal auditing. Violation of regulations or disciplines had been dealt with and the person responsible had been punished.

8.11 Communications with shareholders

The Board maintains regular dialogues with shareholders, especially through annual general meetings where shareholders are encouraged to participate. The senior management of the Company communicates regularly with institutional investors and analysts with regard to the operations and management of the Company. Inquiries from the investors will be dealt with in a timely manner. For any inquiries, investors may write directly to the Company at its principal operating venues in Shenzhen or in Hong Kong.

To ensure effective communication, the Company has also maintained a website (www.cmbchina.com), which provides information about the business developments and operations, financial information, corporate governance and other information of the Company.

8.12 Information disclosure and investor relations

Information disclosure

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

During the reporting period, the Company disclosed significant information in a responsive, accurate, truthful and complete way pursuant to relevant provisions of laws and regulations on information disclosure. Apart from fulfilling legal obligation of information disclosure, the Company also takes the initiatives in information disclosure. During the preparation of periodical report, the Company optimized the structure of disclosed information and placed emphasis on hot issues that the investors concerned and particular information relating to the banking industry. As a result, the initiatives, transparency and efficiency of information disclosure have been improved.

For the purpose of improving regulated operation of the Company's information disclosure, strengthening the accountability in respect of information disclosure in Annual Report and enhancing the quality and transparency of information disclosed in Annual Report, the Company formulated the "Accountability System in relation to Serious Faults in Information Disclosure in the Annual Report", pursuant to the requirements of CSRC and Shenzhen Securities Regulatory Bureau. After being considered and approved by the Board, the system was duly issued and implemented during the reporting period.

During the reporting period, the Company completed an overhaul to the workflow of information disclosure, focusing on streamlining core links and core risk points. After the improvement, the standardized and regulated workflow can reduce the operational risk in work process and avoid errors, laying a solid foundation to further improve the efficiency and quality of information disclosure.

In 2010, the Company published over 190 documents, representing a total of more than 2,100,000 words, on Shanghai Stock Exchange and Hong Kong Stock Exchange, including periodic reports, announcements, corporate governance documents, circulars to shareholders, proxy forms and reply slips, etc.

VIII Corporate Governance

Investor relations

The Company continued to enhance its communication with investors from both domestic and overseas and exerted its efforts to improve the management of investor relations. During the reporting period, the Company received 128 visits from 247 institutional investors and analysts and attended 44 investment promotion conferences sponsored by well-established investment banks and security companies in China and abroad. For the announcement of 2009 annual result, the Company adopted an "on-site three-way video communication with telephone" for the first time to host promotion conferences for investors and analysts, press conferences and worldwide road shows. For the announcement of 2010 interim results and 2010 third quarter results, the Company organized telephone presentation conferences for investors and analysts. Besides, another three road shows were carried out in Hong Kong and America, twice of which were attended by senior executives from our Company. As the investors and analysts expressed their extra interest in our SME business, the Company promoted an Investor Day concerning about this theme. Through the above promotional activities, the management of the Company secured an in-depth and sincere communication with institutional investors.

Although a large number of minority shareholders consult the Company on a daily basis, they draw our equal attention. The Company replied them by email and telephone etc., and answered their questions dutifully, patiently, responsively and timely. The Company received over thousands telephone enquiries and handled 275 online investor messages throughout the year. After the disclosure of periodical report, the Company updated the contents of the web page concerning investor relations, both Chinese and English versions, at the same time, ensuring the timeliness, accuracy and efficiency of information on web page.

In the process of rights issue of A Shares and H Shares, the Company successfully hosted A Shares Rights Issue online road show in Beijing. The senior executives and investors communicated online for nearly two hours during the show. The participants responded actively online, raising over 400 questions. Timely and sufficient communications with investors generated positive results and enhanced the understanding and support of investors in respect of the fund-raising through rights issue by the Company.

Awards and Honors Received

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

On the 9th Chinese Company Governance Forum, the Company won "2010 Information Disclosure Award" issued by Shanghai Stock Exchange, with the support from State Property Management Commission of the State Council and OECD.

In the selection of "2010 Best Company in Asia" promoted by *Finance Asia*, the Company won "Best Investor Relations".

On the Fifth Annual Meeting of Chinese Investor Relations, the Company won five grand awards, namely: "Top 100 Annual Investor Relations Management", "Top 10 Company for Investor Relations", "Best Communication", "Best Disclosure" and "Best Public Sentiment Ability" Award.

In the election of ARC International Annual Report, the Company's 2009 Annual Report was awarded "Composition Bronze Award".

In the election of the Fourth Best Session of the Market Value Management of Chinese Listed Companies Forum Summit hosted by Research Center for Market Value Management of Chinese Listed Companies, the Company won the "Best Wealth Innovation IR Award".

In the election organized by *IR Magazine* of the U.K., for the Greater China region, the Company was named as the company for "Best Governance and Disclosure (Mainland China)" while Mr Li Hao, our Executive Vice President, was awarded with the "Best Investor Relations by a CFO (Asia Pacific)", the top award for CFO in Greater China, as well as the "Best Investor Relations by a CFO (Mainland China)".

In the election of "2009 Top 100 Golden Bull Listed Company" hosted by *China Securities Journal*, Lan Qi, Secretary of the Board of Directors, won the "2009 Best Board Secretary of Golden Bull Listed Company".

Lan Qi, secretary of the Board of Directors, was honored for the fifth consecutive time the title of "New Fortune Golden Secretary to the Board of Directors" in the election of "6th New Fortune Golden Board Secretary".

"Lan Qi, Secretary of the Board of Directors of the Company, won the Board Golden Secretary of Listed Company" for the year in the election of "7th Finance and Economics Billboard" hosted by China Securities Market Research Centre.

8.13 Independent operation of the Company

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

Innovation

Innovation

Second Transformation

In 2010, the Bank made a good start on the Second Transformation. The Bank is committed to deepening the Second Transformation through management reform so as to strengthen and enhance its effectiveness. Specifically, many areas will be strengthened, including performance appraisal system, economic capital management, loan pricing capability, organizational management system, resource integration, workflow, employee efficiency and financial disciplines. Our targets are to reduce capital consumption, raise credit risk pricing, control financial cost, increase highly-contributing customers and ensure effective risk management. Ultimately, we hope to achieve a well-balanced sustainable growth in terms of efficiency, quality, scale and structure.

9.1 Principal business activities

The Company is engaged in banking and related financial services.

9.2 Financial highlights

Details are set out in Chapter 2 – Financial Highlights of this annual report.

9.3 Reserve

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

9.4 Profit appropriation

Proposal of the profit appropriation for the year 2010

As stated in the audited financial statements of the Company for 2010, 10% of the profit after tax of RMB24.618 billion, equivalent to RMB2.462 billion, was transferred to the statutory surplus reserve, while 1% of the total amount of the increased risk assets in this reporting period, namely RMB1.700 billion was appropriated to the general reserve.

Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend (tax included) of RMB2.90 for every 10 shares to all shareholders of the Company, payable in RMB for A Share-shareholders and in HKD for H Share-shareholders. The actual distribution amount in HKD will be calculated based on the average RMB/HKD benchmark rates released by PBOC for the week before the date of the general meeting (inclusive). The retained profit will be carried forward to the next year. The above proposal of profit appropriation is subject to consideration and approval at the 2010 annual general meeting of the Company.

Dividend payout for the previous 3 years:

Year	Total cash dividends (Tax included)	Net profit for the year[1]	Payout ratio (%)
2007	4,117	15,243	27.01
2008	1,471	21,077	6.98[2]
2009	4,531	18,235	24.85

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

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

Details of the implementation of the profit appropriation plan of 2009

Details are set out in the section "Implementation by the Board of Directors of resolutions passed at general meeting of the shareholders" in Chapter 8 of this report.

IX Report of the Board of Directors

9.5 Donations

The total amount of the charitable donations and other donations contributed by the Company and its employees for the year ended 31 December 2010 was RMB12,590,600.

9.6 Fixed Assets

Changes in fixed assets as at 31 December 2010 of the Company are set out in note 23 to the financial statements in this annual report.

9.7 Companies in which the Company holds controlling interests and other investee companies

Shareholdings in non-listed financial companies

Name of companies	Initial investment (RMB'000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB'000)	Profits/(losses) for the reporting period(note1) (RMB'000)	Changes in owners' equity for the reporting period (RMB'000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	855,909	851,780	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	30,009	23,117	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	2,000,000	100.00	N/A	2,000,000	266,224	265,618	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914	33.40	70,000,000	258,291	45,784	(37,229)	Equity investment
Taizhou City Commercial Bank Co., Ltd.	306,671	10.00	90,000,000	345,708	–	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.80	110,000,000	155,000	–	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2	HK$8,400	–	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	189,620	–	–	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	20,000,000	HK$59,987	HK$7,817	HK$13	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	2.88	20,000	HK$8,361	HK$1,005	–	Equity investment

Name of companies	Initial investment (RMB'000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB'000)	Profits/(losses) for the reporting period(note1) (RMB'000)	Changes in owners' equity for the reporting period (RMB'000)	Origination of shares
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$69,770	HK$5,563	HK$152	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	21,000,000	HK$44,678	HK$4,437	–	Equity investment
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$5,151	HK$2,200	HK$57	Equity investment
Equity Underwriters Ltd.	HK$2,173	40.00	1,580,000	HK$0(note 2)	HK$0	–	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$3,168	HK$(71)	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$5,639	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment

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

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

IX Report of the Board of Directors

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at the end of period (shares)	Carrying value at end of period ('000)	Percentage of total investment at end of period (%)	Profits/ (losses) for the reporting period ('000)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	417	983,500	173,391	33.82	–
03988.HK	Bank of China Ltd.	HK$	39,153	13,200,000	53,856	10.50	–
01288.HK	Agricultural Bank of China Ltd.	HK$	32,323	10,000,000	38,900	7.59	–
00941.HK	China Mobile Ltd.	HK$	34,837	452,300	34,850	6.80	–
00005.HK	HSBC Holdings plc	HK$	30,285	369,506	29,431	5.74	–
02778.HK	Champion Real Estate Investment Trust	HK$	31,755	6,164,000	28,293	5.52	–
V	Visa Inc	HK$	15,929	54,361	27,672	5.40	–
00939.HK	China Construction Bank Corporation	HK$	8,059	3,210,000	22,342	4.35	–
02388.HK	BOC Hong Kong (Holdings) Ltd.	HK$	5,902	687,000	18,137	3.54	–
01398.HK	Industrial and Commercial Bank of China Ltd.	HK$	15,246	3,135,000	18,089	3.53	–
Other securities investments at end of period		HK$	38,906	5,935,832	67,749	13.21	23
Total		**HK$**	**252,812**	**44,191,499**	**512,710**	**100.00**	**23**

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

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

9.8 Shareholdings and trading in equity interest of other listed companies

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

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

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

9.10 Pre-emptive rights

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

9.11 Retirement and welfare

Details about retirement and welfare provided by the Company to its employees are set out in note 33(a) to the financial statements in this annual report.

9.12 Principal customers

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

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

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

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

Major investment not financed by raised fund

As at the end of 2010, the total amount of fund invested in Shanghai Lujiazui Project was RMB1.215 billion, of which RMB228 million was invested during the reporting period.

IX Report of the Board of Directors

9.14 Interests and short positions of directors and supervisors under Hong Kong laws and regulations

As at 31 December 2010, none of the directors, supervisors and senior management of the Company held or was deemed to hold any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were required to be recorded in the register under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules, nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

9.15 Directors' interests in business competition

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

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

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

9.17 Contractual rights and service contacts of directors and supervisors

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

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

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

9.19 Confirmation of the independence of independent non-executive directors

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

9.20 Undertakings made by the Company

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

9.21 Significant connected transactions

9.21.1 Overview of connected transactions

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

9.21.2 Non-exempt continuing connected transactions

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

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

CIGNA & CMC Life Insurance

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

China Merchants Steam Navigation Company Limited is one of the substantial shareholders of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company and currently holds approximately 18.58% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). CM Group is an indirect controlling shareholder of Shenzhen Dingzun Investment Advisory Company, Ltd. ("Dingzun"), which in turn holds 50% equity interest of CIGNA & CMC Life Insurance. Pursuant to the Hong Kong Listing Rules, CIGNA & CMC Life Insurance is an associate of the connected person of the Company and therefore a connected person of the Company.

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

IX Report of the Board of Directors

On 5 January 2009, the Company entered into the service co-operation agreement with CIGNA & CMC Life Insurance for a term commencing on 1 January 2009 and expiring on 31 December 2011. The agreement was entered into on normal commercial terms. The service fees payable by CIGNA & CMC Life Insurance to the Company pursuant to the service co-operation agreement should be determined in accordance with the following pricing policies:

(1) to follow the fees as prescribed by the State government or

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

(3) where there are no prescribed fees or State guided fee rates, to follow the fees to be agreed between the parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CIGNA & CMC Life Insurance for 2010 was set at RMB500,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2010, the aggregate value of related transactions between the Company and CIGNA & CMC Life Insurance amounted to RMB99,070,000.

CMFM

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

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

The Company entered into a service co-operation agreement with CMFM on 5 January 2009 for a term commencing on 1 January 2009 and expiring on 31 December 2011. The agreement was entered into on normal commercial terms. The agency service fees payable to the Company by CMFM pursuant to the service co-operation agreement would be on an arm's length basis and calculated on normal commercial terms, having regard to the fees and charges specified in the funds offering documents and/or the offering prospectus.

The annual cap of the continuing connected transactions between the Company and CMFM for 2010 was set at RMB800,000,000 which was less than 5% of the relevant percentage ratio calculated in according with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As At 31 December 2010, the aggregate value of related transactions between the Company and CMFM amounted to RMB97,150,000.

CM Securities

The provision of third-party custodian account, the wealth management agency services and collective investment products between the Company and CM Securities constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

China Merchants Steam Navigation Company Limited, a wholly owned subsidiary of CM Group, is a substantial shareholder of the Company. CM Group currently holds approximately 18.58% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). As CM Group also holds 45.88% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

The Company entered into a service co-operation agreement with CM Securities on 5 January 2009 for a term commencing on 1 January 2009 and expiring on 31 December 2011. The agreement was entered into on normal commercial terms. The service fees payable by CM Securities to the Company should be determined in accordance with the following pricing policies:

- to follow the fees as prescribed by the State government; or
- where there are no prescribed fees but there are applicable State guided fee rates, to follow the State guided fee rates; or
- where there are no prescribed fees or State guided fee rates, to follow the fees to be agreed between the parties based on arm's length negotiations.

The annual cap of the continuing connected transactions between the Company and CM Securities for 2010 was set at RMB1,000,000,000 which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2010, the aggregate value of related transactions between the Company and CM Securities amounted to RMB71,220,000.

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

- the transactions were conducted in the ordinary and usual course of business of the Company;
- the terms related to the transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole;
- the transactions were entered into on normal commercial terms and conditions which were no more favorable than those to or from independent third parties; and
- the transactions were conducted in accordance with the terms of relevant agreements.

IX Report of the Board of Directors

Furthermore, the Company engaged KPMG to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. KPMG have issued their unqualified letter containing their findings and conclusions in respect of the aforesaid transactions in accordance with Rule 14A.38 of the Listing Rules. A copy of the letter has been provided by the Company to SEHK.

9.21.3 Material related–party transactions

The Company's material related – party transactions are set out in Note 49 to the financial statements, these transactions entered into with related – parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, trust services, and off-balance sheet transactions.

These transactions were entered into by the Company in the ordinary and usual course of business on normal commercial terms, and in relation to those which constituted connected transactions under the Hong Kong Listing Rules.

9.22 Inter-company transactions

The inter-company transactions of the Company cover cross-shareholding, credit and guarantees, asset transfer, receivables and payables, service charges and agency transactions between the Company and subsidiaries as well as between the subsidiaries. The inter-company transactions of the Company were in line with regulatory requirements, and did not bring about any negative impact upon the Group's sound operation.

9.23 Material litigation and arbitration

As at 31 December 2010, the Company was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases in which the Company was involved totaled 924, with a total principal amount of approximately RMB1,776,276,100 and total interests of approximately RMB340,538,800. Of which, there were a total of 104 pending litigation and arbitration cases against the Company as at 31 December 2010, with a total principal amount of approximately RMB470,321,900 and total interests of approximately RMB3,922,400. There were four pending cases each with a principal amount exceeding RMB100,000,000, involving a total principal amount of approximately RMB831,300,000 and total interests of RMB1,800,000. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

9.24 Material contracts

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

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

Significant guarantees

Guarantee business falls within the Company's normal scope of operation. During the reporting period, save for the financial guarantees entered into in our business scope approved by the People's Bank of China and the CBRC, there was no significant guarantee which was disclosable.

Significant entrustments in respect of fund and asset management

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

9.25 Significant event in respect of fund entrusting

During the reporting period, there was no event in respect of fund entrusting beyond our normal business.

9.26 Major activities in asset acquisition, disposal and reorganization

9.26.1 Progress of the acquisition of CIGNA & CMC Life Insurance

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

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

Further details of the above acquisition were set out in the announcements published by the Company on newspapers and websites designated for disclosure of the information on 6 May 2008.

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008. In 2010, the Company had made submissions concerning the acquisition to relevant regulatory authorities in accordance with the Pilot Administrative Measures for Commercial Banks to Make Equity Investment in Insurance Companies, and is still pending for the approvals from relevant regulatory authorities.

9.26.2 Progress of the acquisition of Tibet Trust

On 18 August 2008, the 27th meeting of the Seventh Session of the Board of Directors of the Company passed the "Resolution on Acquisition of Controlling Interest in Tibet Autonomous Region Trust and Investment Corporation ("Tibet Trust"), pursuant to which, the Company agreed to acquire 60.5% equity interest in Tibet Trust and authorized the Company's management to deal with the acquisition procedures.

In September 2008, the Company entered into a framework agreement with relevant parties including Tibet Autonomous Region Finance Bureau in relation to the acquisition of equity interest in Tibet Trust. On 3 August 2009, the Company entered into an agreement on transfer of interest and right in Tibet Trust with the relevant parties including Tibet Autonomous Region Finance Bureau. Pursuant to the agreement, the Company will acquire 60.5% equity interest in Tibet Trust at a consideration of RMB363,707,028.34. The acquisition is still pending for the approval of relevant regulatory authorities.

In order to promote the acquisition of equity interest in Tibet Trust, the Company proactively negotiated with the relevant parties, which has effectively facilitated the restructuring process of Tibet Trust.

9.27 Implementation of the Share Appreciation Rights Incentive Scheme during the reporting period

For details about the implementation of the Company's Share Appreciation Rights Incentive Scheme, please refer to the section "Directors, supervisors, senior management, employees and branch operational structure".

IX Report of the Board of Directors

9.28 Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

China Merchants Bank Co., Ltd

Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

In accordance with CSRC Approval【2003】No. 56 of China Securities Regulatory Commission and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due diligence review of the Company's guarantees for 2010 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the People's Bank of China and the CBRC, and it is carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2010, the balance of the Company's guarantee business (including irrecoverable letters of guarantees and shipping guarantees) was RMB106.306 billion, increased 23.39% from the beginning of the year.

The Company emphasizes risk management of the guarantee business. It formulates specific management measures and operation workflow according to the risk characteristics of this business. In addition, the Company enhances risk monitoring and safeguards of this business through management means such as on-site and offsite checks. During the reporting period, the operations of the Company's guarantee business was normal and there was no violated guarantees.

China Merchants Bank Co., Ltd.
Independent Non-executive Directors
Wu Jiesi Yi Xiqun Yan Lan Chow Kwong Fai, Edward Liu Yongzhang Liu Hong Xia

9.29 Use of funds by related parties

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

9.30 Compliance statement for corporate governance

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

9.31 Establishment and improvement of the management system regarding insider information and insiders during the reporting period

In order to regulate the management of the Company's insider information, enhance the confidentiality of insider information, maintain the principle of fairness in information disclosure and safeguard the legal interests of investing public, the Board of Directors of the Company approved the "Insider Information and the Rules on Persons with knowledge of inside information of China Merchants Bank Co., Ltd." ("Insider Information and the Rules on Persons with inside information"). During the reporting period, in accordance with the requirements of the "Insider Information and the Rules on Persons with inside information", the Company regulated the persons with inside information and completed registration and filing for inside information in four cases. During the reporting period, none of the persons were found taking advantage of the inside information to trade in the Company's shares.

9.32 Responsibility statements on internal control

The Board of Directors of the Company is responsible to i) ensure the establishment and implementation of an adequate and effective internal control system by the Company; ii) examine and approve the overall business strategies and major policies of the Company and conduct regular checks and evaluations on their execution; iii) ensure that the Company operates in compliance with laws and regulatory policies; iv) clearly set up the acceptable risk level; v) ensure that the senior management adopts all necessary measures to identify, measure, monitor and control risks; vi) approve the Company's organizational structures; and vii) ensure that the senior management monitors and evaluates the adequacy and effectiveness of the internal control system. The Audit Committee under the Board of Directors is responsible to monitor the effectiveness of the implementation of the Company's internal control and the self-assessment of internal control as well as coordinate internal control audits and other relevant matters.

The Company will strengthen its internal control according to regulatory requirements and its management needs. By conducting self-assessment of internal control, issues can be identified and subsequent improvements will be made, thereby the Company's ability to prevent risks and the quality of standardized practice will be enhanced.

9.33 Working plan and execution program for establishing a sound internal control system

To ensure the successful implementation of the "Basic Rules for Internal Control" and the "Practice Guidelines for Internal Control" in 2011, and for subsequent disclosure of the self-assessment report on internal control, the Company invited relevant executives from the Ministry of Finance (MOF) to organize training regarding internal control system for enterprises. Through the training program, the latest concepts for internal control were introduced to the senior management in order to enhance awareness of internal control. The Company also required all departments in the Head Office to revise and analyse the internal control of the Company based on the "Practice Guidelines for Internal Control". Weaknesses of our internal control system were uncovered and improvements were made accordingly. During the reporting period, led by the internal audit units of the Company, evaluations for internal control were carried out by all departments in the Company's Head Office, all branches and each level of sub-branches. KPMG Huazhen Certified Public Accountants was appointed to verify the evaluation report on the Company's internal control.

The Company will further standardize the process of evaluation on internal control and refine the principles, contents, procedures, methodology and report format of internal control evaluations. Duties and powers of relevant organisations and positions will be further clarified and the accountability system more widely enforced. The Company will continue to carry out internal control evaluations in accordance with specified ways, procedures and requirements.

9.34 Compliance with Banking (Disclosure) Rules

The Company has prepared the financial statements in respect of H shares for the year 2010 in strict compliance with the Banking (Disclosure) Rules issued by Hong Kong Monetary Authority.

9.35 Review on annual results

KPMG Huazhen and KPMG Certified Public Accountants, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee of the Company has reviewed the results and financial report of the Company for the year ended 31 December 2010.

IX Report of the Board of Directors

9.36 Annual general meeting and closure of register of members

The dates of the Company's 2010 Annual General Meeting, closure of register of members and other relevant matter will be separately announced by the Company.

9.37 Publication of annual report

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

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

By Order of the Board of Directors

Fu Yuning
Chairman of Board of Directors

31 March 2011

X Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has fulfilled supervisory duties pursuant to the Company Law and Articles of Association of the Company.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

During the reporting period, the business activities of the Company complied with the Company Law, Commercial Banking Law and Articles of Association, and that the decision making procedures were lawful and valid. None of the directors and senior management was found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company or shareholders.

Authenticity of financial statements

KPMG Huazhen and KPMG audited the financial reports for 2010 in accordance with the PRC accounting standards and the international accounting standards respectively and have each produced a standard unqualified audit report, stating that the financial reports give a true, objective and accurate view of the financial position and operating results of the Company.

Use of capital raised

The application of fund from the capital raised into specific projects was consistent with the committed uses as stated in the relevant prospectus.

Purchase and sale of assets

During the reporting period, the Company was not involved in any material acquisition. The Board of Supervisors was not aware of any insider dealing or act which was detrimental to the interests of shareholders of the Company or caused the loss of the Company's assets.

Related party transactions

The Board of Supervisors was not aware of any related party transactions carried out during the reporting period on anything other than an arm's length basis or was detrimental to the interests of the Company or its shareholders.

Implementation of resolutions passed at the general meetings

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meetings for 2010, and concluded that the board had duly implemented relevant resolutions passed by the General Meetings.

Internal control

The Board of Supervisors had reviewed the Self-evaluation Report of the Board of Directors on Internal Control for the Year 2010, and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors

Han Mingzhi
Chairman of the Board of Supervisors

31 March 2011

XI Corporate Social Responsibilities of the Company

CMB held TV Summit of Entrepreneurs Go Green with Guiyang Ecological Conference Panel in Guizhou in July 2010

Sponsored the Universiade to Uphold Culture and Sports Cause

In 2010, by adhering to the principle of "Ploughing back to the society", the Company has fulfilled the corporate social responsibilities in respect of disaster relief and anti-poverty work, green finance, public benefit activities and support to SMEs.

1. Continuous efforts in poverty relief

The year 2010 marked the twelfth year of the Company to provide designated poverty relief to Yongren County and Wuding County in Yunnan Province. During the year, the Company deployed four poverty-alleviation cadres off the job to station at the two counties to provide designated relief. More than RMB4 million in small sum loans were granted to the two counties; staff of the Company donated RMB5.96 million in cash, 84 computers, 28,220 clothes and 8,000 boxes of water. The Company provided financial aids to 65 impoverished college students in these two counties and nearly 1,100 secondary and primary students were given paired subsidies under the "1+1"poverty relief campaign. In order to solve the problem of overcrowded classroom arising from the county-wide integration of middle schools, two new middle school classroom buildings were constructed. In addition, the Company completed three projects for construction of demonstration villages of affluence and built six roads.

2. Implementation of green finance

The Company persistently adhered to the philosophy of promoting green finance and assisting the construction of low-carbon economy. As at the end of 2010, the company balance of loans to green credit area amounted to RMB46.251 billion, representing an increase of 16.14% as compared to the end of the previous year. Among which, RMB9.874 billion was granted to clean energy, (including RMB8.836 billion to renewable energy), and RMB36.377 billion to environment protection area. Meanwhile, the Company restricted loans to industries labeled as "high pollution, high energy consumption and resources dependent", and at the end of the year, the balance of loans was RMB108.254 billion, accounting for 8.04% of the total balance of loans, representing a decline of 0.71 percentage point as compared with the beginning of the year.

CMB Sunflower Teenager Piano Competition

Chairman of China Red Cross granted us a Board of Red Cross of China Merchants Bank Co., Ltd..

In respect of product innovation: at the beginning of 2010, the Company designated key personnel from different departments and front-line staffs to form a research group on the innovation of green finance products. In August, the full text of guidance on green finance products marketing has been issued, demonstrating six new products launched by the Company, including emission-right-backed loans, energy-efficiency gain-backed loans, French Development Agency (AFD) green loans, green equipment credit loans for buyers, green finance lease, integrated solutions to Clean Development Mechanism (CDM) financing. The initial development of green finance products system has been properly launched and implemented by the Company.

In respect of international cooperation, as a member of UNEP FI (United Nations Environment Programme Finance Initiative), the Company actively learnt from advanced international experience by carrying out international cooperation, such as extensive cooperation with AFD on green loans projects. On the basis of successful completion of phase I, phase II was successfully launched, and so far several energy-saving projects have stepped into assessment process.

Our effort in green finance business was recognized by society. In the selection of "2010 Most Trusted Bank by Chinese CFO Awards" sponsored by CFO World, the Company was granted the highest prize of the "Best Green Bank"; Meanwhile, in the selection of the "Best Chinese Bank in 2009" as the third session sponsored by Economic Observer, the bank won "Year 2009 the Best Green Bank in China".

XI Corporate Social Responsibilities of the Company

3. Activities in disaster relief and restoration efforts

In April 2010, shortly after the Qinghai Yushu earthquake, the Company donated RMB5 million to the quake-hit areas through the China Red Cross in order to fully support the earthquake relief work and the rebuilding of the community. This donation was designated for the reconstruction of Children's facilities and schools in the Qinghai Yushu quake-hit areas. This was also the Company's another implementation of its emergency relief plans for domestic natural disasters since the 2008 snowstorm disaster and the Wenchuan earthquake. In December 2010, the Company donated RMB1 million to help the victims in Jiangxi flood-hit areas to fight against the disasters and to support the relief work.

4. Support to the development of small and medium-sized enterprises (SMEs)

In 2010, the Company stepped up the support for SMEs and regarded the SMEs financial strategy as a key strategy in the "Second Transformation". The Company exerted its efforts in: (1) accelerated the establishment of small sized enterprise credit subcentres. In 2010, 10 subcentres were established, with a coverage extended to five major economic zones, namely Yangtze River Delta, Pearl River Delta, Bohai Rim, Fujian west-straight and Pan-Yangtze River Delta; (2) after the successful establishment of test-run of specialized services for SMEs at 7 branches, the Company increased such pilot-testing branches to 18 in 2010; (3) granted more authorization for approval authorities of SMEs credit business on branch level, and all approvals for SMEs loans had been done at branch level. Countersign review system was launched for some SMEs which fulfilled certain conditions. As a result, the procedure for granting individual loans was shortened within 5 working days; (4) actively carried on product innovation and strived to launch financing products that fit the operational features of SMEs, such as the new brand "Zhu Li Dai" for SME financing, "Purchase Order Loan", "Operational Property mortgage loan" and "personal loan" specifically designed for SMEs. As at the end of the reporting period, balance of loans granted to SMEs by the Company amounted to RMB388.418 billion, representing an increase of RMB80.048 billion or 25.96% as compared to the beginning of the year and above the average growth rate of corporate loans. The proportion of SMEs loans in loans to domestic companies was up to 49.72%, representing an increase of 2.04 percentage points as compared to last year.

5. Social welfare activities

Since its establishment, the Company was actively involved in social welfare activities, fulfilling its social responsibilities in various ways, including the construction of Project Hope primary schools, "1+1 Pairs Forming" and the setting up of scholarship etc., so as to support education through donation. Meanwhile, the Company successively sponsored Universiade 2011 Shenzhen, UIM F1 World Championship, CCTV Intercities, giving full support to Chinese culture and sports events. In March 2010, the Company actively participated in the "Earth Hour", organized by WWF, making our contribution to the environment protection. In May, jointly with China Children and Teenagers' Fund, the Company launched the Piano and Arts Program under the "Sunflower Children's Growth Fund", aiming to provide financial and material support for gifted children living in impoverished families and help them to realize their dreams in the art of piano. In August, when the World Expo was open, the Company's 2010 summer camp programme of Inspiring World Expo Tour under the "Sunflower Children's Growth Fund" was launched, jointly with China Children and Teenagers Fund. Teachers and students came from quake-hit areas (Qinghai Yushu, Sichuan Deyang, Yunnan Yongren and Wuding, Guizhou Yinjiang and Guangdong Foshan etc.) took part in this activity. In October, the Company donated a total of more than 7,000 books to Alashan Left Banner 5th primary school in Inner Mongolia.

The details of the corporate social responsibility of the Company are set out in "China Merchants Bank Social Responsibility Report for the Year 2010".

XII Financial Report

Contents

Independent Auditor’s Report

KPMG

Independent auditor's report to the shareholders of China Merchants Bank Co., Ltd

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

We have audited the accompanying financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 164 to 313 which comprise the consolidated and Bank statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated and Bank statements of changes in equity, consolidated cash flow statement 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 judgement, 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 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

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 at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2010	2009
Interest income	3	**84,513**	65,838
Interest expense	4	**(27,437)**	(25,474)
Net interest income		**57,076**	40,364
Fee and commission income	5	**12,409**	9,153
Fee and commission expense		**(1,079)**	(1,160)
Net fee and commission income		**11,330**	7,993
Other net income	6	**2,933**	3,132
Insurance operating income		**353**	359
Operating income		**71,692**	51,848
Operating expenses	7	**(32,634)**	(26,207)
Charge for insurance claims		**(278)**	(355)
Operating profit before impairment losses		**38,780**	25,286
Impairment losses	11	**(5,501)**	(2,971)
Share of profits of associates		**48**	42
Share of profits of jointly controlled entities		**16**	27
Profit before taxation		**33,343**	22,384
Income tax	12	**(7,574)**	(4,149)
Profit for the year		**25,769**	18,235
Attributable to:			
Equity shareholders of the Bank		**25,769**	18,235

The notes on pages 172 to 313 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in note 41.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2010	2009
Earnings per share			
Basic (RMB)	14(a)	**1.23**	0.95
Diluted (RMB)	14(b)	**1.23**	0.95
Other comprehensive income for the year (after tax and reclassification adjustments)	13		
Exchange differences		**(504)**	12
Available for sale investments: net movement in fair value reserve		**(1,081)**	(3,089)
Cash flow hedge: net movements in hedging reserve		**3**	–
Share of investment revaluation reserve of associates		**–**	1
Share of investment revaluation reserve of jointly controlled entities		**–**	4
		(1,582)	(3,072)
Total comprehensive income for the year		**24,187**	15,163
Attributable to:			
Equity shareholders of the Bank		**24,187**	15,163

The notes on pages 172 to 313 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2010	2009
Assets			
Cash and balances with banks and other financial institutions	15	**38,211**	56,544
Balances with central bank	16	**285,705**	208,554
Placements with banks and other financial institutions	17	**235,464**	221,194
Loans and advances to customers	18	**1,402,160**	1,161,817
Financial assets at fair value through profit or loss	19(a)	**16,967**	16,855
Available-for-sale investments	19(b)	**272,370**	244,916
Held-to-maturity debt securities	19(c)	**97,614**	80,201
Receivables	19(d)	**7,225**	35,100
Interest in associates	21	**285**	306
Interest in jointly controlled entities	22	**158**	160
Fixed assets	23	**18,397**	16,008
Intangible assets	24	**2,620**	2,477
Deferred tax assets	25	**3,706**	2,786
Goodwill	26	**9,598**	9,598
Other assets	27	**12,027**	11,425
Total assets		**2,402,507**	2,067,941
Liabilities			
Deposits from banks and other financial institutions	28	**203,011**	186,201
Placements from banks and other financial institutions	29	**79,012**	78,918
Deposits from customers	30	**1,897,178**	1,608,146
Trading liabilities	19(e)	**188**	30
Derivative financial liabilities	47(h)	**1,821**	1,474
Financial liabilities designated at fair value through profit or loss	19(f)	**1,165**	1,173
Current taxation		**2,288**	1,159
Deferred tax liabilities	25	**924**	941
Certificates of deposit issued	31(a)	**5,053**	4,462
Other debts issued	31(b)	**–**	4,998
Subordinated notes issued	31(c)	**31,232**	31,271
Other liabilities	32	**46,629**	56,385
Total liabilities		**2,268,501**	1,975,158
Equity			
Share capital	34	**21,577**	19,119
Capital reserve	35	**37,508**	18,399
Surplus reserve	36	**8,418**	6,653
Investment revaluation reserve	37	**(1,311)**	(230)
Hedging reserve	38	**3**	–
Regulatory general reserve	39	**16,812**	14,976
Exchange reserve	40	**(526)**	(22)
Retained profits		**42,806**	27,592
Proposed profit appropriations	41(b)	**8,719**	6,296
Total equity		**134,006**	92,783
Total equity and liabilities		**2,402,507**	2,067,941

Approved and authorised for issue by the board of directors on 31 March 2011.

Fu Yu Ning
Director

Ma Wei Hua
Director

Company Chop

The notes on pages 172 to 313 form part of these financial statements.

Statement of Financial Position

At 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2010**	2009
Assets			
Cash and balances with banks and other financial institutions	15	**33,408**	54,238
Balances with central bank	16	**284,227**	207,979
Placements with banks and other financial institutions	17	**218,098**	199,344
Loans and advances to customers	18	**1,317,300**	1,105,816
Financial assets at fair value through profit or loss	19(a)	**13,844**	11,381
Available-for-sale investments	19(b)	**259,079**	234,060
Held-to-maturity debt securities	19(c)	**92,865**	70,397
Receivables	19(d)	**8,497**	36,420
Investments in subsidiaries	20	**32,565**	32,565
Interest in an associates	21	**191**	191
Fixed assets	23	**12,936**	11,175
Intangible assets	24	**1,388**	1,149
Deferred tax assets	25	**3,594**	2,710
Other assets	27	**10,347**	8,492
Total assets		**2,288,339**	1,975,917
Liabilities			
Deposits from banks and other financial institutions	28	**200,611**	185,536
Placements from banks and other financial institutions	29	**57,223**	70,153
Deposits from customers	30	**1,808,912**	1,526,941
Derivative financial liabilities	47(h)	**1,620**	974
Financial liabilities designated at fair value through profit or loss	19(f)	**1,021**	819
Current taxation		**2,111**	1,129
Certificates of deposit issued	31(a)	**3,948**	2,719
Other debts issued	31(b)	**–**	4,998
Subordinated notes issued	31(c)	**29,960**	29,950
Other liabilities	32	**41,924**	52,290
Total liabilities		**2,147,330**	1,875,509
Equity			
Share capital	34	**21,577**	19,119
Capital reserve	35	**46,666**	27,557
Surplus reserve	36	**8,418**	6,653
Investment revaluation reserve	37	**(1,429)**	(352)
Hedging reserve	38	**3**	–
Regulatory general reserve	39	**16,700**	15,000
Retained profits		**40,355**	26,135
Proposed profit appropriations	41(b)	**8,719**	6,296
Total equity		**141,009**	100,408
Total equity and liabilities		**2,288,339**	1,975,917

Approved and authorised for issue by the board of directors on 31 March 2011.

Fu Yu Ning	**Ma Wei Hua**	**Company Chop**
Director	*Director*	

The notes on pages 172 to 313 form part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

		2010									
		Attributable to equity shareholders of the Bank									
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Hedging reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2010		19,119	18,399	6,653	(230)	–	14,976	(22)	27,592	6,296	92,783
Issuing shares	34	2,458	19,109	–	–	–	–	–	–	–	21,567
Appropriations to statutory surplus reserve for the year 2009		–	–	1,765	–	–	–	–	–	(1,765)	–
Transfer of retained profits to regulatory general reserve		–	–	–	–	–	1,836	–	(1,836)	–	–
Proposed dividends for the year 2010	41(b)	–	–	–	–	–	–	–	(6,257)	6,257	–
Dividends paid for the year 2009	41(a)	–	–	–	–	–	–	–	–	(4,531)	(4,531)
Proposed appropriations to statutory surplus reserve for the year 2010	41(b)	–	–	–	–	–	–	–	(2,462)	2,462	–
Total comprehensive income for the year	13	–	–	–	(1,081)	3	–	(504)	25,769	–	24,187
At 31 December 2010		21,577	37,508	8,418	(1,311)	3	16,812	(526)	42,806	8,719	134,006

		2009										
		Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Subtotal	Non-controlling interests	Total
At 1 January 2009		14,707	18,823	4,612	2,854	10,793	(34)	19,836	7,924	79,515	266	79,781
Appropriations to statutory surplus reserve for the year 2008		–	–	2,041	–	–	–	–	(2,041)	–	–	–
Transfer of retained profits to regulatory general reserve		–	–	–	–	4,183	–	(4,183)	–	–	–	–
Proposed dividends for the year 2009	41(b)	–	–	–	–	–	–	(4,531)	4,531	–	–	–
Dividends paid for the year 2008	41(a)	4,412	–	–	–	–	–	–	(5,883)	(1,471)	–	(1,471)
Conversion of convertible bonds		–	1	–	–	–	–	–	–	1	–	1
Proposed appropriations to statutory surplus reserve for the year 2009	41(b)	–	–	–	–	–	–	(1,765)	1,765	–	–	–
Acquisition of non-controlling interests		–	(425)	–	–	–	–	–	–	(425)	(266)	(691)
Total comprehensive income for the year	13	–	–	–	(3,084)	–	12	18,235	–	15,163	–	15,163
At 31 December 2009		19,119	18,399	6,653	(230)	14,976	(22)	27,592	6,296	92,783	–	92,783

The notes on pages 172 to 313 form part of these financial statements.

Statement of Changes In Equity

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

		2010								
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Hedging reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2010		19,119	27,557	6,653	(352)	–	15,000	26,135	6,296	100,408
Issuing shares	34	2,458	19,109	–	–	–	–	–	–	21,567
Appropriations to statutory surplus reserve for the year 2009		–	–	1,765	–	–	–	–	(1,765)	–
Transfer of retained profits to regulatory general reserve		–	–	–	–	–	1,700	(1,700)	–	–
Proposed dividends for the year 2010	41(b)	–	–	–	–	–	–	(6,257)	6,257	–
Dividends paid for the year 2009	41(a)	–	–	–	–	–	–	–	(4,531)	(4,531)
Proposed appropriations to statutory surplus reserve for the year 2010	41(b)	–	–	–	–	–	–	(2,462)	2,462	–
Total comprehensive income for the year		–	–	–	(1,077)	3	–	24,639	–	23,565
At 31 December 2010		21,577	46,666	8,418	(1,429)	3	16,700	40,355	8,719	141,009

		2009								
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2009		14,707	27,556	4,612	2,833	10,900	(15)	18,920	7,924	87,437
Appropriations to statutory surplus reserve for the year 2008		–	–	2,041	–	–	–	–	(2,041)	–
Transfer of retained profits to regulatory general reserve		–	–	–	–	4,100	–	(4,100)	–	–
Proposed dividends for the year 2009	41(b)	–	–	–	–	–	–	(4,531)	4,531	–
Dividends paid for the year 2008	41(a)	4,412	–	–	–	–	–	–	(5,883)	(1,471)
Conversion of convertible bonds		–	1	–	–	–	–	–	–	1
Proposed appropriations to statutory surplus reserve for the year 2009	41(b)	–	–	–	–	–	–	(1,765)	1,765	–
Total comprehensive income for the year		–	–	–	(3,185)	–	15	17,611	–	14,441
At 31 December 2009		19,119	27,557	6,653	(352)	15,000	–	26,135	6,296	100,408

The notes on pages 172 to 313 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2010	2009
Operating activities			
Profit before tax		**33,343**	22,384
Adjustments for:			
– Impairment losses charged on loans and advances		**5,570**	3,073
– Impairment losses charged on investments		**(13)**	(83)
– Impairment losses charged on other assets		**(56)**	(20)
– Impairment losses charged on interest in associates		**–**	1
– Unwind of interest income on impaired loans		**(110)**	(106)
– Depreciation		**2,497**	2,194
– Amortization of other assets		**273**	198
– Amortisation of discount and premium of debt investments		**(199)**	(219)
– Amortisation of discount and premium of issued debts		**13**	13
– Share of profits of associates		**(48)**	(42)
– Share of profits of jointly controlled entities		**(16)**	(27)
– Net gains on debt investments		**(677)**	(958)
– Net gains on disposal of fixed assets		**(20)**	(2)
– Interest income on debt investments		**(8,984)**	(8,333)
– Interest expense on issued debts		**1,858**	1,919
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(79,485)**	(45,145)
Decrease/(increase) in balances and placements with banks and other financial institutions with original maturity over 3 months		**12,322**	(99,361)
Increase in loans and advances to customers		**(244,347)**	(311,994)
(Increase)/decrease in other assets		**(2,134)**	1,671
Increase in deposits from customers		**289,032**	357,498
Increase in deposits and placements from banks and other financial institutions		**16,904**	99,203
(Decrease)/increase in other liabilities		**(9,849)**	26,547
Net cash inflow from operating activities		**15,874**	48,411
Income tax paid		**(6,985)**	(5,315)
Investing activities			
Payment for investments purchased		**(2,070,605)**	(1,146,980)
Proceeds from investments disposed		**2,041,322**	1,097,684
Interest received from debt investments		**9,075**	8,083
Payment for purchase of fixed assets and other assets		**(5,465)**	(3,567)
Proceeds from sale of fixed assets and other assets		**144**	150
Payment for other investments		**–**	(59)
Return of loan to jointly controlled entities		**10**	6
Net cash outflow from investing activities		**(25,519)**	(44,683)
Net cash inflow before financing activities		**(16,630)**	(1,587)

The notes on pages 172 to 313 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2010	2009
Financing activities			
Proceeds from issuance of share capital		**21,744**	–
Cost of issuing share, net of interest income		**(177)**	–
Proceeds from issuance of subordinated notes		**–**	1,321
Proceeds from issuance of certificates of deposit		**4,777**	5,154
Repayment of certificates of deposit issued		**(3,640)**	(1,357)
Repayment of other debts		**(5,000)**	(3,501)
Dividends paid		**(4,528)**	(1,474)
Interest paid on issued debts		**(1,875)**	(1,945)
Net cash inflow/(outflow) from financing activities		**11,301**	(1,802)
Net decrease in cash and cash equivalents		**(5,329)**	(3,389)
Cash and cash equivalents at 1 January		**183,631**	186,671
Effect of foreign exchange rate changes		**(1,082)**	349
Cash and cash equivalents at 31 December	42(a)	**177,220**	183,631
Cash flows from operating activities include:			
Interest received		**74,533**	60,733
Interest paid		**23,478**	23,843

The notes on pages 172 to 313 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

1 ORGANISATION, PRINCIPAL ACTIVITIES AND DETAILS OF SUBSIDIARIES

(a) Organisation

China Merchants Bank Company Limited (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2010, apart from the Head Office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi'an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Hong Kong, Qingdao, Dongguan, Shaoxing, Yantai, Quanzhou, Changzhou, Taiyuan, Foshan, Changchun, Hohhot, Yangzhou, Nantong, Jinhua, Taizhou, Weifang, Nanning, Wuhu, Weihai, Ganzhou, Qujing, Yuling, Yichang, Dandong, Huangshi, Leshan, Yingkou, Zhenjiang, Huainan, Hengyang, Zibo, Linyi, Lijiang, Zhongshan, Huizhou, Anshan, Taizhou, Jining, Honghe, Luoyang, Jincheng, Guiyang, Yinchuan, Shijiazhuang and New York. In addition, the Bank has four representative offices in Beijing, London, the United States of America and Taiwan.

(b) Principal activities

The principal activities of the Bank and its subsidiaries ("the Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and trustee services and other financial services.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Changes in accounting policies and accounting estimations

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Bank. The changes of IFRSs have no significant impact on the Group's financial statements. Besides, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale assets are stated at their fair value; and certain non-financial assets are stated at deemed cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of measurement *(continued)*

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in note 48.

(d) Subsidiaries and non-controlling interests

The financial statements include the financial statements of the Bank and its subsidiaries. Subsidiaries are enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. The results and affairs of the subsidiaries are included from the date that control commences until the date that control ceases.

The results of the subsidiaries are included in the consolidated result of the Group. All significant inter company transactions and balances, and any unrealised gains or losses arising from inter company transactions, have been eliminated on consolidation.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Bank.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interest *(continued)*

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)) or, jointly controlled entity (see note 2(f)).

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less allowances for impairment losses.

(e) Associates

Associates are entities in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any acquisition-date excess over cost, the consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see notes 2(g) and (n)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Bank's statement of financial position, its interests in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Jointly controlled entities

Jointly controlled entities are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated statement of comprehensive income includes the Group's share of the results of jointly controlled entities for the year and the consolidated statement of financial position includes the Group's share of the net assets of the jointly controlled entities.

In the Bank's statement of financial position, the interests in jointly controlled entities are stated at cost less allowance for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received and receivable.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see note 2(n)). Amortisation of intangible assets with finite useful lives is charged to the consolidated statement of comprehensive income on a straight-line basis over the assets' estimated useful lives (2 – 50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40 – 50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2010.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred.

Except for loans and advances to customers that is recognised using settlement date accounting, purchase or sale of financial assets is recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss. They are not allowed to reclassify into or out of this category which it is held or issued.

  All derivatives not qualified for hedging purposes (note 2(i)(iii)) are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

– financial instruments are designated at fair value through profit or loss upon initial recognition when:

  – the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

  – the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivative from the financial instrument is not prohibited;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition *(continued)*

– held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity;

– loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale upon initial recognition;

– available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and

– financial liabilities, other than that at fair value through profit or loss and designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of comprehensive income when they arise.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated statement of comprehensive income.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of comprehensive income when the financial asset or liability is derecognised, impaired and amortised.

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models referenced to the fair value of another instrument that is substantially the same (without deduction for transaction costs) or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate at the valuation date for an instrument with similar terms and risk profile.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iii) Hedge accounting

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognized in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of comprehensive income within "Trading profits" of "Other net income".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity to the statement of comprehensive income in the same periods during which the hedged cash flow affect profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of comprehensive income.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iii) Hedge accounting

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the consolidated statement of comprehensive income. These gains and losses are reported in "Trading profits" of "Other net income", except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in "Net income on financial instruments designated at fair value through profit or loss".

(iv) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with and takings from banks and other financial institutions

Banks represent other banks approved by the PBOC and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the CBRC and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as trading or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity debt securities, receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances

Loans and advances directly granted by the Group to customers or participation in syndicated loans are accounted for as loans and advances.

(v) Derivative financial instruments

The Group's derivative financial instruments include mainly spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(i)(i) above.

(vii) Securitisations

The Group securitises various corporate loans, which generally results in the sale of these assets to special purpose entity, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in "Other net income".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over the financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

(j) Fixed assets and depreciation

Fixed assets, including investment properties, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Fixed assets and depreciation *(continued)*

Depreciation is calculated to write off the cost of fixed assets over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	the shorter of the unexpired term of lease and 5 years
Leasehold improvements (self-owned property)	the longer of 5 years and the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of comprehensive income. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a fixed asset is capitalised only when it is probable that future economic benefits associated with the fixed assets will flow to the Group. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the fixed assets and are accounted for in the consolidated statement of comprehensive income as they arise.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are measured at the lower of the carrying value of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n).

(iii) Operating leases

– ***Operating lease charges***

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease expense is charged to profit and loss when actually happened.

– ***Assets leased out under operating leases***

Fixed assets other than investment properties leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n). Income derived from operating leases is recognised in the statement of comprehensive income using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit and loss when actually happened.

(m) Resale and repurchase agreements

Securities sold under repurchase agreements are considered to be, in substance, secured loans borrowed. Therefore, the amounts received are included in "Amounts due to central bank" or "Placements from banks and other financial institutions", depending on the identity of the counterparty. Conversely securities or loans purchased subject to commitment to resell are considered as loans granted, and the amounts paid are accounted for as "Balances with central bank" or "Placements with banks and other financial institutions", depending on the identity of the counterparty.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Repurchase and resale agreements *(continued)*

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– disappearance of an active market for financial assets because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

Impairment losses on loans and advances

The Group uses two methods of assessing impairment losses on loans and advances: those assessed individually and those assessed on a collective basis.

– *Individually assessed*

Loans and advances which are considered individually significant are assessed individually for impairment.

Impairment allowances are made on individually impaired significant loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

Impairment allowances of an individually impaired significant loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of the allowances for impairment losses.

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

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

– no objective evidence of impairment exists for an individually assessed loans; and

– for homogeneous groups of loans that are not individually significant with similar credit risk characteristics.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed (continued)*

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;

– the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loan that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed (continued)*

Homogeneous groups of loans *(continued)*

When the Group determines that a loan has no reasonable prospect of recovery after the group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated statement of comprehensive income.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers. Upon the seizure of these assets, the carrying value of the related loan principal and interest receivable are initially transferred to "Repossessed assets", and the respective allowances for impairment losses are transferred to "impairment allowance for repossessed assets".

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated statement of comprehensive income even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of comprehensive income. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on available-for-sale financial assets *(continued)*

Impairment losses recognised in the consolidated statement of comprehensive income for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of comprehensive income. Any subsequent increase in the fair value of these assets is recognised directly in equity.

(ii) Other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– ***Recognition of impairment losses***

An impairment loss is recognised in the consolidated statement of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– ***Reversals of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statement of comprehensive income in the year in which the reversals are recognised.

Notes to the Financial Statements

For the year ended 31 December 2010

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2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in the consolidated statement of comprehensive income over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of comprehensive income on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of comprehensive income when the corresponding service is provided.

(iii) Dividend income

– Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

– Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Foreign currency translations *(continued)*

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the end of the reporting period. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "Exchange reserve" in equity.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonus and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of comprehensive income as incurred.

Annual contributions to the retirement benefit schemes with defined benefit arrangements are determined based on periodic valuations of the assets and liabilities of such schemes by qualified actuaries using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the 10% of the greater of these schemes' assets and the defined benefit obligations are recognised in the statement of comprehensive income over the average expected future working lifetime of the members of the schemes.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits *(continued)*

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H-share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the consolidated statement of comprehensive income for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the statement of financial position as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

(Expressed in millions of Renminbi unless otherwise stated)

3 INTEREST INCOME

	2010	2009
Loans and advances (note (i))		
– corporate loans	**39,718**	31,728
– retail loans	**22,426**	14,679
– discounted bills	**4,693**	5,615
Balances with central bank	**3,546**	2,957
Balances and placements with		
– banks (note (ii))	**4,262**	2,013
– other financial institutions	**685**	294
Debt securities investments (note (i))		
– listed	**7,997**	7,548
– unlisted	**1,181**	1,004
Others	**5**	–
Interest income on financial assets that are not at fair value through profit or loss	**84,513**	65,838

Notes:

(i) Included in the above is interest income of RMB110 million accrued on impaired loans for the year ended 31 December 2010 (2009: RMB106 million) and non accrued on impaired debt securities investments for the year ended 31 December 2010 (2009: RMB4 million).

(ii) In 2010, interest income generated by Group acceptance rediscounting under repurchase agreements and commercial bill business was separated from interest income from discounted bills for redisclosure and recomputation in interest income from interbank borrowing and placement. Interest income from bank acceptance rediscounting under repurchase agreements amounted to RMB2.539 billion.

4 INTEREST EXPENSE

	2010	2009
Deposits from customers	**20,724**	19,614
Deposits and placements from		
– banks	**1,556**	1,193
– other financial institutions	**3,286**	2,735
Issued debts	**1,871**	1,932
Interest expense on financial liabilities that are not at fair value through profit or loss	**27,437**	25,474

5 FEE AND COMMISSION INCOME

	2010	2009
Bank cards fees	**3,710**	2,599
Remittance and settlement fees	**1,386**	1,077
Agency services fees	**3,062**	2,477
Commissions from credit commitment and loan business	**1,114**	723
Commissions on trust and fiduciary activities	**1,793**	1,541
Others	**1,344**	736
	12,409	9,153

Note: Included above is fee and commission income earned by the Group arising from financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB4,123 million (2009: RMB3,060 million).

Notes to the Financial Statements

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6 OTHER NET INCOME

	2010	2009
Trading profits arising from		
– foreign exchange	**1,356**	1,252
– securities, derivatives and other trading activities	**591**	66
Net gains on financial instruments designated at fair value through profit or loss	**(172)**	611
Net gains on disposal of available-for-sale financial assets	**151**	722
Distributions from investment in funds	**15**	10
Net gains on disposal of fixed assets	**20**	2
Rental income	**217**	149
Gain on disposal of bills (note)	**593**	–
Others	**162**	320
	2,933	3,132

Note: The Bank notes in June 2010 the profit and loss subsidiary account for the spread of out-right sell discount bills, which will become effective immediately upon the reconstruction project of bill system go live. After the transformation, when transferring outright discount bills, the difference between unamortized interest income and rediscount interest cost is treated as the price spread, other than interest spread. The change of accounting treatment reflects the business more accurately. The change reduces interest income by RMB593 million.

7 OPERATING EXPENSES

	2010	2009
Staff costs		
– salaries, bonuses and staff welfare (note (i))	**12,785**	10,151
– retirement benefit costs	**1,671**	1,224
– housing allowances	**843**	773
– others	**703**	538
	16,002	12,686
Business tax and surcharges	**4,153**	3,129
Depreciation	**2,497**	2,194
Rental expenses	**1,936**	1,917
Other general and administrative expenses	**8,046**	6,281
	32,634	26,207

Notes:

(i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 33(c).

(ii) Auditors' remuneration amounted to RMB10 million for 2010 (2009: RMB9 million) and non-audit service fee paid to auditors was RMB2 million for 2010 (2009: RMB4 million).

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors and Supervisors during the year are as follows:

	2010				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 Note (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ma Wei Hua	–	4,200	–	1,110	5,310
Zhang Guang Hua	–	2,730	–	737	3,467
Li Hao	–	2,730	–	714	3,444
Non-executive directors					
Fu Yu Ning	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–
Li Yin Quan	–	–	–	–	–
Fu Gang Feng	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–
Independent non-executive directors and supervisors					
Wu Jie Si	300	–	–	–	300
Yi Xi Qun	300	–	–	–	300
Yan Lan	300	–	–	–	300
Edward Chow Kwong Fai	300	–	–	–	300
Liu Yong Zhang	300	–	–	–	300
Liu Hong Xia	300	–	–	–	300
Han Ming Zhi	–	1,050	–	285	1,335
Zhu Gen Lin	–	–	–	–	–
Hu Xu Peng	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–
Wen Jian Guo	–	–	–	–	–
Shao Rui Qing	300	–	–	–	300
Shi Shun Hua	–	1,382	858	608	2,848
Yang Zong Jian	–	1,363	333	517	2,213
Zhou Qi Zheng	–	1,294	315	499	2,108
	2,100	14,749	1,506	4,470	22,825

Notes:

(i) The total remuneration before tax for the full-time executive directors and senior management personnel of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) Apart from the above emoluments, the Bank has also offered H-share Appreciation Rights Scheme phase I, phase II and phase III to its senior management ("the Scheme") on 30 October 2007, 7 November 2008 and 16 November 2009 respectively. In 2010, none of the granted share appreciation rights were exercised. Details of this Scheme are set out in note 33(d).

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

	2009						
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Subtotal RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors							
Ma Wei Hua	–	4,200	–	1,106	5,306	2,000	7,306
Zhang Guang Hua	–	2,100	–	574	2,674	1,300	3,974
Li Hao	–	2,100	–	552	2,652	1,300	3,952
Non-executive directors							
Qin Xiao	–	–	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–	–	–
Fu Yu Ning	–	–	–	–	–	–	–
Li Yin Quan	–	–	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–	–	–
Edward Ding An Hua	–	–	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–	–	–
Independent non-executive directors and supervisors							
Wu Jie Si	300	–	–	–	300	–	300
Yi Xi Qun	300	–	–	–	300	–	300
Yan Lan	300	–	–	–	300	–	300
Edward Chow Kwong Fai	300	–	–	–	300	–	300
Liu Yong Zhang	300	–	–	–	300	–	300
Liu Hong Xia	300	–	–	–	300	–	300
Shi Ji Liang	600	–	–	–	600	–	600
Zhu Gen Lin	–	–	–	–	–	–	–
Shao Rui Qing	300	–	–	–	300	–	300
Dong Xian De	–	–	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–	–	–
Yang Zong Jian	–	915	370	404	1,689	–	1,689
Shi Shun Hua	–	1,221	619	449	2,289	–	2,289
Zhou Song	–	870	350	339	1,559	–	1,559
	2,700	11,406	1,339	3,424	18,869	4,600	23,469

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

RMB	**2010**	2009 (Note)
Nil – 500,000	**19**	19
500,001 – 1,000,000	**–**	1
1,000,001 – 1,500,000	**1**	–
1,500,001 – 2,000,000	**–**	2
2,000,001 – 2,500,000	**2**	1
2,500,001 – 3,000,000	**1**	–
3,000,001 – 3,500,000	**2**	–
4,000,001 – 4,500,000	**–**	2
5,000,001 – 5,500,000	**1**	–
7,000,001 – 7,500,000	**–**	1
	26	26

None of the Directors and Supervisors received any inducements, compensation for loss of office or waived any emoluments during the year.

Note: On 19 August 2010, the Board of Directors approved the discretionary bonuses of the Bank's executive directors and senior management personnel for 2009. Disclosures in 2009 (note 8, 9 & 49(g)) had been adjusted correspondingly.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the year ended 31 December 2010, 3 (2009: 3) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	**15,809**	14,197
Discretionary bonuses (note 8)	**–**	5,800
Contributions to defined contribution retirement schemes	**3,610**	3,178
	19,419	23,175

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

RMB	**2010**	2009 (Note 8)
3,000,001 – 3,500,000	**3**	–
3,500,001 – 4,000,000	**1**	3
4,000,001 – 4,500,000	**–**	1
5,000,001 – 5,500,000	**1**	–
7,000,001 – 7,500,000	**–**	1

10 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

Loans to Directors, Supervisors and Officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2010	2009
Aggregate amount of relevant loans made by the Group outstanding at year end	**36**	32
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	**54**	48

11 IMPAIRMENT LOSSES

	2010	2009
Impairment losses charged/(released) on:		
– loans and advances (Note 18(c))	**5,570**	3,073
– investments		
– available-for-sale investments	**(13)**	(52)
– held-to-maturity debt securities (Note 19(c))	**–**	(31)
– interest in associates (Note 21)	**–**	1
– other assets	**(56)**	(20)
	5,501	2,971

(Expressed in millions of Renminbi unless otherwise stated)

12 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2010	2009
Current tax		
– Mainland China	**7,897**	4,444
– Hong Kong	**220**	60
– Overseas	**(3)**	14
Subtotal	**8,114**	4,518
Deferred tax	**(540)**	631
Over provision of prior years	**–**	(1,000)
Total	**7,574**	4,149

(b) A reconciliation of income tax expense in the consolidated statement of comprehensive income and that calculated at the applicable tax rate is as follows:

	2010	2009
Profit before tax	**33,343**	22,384
Notional tax on profit before tax, calculated at the statutory tax rate of 25% (2009: 25%)	**8,336**	5,596
Add/(less) the tax effect of the following items:		
– Non-deductible expenses	**558**	494
– Non-taxable income	**(477)**	(390)
– Different income tax rates in other areas	**(686)**	(736)
– Effect of change in tax rate on opening deferred tax balances	**(157)**	164
– Over provision of prior years	**–**	(1,000)
– Others	**–**	21
Actual income tax expense	**7,574**	4,149

Notes:

(i) The income tax rates applicable to the Bank's operations in Shenzhen Special Economic Zone is 22% (2009: 20%) during the year.

(ii) The provision for Hong Kong profit tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits from Hong Kong operations for the year.

(iii) Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

13 OTHER COMPREHENSIVE INCOME

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

	2010			2009		
	Before-tax amount	**Tax benefit**	**Net-of-tax amount**	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences	**(504)**	**–**	**(504)**	12	–	12
Available-for-sale financial assets:						
– net movement in fair value reserve	**(1,448)**	**367**	**(1,081)**	(3,893)	804	(3,089)
Cash flow hedge:						
– net movement is hedging reserve	**4**	**(1)**	**3**	–	–	–
Share of investment revaluation reserve of jointly controlled entities	**–**	**–**	**–**	4	–	4
Share of investment revaluation reserve of associates	**–**	**–**	**–**	1	–	1
Other comprehensive income	**(1,948)**	**366**	**(1,582)**	(3,876)	804	(3,072)

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

	2010	2009
Cash flow hedge:		
Effective portion of changes is fair value of hedging instruments	**3**	–
Net movement in the hedging reserve during the period recognised in other comprehensive income	**3**	–
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**(919)**	(2,295)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	**(162)**	(794)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(1,081)**	(3,089)

(Expressed in millions of Renminbi unless otherwise stated)

14 EARNINGS PER SHARE

Movements of the share capital are included in Note 34 of the financial statements.

(a) Basic earnings per share

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

	2010	2009
Net profit	**25,769**	18,235
Weighted average number of shares in issue (in million)	**20,925**	19,119
Basic earnings per share (in RMB)	**1.23**	0.95

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the diluted net profit and the weighted average number of shares after adjusting for the effect of all dilutive potential shares, calculated as follows:

	2010	2009
Net profit	**25,769**	18,235
Diluted net profit	**25,769**	18,235
Weighted average number of shares in issue (in million)	**20,925**	19,119
Weighted average number of shares in issue after dilution (in million)	**20,925**	19,119
Diluted earnings per share (in RMB)	**1.23**	0.95

Notes to the Financial Statements

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(Expressed in millions of Renminbi unless otherwise stated)

15 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2010	2009	**2010**	2009
Cash	**9,250**	7,613	**8,672**	7,129
Balances with banks	**28,895**	48,899	**24,670**	47,082
Balances with other financial institutions	**94**	60	**94**	55
	38,239	56,572	**33,436**	54,266
Less: Impairment allowances				
– banks	**(24)**	(24)	**(24)**	(24)
– other financial institutions	**(4)**	(4)	**(4)**	(4)
	(28)	(28)	**(28)**	(28)
	38,211	56,544	**33,408**	54,238

(b) Balances with banks and other financial institutions (analysed by geographical location)

	Group		Bank	
	2010	2009	**2010**	2009
Balances with				
– banks in the Mainland	**15,229**	34,925	**14,773**	34,343
– other financial institutions in the Mainland	**90**	56	**90**	51
	15,319	34,981	**14,863**	34,394
Balances with				
– banks outside the Mainland	**13,642**	13,950	**9,873**	12,715
	28,961	48,931	**24,736**	47,109

(c) Movements of allowances for impairment losses (note)

	Group and Bank	
	2010	2009
As at 1 January	**28**	33
Write-offs	**–**	(5)
As at 31 December	**28**	28

Note: The impairment loss for balances with banks and other financial institutions is individually assessed.

(Expressed in millions of Renminbi unless otherwise stated)

15 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS
(continued)

(d) Impaired balances with banks and other financial institutions and allowances

	Group		Bank	
	2010	2009	**2010**	2009
Gross impaired balances with banks and other financial institutions	**28**	28	**28**	28
Individually assessed impairment allowances	**(28)**	(28)	**(28)**	(28)
Net balances	**–**	–	**–**	–
Gross impaired balances with banks and other financial institutions as a percentage of total balances with banks and other financial institutions	**0.10%**	0.06%	**0.11%**	0.06%

16 BALANCES WITH CENTRAL BANK

	Group		Bank	
	2010	2009	**2010**	2009
Statutory deposit reserve funds (note (i))	**251,622**	172,137	**251,241**	172,076
Surplus deposit reserve funds (note (ii))	**31,579**	35,240	**30,482**	34,726
Fiscal deposits	**2,504**	1,177	**2,504**	1,177
	285,705	208,554	**284,227**	207,979

Notes:

(i) The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 16.5% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2010 (2009: 13.5% and 5% for eligible RMB deposits and foreign currency deposits). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

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

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17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2010	2009	**2010**	2009
Money market placements				
– banks	**35,361**	51,070	**17,826**	29,220
– other financial institutions	**23,556**	11,327	**23,725**	11,327
	58,917	62,397	**41,551**	40,547
Balances under resale agreements (note)				
– banks	**175,753**	147,733	**175,753**	147,733
– other financial institutions	**794**	11,064	**794**	11,064
	176,547	158,797	**176,547**	158,797
	235,464	221,194	**218,098**	199,344

Note: Assets purchased under the above resale agreements are registered national bonds issued by the PRC government, bonds issued by the PBOC and policy banks, other debt securities, bills and loans of equivalent amounts.

(b) Analysed by remaining maturity

	Group		Bank	
	2010	2009	**2010**	2009
Maturing				
– within one month	**109,730**	87,116	**96,453**	73,949
– between one month and one year	**125,403**	133,804	**121,314**	125,370
– after one year	**331**	274	**331**	25
	235,464	221,194	**218,098**	199,344

(c) Analysed by geographical location

	Group		Bank	
	2010	2009	**2010**	2009
Placements with				
– banks in the Mainland	**194,142**	162,245	**183,036**	157,349
– other financial institutions in the Mainland	**24,350**	22,391	**24,519**	22,391
	218,492	184,636	**207,555**	179,740
Placements with				
– banks outside the Mainland	**16,972**	36,558	**10,543**	19,604
	235,464	221,194	**218,098**	199,344

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	Group		Bank	
	2010	2009	**2010**	2009
Corporate loans	**870,515**	701,396	**802,327**	659,175
Discounted bills	**64,948**	102,549	**61,038**	101,756
Retail loans	**495,988**	381,877	**482,736**	368,592
Gross loans and advances to customers	**1,431,451**	1,185,822	**1,346,101**	1,129,523
Less: impairment allowances				
– individually-assessed	**(5,912)**	(5,969)	**(5,805)**	(5,873)
– collectively-assessed	**(23,379)**	(18,036)	**(22,996)**	(17,834)
	(29,291)	(24,005)	**(28,801)**	(23,707)
Net loans and advances to customers	**1,402,160**	1,161,817	**1,317,300**	1,105,816

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	Group		Bank	
	2010	2009	**2010**	2009
Domestic enterprises:				
State-owned enterprises	**240,574**	231,771	**237,482**	231,044
Joint-stock enterprises	**82,620**	71,668	**77,518**	68,780
Other limited liability enterprises	**225,835**	163,030	**220,151**	157,928
Others	**128,677**	80,598	**119,253**	80,598
	677,706	547,067	**654,404**	538,350
Foreign-invested enterprises	**130,055**	101,138	**128,676**	99,895
Enterprises operating in the Mainland	**807,761**	648,205	**783,080**	638,245
Enterprises operating outside the Mainland	**62,754**	53,191	**19,247**	20,930
Corporate loans	**870,515**	701,396	**802,327**	659,175
Discounted bills	**64,948**	102,549	**61,038**	101,756
Retail loans	**495,988**	381,877	**482,736**	368,592
Gross loans and advances to customers	**1,431,451**	1,185,822	**1,346,101**	1,129,523

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) Analysed by industry sector:

Operation in Mainland China

	Group		Bank	
	2010	2009	**2010**	2009
Manufacturing and processing	**248,069**	191,890	**237,923**	186,932
Transportation, storage and postal services	**128,401**	106,456	**125,166**	105,759
Wholesale and retail	**106,654**	75,310	**105,999**	75,170
Property development	**80,856**	63,611	**80,092**	63,239
Production and supply of electric power, gas and water	**61,466**	65,797	**57,740**	64,026
Leasing and commercial services	**49,899**	45,978	**49,705**	45,890
Construction	**33,348**	26,027	**31,939**	25,135
Water, environment and public utilities management	**31,894**	28,626	**31,595**	28,626
Mining	**27,891**	19,668	**24,432**	18,917
Telecommunications, computer services and software	**7,119**	9,251	**7,049**	9,156
Others	**30,615**	24,748	**29,611**	23,965
Corporate loans	**806,212**	657,362	**781,251**	646,815
Discounted bills	**64,948**	102,549	**61,038**	101,756
Credit cards	**54,589**	39,942	**54,589**	39,942
Retail housing loans	**290,348**	263,997	**290,274**	263,852
Operating retail loans	**64,609**	27,154	**63,740**	27,130
Others	**74,486**	37,922	**74,133**	37,668
Retail loans	**484,032**	369,015	**482,736**	368,592
Gross loans and advances to customers	**1,355,192**	1,128,926	**1,325,025**	1,117,163

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

(ii) ***Analysed by industry sector:*** *(continued)*

Operation outside Mainland China

	Group		Bank	
	2010	2009	**2010**	2009
Property development	**32,326**	26,916	**5,964**	5,376
Wholesale and retail trade	**9,414**	4,935	**5,632**	2,573
Financial concerns	**6,239**	3,800	**502**	607
Manufacturing	**5,385**	2,497	**1,786**	600
Transport and transport equipment	**3,154**	3,125	**2,204**	1,815
Recreational activities	**229**	966	**–**	940
Information technology	**170**	159	**–**	155
Others	**7,386**	1,636	**4,988**	294
Corporate loans	**64,303**	44,034	**21,076**	12,360
Credit cards	**327**	372	**–**	–
Retail housing loans	**8,649**	9,662	**–**	–
Others	**2,980**	2,828	**–**	–
Retail loans	**11,956**	12,862	**–**	–
Gross loans and advances to customers	**76,259**	56,896	**21,076**	12,360

Notes: Analyses by borrowers' geographical areas

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. At 31 December 2010, over 95% of the Group's loans and advances to customers was classified under People's Republic of China (unchanged from the positions at 31 December 2009).

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Group			
	2010			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	**16,638**	**1,398**	**5,969**	**24,005**
Charge for the year (Note 11)	**5,426**	**63**	**752**	**6,241**
Releases for the year (Note 11)	**(18)**	**(2)**	**(651)**	**(671)**
Unwinding of discount	**–**	**(2)**	**(108)**	**(110)**
Recoveries of loans and advances previously written off	**–**	**16**	**32**	**48**
Write-offs	**–**	**(120)**	**(32)**	**(152)**
Transfers in	**34**	**–**	**–**	**34**
Exchange difference	**(54)**	**–**	**(50)**	**(104)**
At 31 December	**22,026**	**1,353**	**5,912**	**29,291**

	Group			
	2009			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	13,795	1,086	6,727	21,608
Charge for the year (Note 11)	2,862	400	754	4,016
Releases for the year (Note 11)	(19)	(2)	(922)	(943)
Unwinding of discount	–	(1)	(105)	(106)
Recoveries of loans and advances previously written off	–	5	150	155
Write-offs	–	(90)	(682)	(772)
Transfers in	–	–	46	46
Exchange difference	–	–	1	1
At 31 December	16,638	1,398	5,969	24,005

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

	Bank			
	2010			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances		
		For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	**16,439**	**1,395**	**5,873**	**23,707**
Charge for the year	**5,235**	**57**	**685**	**5,977**
Releases for the year	**–**	**–**	**(636)**	**(636)**
Unwinding of discount	**–**	**–**	**(101)**	**(101)**
Recoveries of loans and advances previously written off	**–**	**14**	**30**	**44**
Write-offs	**–**	**(114)**	**–**	**(114)**
Transfers in	**20**	**–**	**–**	**20**
Exchange difference	**(50)**	**–**	**(46)**	**(96)**
At 31 December	**21,644**	**1,352**	**5,805**	**28,801**

	Bank			
	2009			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances		
		For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	13,667	1,083	6,692	21,442
Charge for the year	2,772	385	699	3,856
Releases for the year	–	–	(916)	(916)
Unwinding of discount	–	–	(101)	(101)
Recoveries of loans and advances previously written off	–	3	148	151
Write-offs	–	(76)	(662)	(738)
Transfers in	–	–	12	12
Exchange difference	–	–	1	1
At 31 December	16,439	1,395	5,873	23,707

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(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Group 2010					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: For which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: For which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	17,945	–	7	17,952	0.04	–
– non-financial institution customers	1,403,872	1,587	8,040	1,413,499	0.68	1,503
	1,421,817	1,587	8,047	1,431,451	0.67	1,503
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(27)	–	(7)	(34)		
– non-financial institution customers	(21,999)	(1,353)	(5,905)	(29,257)		
	(22,026)	(1,353)	(5,912)	(29,291)		
Net loans and advances to						
– financial institutions	17,918	–	–	17,918		
– non-financial institution customers	1,381,873	234	2,135	1,384,242		
	1,399,791	234	2,135	1,402,160		

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Group					
	2009					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: For which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: For which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	21,777	–	6	21,783	0.03	–
– non-financial institution customers	1,154,447	1,631	7,961	1,164,039	0.82	1,344
	1,176,224	1,631	7,967	1,185,822	0.81	1,344
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(28)	–	(4)	(32)		
– non-financial institution customers	(16,610)	(1,398)	(5,965)	(23,973)		
	(16,638)	(1,398)	(5,969)	(24,005)		
Net loans and advances to						
– financial institutions	21,749	–	2	21,751		
– non-financial institution customers	1,137,837	233	1,996	1,140,066		
	1,159,586	233	1,998	1,161,817		

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(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Bank					
	2010					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: For which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: For which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	8,338	–	7	8,345	0.08	–
– non-financial institution customers	1,328,433	1,576	7,747	1,337,756	0.70	1,320
	1,336,771	1,576	7,754	1,346,101	0.69	1,320
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(20)	–	(7)	(27)		
– non-financial institution customers	(21,624)	(1,352)	(5,798)	(28,774)		
	(21,644)	(1,352)	(5,805)	(28,801)		
Net loans and advances to						
– financial institutions	8,318	–	–	8,318		
– non-financial institution customers	1,306,809	224	1,949	1,308,982		
	1,315,127	224	1,949	1,317,300		

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

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

	Bank					
	2009					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: For which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: For which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	17,104	–	6	17,110	0.04	–
– non-financial institution customers	1,103,058	1,615	7,740	1,112,413	0.84	1,224
	1,120,162	1,615	7,746	1,129,523	0.83	1,224
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(22)	–	(4)	(26)		
– non-financial institution customers	(16,417)	(1,395)	(5,869)	(23,681)		
	(16,439)	(1,395)	(5,873)	(23,707)		
Net loans and advances to						
– financial institutions	17,082	–	2	17,084		
– non-financial institution customers	1,086,641	220	1,871	1,088,732		
	1,103,723	220	1,873	1,105,816		

Notes:

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

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

– collectively: that is portfolios of homogeneous loans; or

– individually.

(iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Finance leases and hire purchase contracts

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

	Group			
	2010		2009	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**7,540**	**8,459**	2,530	2,936
After 1 year but within 5 years	**13,448**	**14,750**	6,486	7,022
After 5 years	**854**	**966**	223	231
	21,842	**24,175**	9,239	10,189
Impairment allowances:				
– individually assessed	**(7)**	**(7)**	(11)	(11)
– collectively assessed	**(258)**	**(258)**	(110)	(110)
Unearned future income on finance lease	**–**	**(2,333)**	–	(950)
Net investment in finance leases and hire purchase contracts	**21,577**	**21,577**	9,118	9,118

19 INVESTMENTS

	Group		Bank	
	2010	2009	**2010**	2009
Financial assets at fair value through profit or loss (Note 19(a))	**16,967**	16,855	**13,844**	11,381
Available-for-sale investments (Note 19(b))	**272,370**	244,916	**259,079**	234,060
Held-to-maturity debt securities (Note 19(c))	**97,614**	80,201	**92,865**	70,397
Receivables (Note 19(d))	**7,225**	35,100	**8,497**	36,420
	394,176	377,072	**374,285**	352,258

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

	Group		Bank	
	2010	2009	**2010**	2009
(i) Trading assets				
Listed				
In the Mainland				
– PRC government bonds	**1,210**	458	**1,210**	458
– bonds issued by the PBOC	**54**	1,319	**54**	1,319
– bonds issued by policy banks	**20**	726	**20**	726
– bonds issued by commercial banks and other financial institutions	**1,109**	3,266	**1,109**	3,266
– other debt securities	**7,303**	2,532	**7,303**	2,501
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**581**	541	**581**	520
– other debt securities	**49**	188	**37**	–
– equity investments	**14**	23	**–**	–
	10,340	9,053	**10,314**	8,790
Unlisted				
In the Mainland				
– PRC government bonds	**15**	46	**–**	–
– bonds issued by policy banks	**34**	64	**–**	–
– bonds issued by commercial banks and other financial institutions	**52**	118	**–**	–
– investments in funds	**–**	2	**–**	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**162**	187	**63**	98
– other debt securities	**1,476**	1,610	**–**	–
	12,079	11,080	**10,377**	8,888
Derivative financial instruments (Note 47(h))	**1,734**	999	**1,575**	896
Hedge derivative instruments (Note 47(h))	**4**	–	**4**	–
	13,817	12,079	**11,956**	9,784

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(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

	Group		Bank	
	2010	2009	**2010**	2009
(ii) Financial assets designated at fair value through profit or loss				
Listed				
In the Mainland				
– PRC government bonds	**242**	251	**242**	251
– bonds issued by policy banks	**303**	–	**303**	–
– bonds issued by commercial banks and other financial institutions	**503**	–	**503**	–
– other debt securities	**312**	713	**312**	713
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**134**	401	**–**	–
– other debt securities	**1,029**	2,710	**46**	–
	2,523	4,075	**1,406**	964
Unlisted				
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**144**	183	**–**	136
– other debt securities	**483**	518	**482**	497
	627	701	**482**	633
	16,967	16,855	**13,844**	11,381

	Group		Bank	
	2010	2009	**2010**	2009
Financial assets at fair value through profit or loss (excluding derivative financial instruments)				
Issued by:				
Sovereigns	**3,040**	3,868	**1,541**	2,028
Banks and other financial institutions	**3,525**	5,486	**3,061**	4,746
Public sector entities	**4**	177	**–**	–
Corporates	**8,660**	6,325	**7,663**	3,711
	15,229	15,856	**12,265**	10,485

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	Group		Bank	
	2010	2009	**2010**	2009
Listed				
In the Mainland				
– PRC government bonds	**27,533**	18,199	**27,533**	18,199
– bonds issued by the PBOC	**18,970**	25,058	**18,970**	25,058
– bonds issued by policy banks	**43,483**	47,167	**43,483**	47,167
– bonds issued by commercial banks and other financial institutions	**89,358**	84,837	**89,358**	84,837
– other debt securities	**68,767**	48,778	**68,767**	48,778
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**3,349**	4,417	**1,656**	3,203
– other debt securities	**1,853**	2,224	**357**	780
– equity investments	**518**	456	**150**	190
– investments in funds	**24**	18	**–**	–
	253,855	231,154	**250,274**	228,212
Unlisted				
In the Mainland				
– bonds issued by policy banks	**10**	–	**–**	–
– bonds issued by commercial banks and other financial institutions	**955**	2,120	**733**	2,000
– equity investments	**669**	669	**434**	434
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**11,726**	10,518	**2,523**	3,038
– other debt securities	**5,107**	402	**5,107**	368
– equity investments	**48**	53	**8**	8
	18,515	13,762	**8,805**	5,848
	272,370	244,916	**259,079**	234,060
Issued by:				
Sovereigns	**46,717**	43,588	**46,717**	43,588
Banks and other financial institutions	**154,610**	149,835	**143,101**	140,679
Corporates	**71,043**	51,493	**69,261**	49,793
	272,370	244,916	**259,079**	234,060

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(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(c) Held-to-maturity debt securities

	Group		Bank	
	2010	2009	**2010**	2009
Listed				
In the Mainland				
– PRC government bonds	**45,069**	22,760	**45,069**	22,760
– bonds issued by the PBOC	**12,945**	12,210	**12,945**	12,210
– bonds issued by policy banks	**4,172**	4,360	**4,172**	4,360
– bonds issued by commercial banks and other financial institutions	**28,550**	29,105	**28,550**	29,105
– other debt securities	**1,355**	1,110	**1,355**	1,110
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**1,572**	1,761	**248**	255
– other debt securities	**963**	993	**66**	69
	94,626	72,299	**92,405**	69,869
Unlisted				
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**2,866**	7,872	**540**	610
– other debt securities	**302**	214	**–**	–
	3,168	8,086	**540**	610
	97,794	80,385	**92,945**	70,479
Less: Impairment allowances	**(180)**	(184)	**(80)**	(82)
	97,614	80,201	**92,865**	70,397
Issued by:				
Sovereigns	**58,063**	35,185	**58,061**	35,020
Banks and other financial institutions	**37,001**	42,933	**33,449**	34,267
Public sector entities	**9**	9	**–**	–
Corporates	**2,541**	2,074	**1,355**	1,110
	97,614	80,201	**92,865**	70,397
Fair value of listed debt securities	**93,429**	75,302	**91,221**	70,448

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

Movements of allowances for impairment losses

	Group		Bank	
	2010	2009	**2010**	2009
As at 1 January	**184**	215	**82**	114
Reversal for the year (Note 11)	**–**	(31)	**–**	(31)
Exchange difference	**(4)**	–	**(2)**	(1)
As at 31 December	**180**	184	**80**	82

(d) Receivables

	Group		Bank	
	2010	2009	**2010**	2009
Unlisted				
In the Mainland				
– PRC government bonds	**5,291**	5,600	**5,291**	5,600
– bonds issued by the PBOC	**–**	16,889	**–**	16,889
– bonds issued by commercial banks and other financial institutions	**1,420**	778	**1,420**	778
– other debt securities	**–**	10,959	**–**	10,959
	6,711	34,226	**6,711**	34,226
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**574**	936	**1,846**	2,256
	574	936	**1,846**	2,256
	7,285	35,162	**8,557**	36,482
Less: Impairment allowances	**(60)**	(62)	**(60)**	(62)
	7,225	35,100	**8,497**	36,420
Issued by:				
Sovereigns	**5,292**	22,489	**5,292**	22,489
Banks and other financial institutions	**1,933**	1,651	**3,205**	2,971
Corporates	**–**	10,960	**–**	10,960
	7,225	35,100	**8,497**	36,420

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

Movements of allowances for impairment losses

	Group and Bank	
	2010	2009
As at 1 January	**62**	62
Exchange difference	**(2)**	–
As at 31 December	**60**	62

Receivables are unlisted bearer's national bonds issued by the PRC government and other debt investments which are not quoted in an active market in the PRC or overseas. Accordingly, the Group is unable to disclose their market values.

(e) Trading liabilities

	Group and Bank	
	2010	2009
Short positions in exchange fund bill and notes at fair value:		
– listed	**5**	1
– unlisted	**183**	29
	188	30

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

	Group		Bank	
	2010	2009	**2010**	2009
Unlisted				
Outside the Mainland				
– certificates of deposit issued	**1,165**	1,173	**1,021**	819

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments

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

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

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

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

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19 INVESTMENTS *(continued)*

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

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

	2010							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	1,808	10,257	–	12,065	120	10,257	–	10,377
– Positive fair values of derivatives	–	1,737	1	1,738	–	1,578	1	1,579
– Equity investments	14	–	–	14	–	–	–	–
	1,822	11,994	1	13,817	120	11,835	1	11,956
Financial assets designated at fair value through profit or loss								
– Debt securities	1,261	1,406	483	3,150	–	1,406	482	1,888
Available-for-sale financial assets								
– Debt securities	12,747	258,364	–	271,111	3,385	255,102	–	258,487
– Equity investments	385	163	–	548	–	150	–	150
– Investments in funds	24	–	–	24	–	–	–	–
	13,156	258,527	–	271,683	3,385	255,252	–	258,637
	16,239	271,927	484	288,650	3,505	268,493	483	272,481
Liabilities								
Trading liabilities								
– Treasury bills (including Exchange Fund Bills)	188	–	–	188	–	–	–	–
– Negative fair value of derivatives	–	1,675	146	1,821	–	1,619	1	1,620
	188	1,675	146	2,009	–	1,619	1	1,620
Financial liabilities designated at fair value through profit or loss								
– Structured certificates of deposit issued	–	144	1,021	1,165	–	–	1,021	1,021
	188	1,819	1,167	3,174	–	1,619	1,022	2,641

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

	2009							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	2,625	8,430	–	11,055	490	8,398	–	8,888
– Positive fair values of derivatives	–	942	57	999	–	875	21	896
– Equity investments	23	–	–	23	–	–	–	–
– Investments in funds	2	–	–	2	–	–	–	–
	2,650	9,372	57	12,079	490	9,273	21	9,784
Financial assets designated at fair value through profit or loss								
– Debt securities	3,111	964	701	4,776	–	964	633	1,597
Available-for-sale financial assets								
– Debt securities	10,130	233,590	–	243,720	2,810	230,618	–	233,428
– Equity investments	266	225	–	491	–	190	–	190
– Investments in funds	18	–	–	18	–	–	–	–
	10,414	233,815	–	244,229	2,810	230,808	–	233,618
	16,175	244,151	758	261,084	3,300	241,045	654	244,999
Liabilities								
Trading liabilities								
– Treasury bills (including Exchange Fund Bills)	30	–	–	30	–	–	–	–
– Negative fair value of derivatives	–	1,030	444	1,474	–	956	18	974
	30	1,030	444	1,504	–	956	18	974
Financial liabilities designated at fair value through profit or loss								
– Structured certificates of deposit issued	–	354	819	1,173	–	–	819	819
	30	1,384	1,263	2,677	–	956	837	1,793

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19 INVESTMENTS *(continued)*

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

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

(i) Valuation of financial instruments with significant unobservable inputs

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

	The Group		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – Debt securities**	**Total**
Assets			
At 1 January 2010	57	701	758
Purchases	1	–	1
Payment on maturity	–	(195)	(195)
Transfer out	(21)	–	(21)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	(35)	–	(35)
– Net income from financial instruments designated at fair value through profit and loss	–	1	1
– Exchange difference	(1)	(24)	(25)
At 31 December 2010	1	483	484
Total gains or losses for the year included in the consolidated statement of comprehensive income for assets held at the end of reporting period recorded in:			
– Net trading income	(9)	–	(9)
– Net income from financial instruments designated at fair value through profit and loss	–	32	32

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Group		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2010	444	819	1,263
Issues	1	848	849
Payment on maturity	–	(619)	(619)
Transfer out	(18)	–	(18)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	(265)	3	(262)
– Exchange difference	(16)	(30)	(46)
At 31 December 2010	146	1,021	1,167
Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at end of the reporting period recorded in:			
– Net trading income	15	(5)	10

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19 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading assets – Positive fair value of derivatives	Financial assets designated at fair value through profit or loss – Debt securities	Total
Assets			
At 1 January 2010	21	633	654
Purchases	1	–	1
Payment on maturity	–	(132)	(132)
Transfer out	(21)	–	(21)
Changes in fair value recognised in the statement of comprehensive income:			
– Net income from financial instruments designated at fair value through profit and loss	–	2	2
– Exchange difference	–	(21)	(21)
At 31 December 2010	1	482	483
Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net trading income	1	–	1
– Net income from financial instruments designated at fair value through profit and loss	–	31	31

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(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2010	18	819	837
Issues	1	848	849
Payment on maturity	–	(619)	(619)
Transfer out	(18)	–	(18)
Changes in fair value recognised in the statement of comprehensive income:			
– Net trading income	–	3	3
– Exchange difference	–	(30)	(30)
At 31 December 2010	1	1,021	1,022
Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	(1)	(5)	(6)

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Group		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – Debt securities**	**Total**
Assets			
At 1 January 2009	115	811	926
Purchases	–	68	68
Sales	–	(292)	(292)
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	(58)	–	(58)
– Net income from financial instruments designated at fair value through profit and loss	–	114	114
At 31 December 2009	57	701	758
Total gains or losses for the year included in the consolidated statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net trading income	68	–	68
– Net income from financial instruments designated at fair value through profit and loss	–	95	95

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Group		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2009	248	–	248
Issues	–	819	819
Changes in fair value recognised in the consolidated statement of comprehensive income:			
– Net trading income	196	–	196
At 31 December 2009	444	819	1,263
Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	326	–	326

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – Debt securities**	**Total**
Assets			
At 1 January 2009	115	468	583
Purchases	–	68	68
Changes in fair value recognised in the statement of comprehensive income:			
– Net trading income	(94)	–	(94)
– Net income from financial instruments designated at fair value through profit and loss	–	97	97
At 31 December 2009	21	633	654
Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in:			
– Net trading income	32	–	32
– Net income from financial instruments designated at fair value through profit and loss	–	97	97

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Bank		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2009	118	–	118
Issues	–	819	819
Changes in fair value recognised in the statement of comprehensive income:			
– Net trading income	(100)	–	(100)
At 31 December 2009	18	819	837
Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net trading income	(29)	–	(29)

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

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

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(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Group		The Bank	
	2010		2010	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Trading assets				
– Positive fair value of derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss				
– Debt securities	48	(48)	48	(48)
	48	(48)	48	(48)
Trading liabilities				
– Negative fair value of derivatives	15	(15)	–	–
Financial liabilities designated at fair value through profit loss				
– Structured certificates of deposit issued	102	(102)	102	(102)
	117	(117)	102	(102)

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

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

	The Group		The Bank	
	2009		2009	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Trading assets				
– Positive fair value of derivatives	6	(6)	2	(2)
Financial assets designated at fair value through profit or loss				
– Debt securities	70	(70)	63	(63)
	76	(76)	65	(65)
Trading liabilities				
– Negative fair value of derivatives	44	(44)	2	(2)
Financial liabilities designated at fair value through profit loss				
– Structured certificates of deposit issued	82	(82)	82	(82)
	126	(126)	84	(84)

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

On 5 May 2008, the Bank entered into an equity transfer agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interests in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance"), for a total consideration of RMB141.9 million for a valid period of two years. On 4 May 2010, the Bank renewed the equity transfer agreement with identical terms with Dingzun. The acquisition requires approval from the China Banking Regulatory Commission and the China Insurance Regulatory Commission. As at 31 December 2010, the proposed acquisition was still awaiting approval from the regulatory authorities.

(ii) Trust & Investment Corporation of Tibet Autonomous Region

On 18 September 2008, the Bank entered into the framework agreement with the Tibet Autonomous Region Finance Bureau to acquire 60.5% equity interest in Trust & Investment Corporation of Tibet Autonomous Region ("Tibet Trust"). As of 31 December 2010, the completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the CSRC and CBRC.

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(Expressed in millions of Renminbi unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2010	2009
Unlisted shares, at cost	**34,333**	34,333
Less: Impairment loss	**(1,768)**	(1,768)
	32,565	32,565

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited (note (i))	Hong Kong	HK$250	100%	Financial advisory services
CMB Finance Lease Company Limited (note (ii))	Shanghai	RMB2,000	100%	Finance lease
Wing Lung Bank Limited (note (iii))	Hong Kong	HK$1,161	100%	Banking

(i) CMB International Capital Corporation Limited ("CMBICC"), formerly known as Jiangnan Finance Company Limited is the Bank's wholly-owned subsidiary approved by the People's Bank of China ("PBOC") through its Yin Fu [1998] No. 405, and was renamed as CMBICC on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the China Banking Regulatory Commission ("CBRC") through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008.

(iii) Wing Lung Bank, Limited ("Wing Lung Bank") is a wholly owned subsidiary of the Bank acquired in 2008 by way of agreement. The acquisition was completed on 15 January 2009. Wing Lung Bank had withdrawn from listing on the Hong Kong Stock Exchange as of 16 January 2009.

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For the year ended 31 December 2010

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21 INTEREST IN ASSOCIATES

	Group		Bank	
	2010	2009	**2010**	2009
Unlisted shares, at cost	**–**	–	**191**	191
Share of net assets	**172**	193	**–**	–
Goodwill	**114**	114	**–**	–
	286	307	**191**	191
Less: Impairment allowance (Note 11)	**(1)**	(1)	**–**	–
	285	306	**191**	191

The following list contains only the particulars of associates as of 31 December 2010, which are unlisted corporate entities and principally affected the results or assets of the Group:

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

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(Expressed in millions of Renminbi unless otherwise stated)

21 INTEREST IN ASSOCIATES *(continued)*

Summary financial information on associates (China Merchants Fund Management Company Limited)

	Assets	Liabilities	Equity	Revenues	Profit
2010					
100 per cent	**770**	**203**	**567**	**566**	**163**
Group's effective interest	**257**	**68**	**166**	**180**	**46**
2009					
100 per cent	748	144	604	506	141
Group's effective interest	250	48	187	160	40

Summary financial information on associates (Others)

	Assets	Liabilities	Equity	Revenues	Profit
2010					
100 per cent	**90**	**74**	**16**	**15**	**7**
Group's effective interest	**25**	**19**	**6**	**4**	**2**
2009					
100 per cent	101	80	21	31	8
Group's effective interest	28	22	6	10	2

22 INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group and Bank	
	2010	2009
Share of net assets	**121**	112
Loan to jointly controlled entities	**37**	48
	158	160

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(Expressed in millions of Renminbi unless otherwise stated)

22 INTEREST IN JOINTLY CONTROLLED ENTITIES *(continued)*

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

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

Summary financial information on jointly controlled entitles:

	Assets	Liabilities	Equity	Revenues	Profit
2010					
100 per cent	4,728	3,813	915	1,359	111
Group's effective interest	749	628	121	216	16
2009					
100 per cent	4,245	3,386	859	321	167
Group's effective interest	659	548	111	44	27

Notes:

(i) The Bank's subsidiary, Wing Lung Bank holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.

(ii) The Bank's subsidiary, Wing Lung Bank is one of the five founders of the entity and jointly control the entity. Wing Lung Bank holds 20% of the entity's common share and is entitled to 2.88% of the paid dividends.

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23 FIXED ASSETS

2010

	Group						
	Land and buildings	Investment properties (note 23(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2010	8,510	2,474	3,016	5,256	3,091	1,849	24,196
Additions	74	–	1,641	1,004	858	1,554	5,131
Transfers	831	(24)	(859)	(2)	44	16	6
Disposals/write-offs	(9)	(42)	–	(307)	(568)	(116)	(1,042)
Exchange difference	(115)	(74)	–	(4)	1	(2)	(194)
At 31 December 2010	9,291	2,334	3,798	5,947	3,426	3,301	28,097
Accumulated depreciation:							
At 1 January 2010	1,936	303	–	3,669	1,252	1,028	8,188
Depreciation	468	135	–	1,023	565	306	2,497
Transfers	6	(3)	–	(1)	2	1	5
Written back on disposals/ write-offs	(6)	(23)	–	(298)	(474)	(114)	(915)
Exchange difference	(49)	(24)	–	(1)	–	(1)	(75)
At 31 December 2010	2,355	388	–	4,392	1,345	1,220	9,700
Net book value:							
At 31 December 2010	6,936	1,946	3,798	1,555	2,081	2,081	18,397
At 1 January 2010	6,574	2,171	3,016	1,587	1,839	821	16,008

(Expressed in millions of Renminbi unless otherwise stated)

23 FIXED ASSETS *(continued)*

2009

	Group						
	Land and buildings	Investment properties (note 23(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2009	8,004	2,594	2,305	4,838	2,294	1,534	21,569
Additions	173	–	1,189	744	786	396	3,288
Transfers	433	(120)	(478)	–	136	16	(13)
Disposals/write-offs	(100)	–	–	(326)	(125)	(97)	(648)
At 31 December 2009	8,510	2,474	3,016	5,256	3,091	1,849	24,196
Accumulated depreciation:							
At 1 January 2009	1,565	188	–	2,932	947	875	6,507
Depreciation	393	123	–	1,034	403	241	2,194
Transfers	7	(8)	–	–	–	–	(1)
Written back on disposals/ write-offs	(29)	–	–	(297)	(98)	(88)	(512)
At 31 December 2009	1,936	303	–	3,669	1,252	1,028	8,188
Net book value:							
At 31 December 2009	6,574	2,171	3,016	1,587	1,839	821	16,008
At 1 January 2009	6,439	2,406	2,305	1,906	1,347	659	15,062

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23 FIXED ASSETS *(continued)*

2010

	Bank						
	Land and buildings	Investment properties (note 23(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2010	5,566	452	3,016	5,160	3,002	1,815	19,011
Additions	74	–	1,641	973	847	493	4,028
Transfers	775	39	(859)	(2)	31	16	–
Disposals/write-offs	(9)	(42)	–	(299)	(562)	(112)	(1,024)
Exchange difference	(7)	–	–	–	–	–	(7)
At 31 December 2010	6,399	449	3,798	5,832	3,318	2,212	22,008
Accumulated depreciation:							
At 1 January 2010	1,750	175	–	3,662	1,230	1,019	7,836
Depreciation	298	21	–	986	545	296	2,146
Transfers	1	1	–	–	–	(2)	–
Written back on disposals/ write-offs	(6)	(23)	–	(292)	(473)	(110)	(904)
Exchange difference	(6)	–	–	–	–	–	(6)
At 31 December 2010	2,037	174	–	4,356	1,302	1,203	9,072
Net book value:							
At 31 December 2010	4,362	275	3,798	1,476	2,016	1,009	12,936
At 1 January 2010	3,816	277	3,016	1,498	1,772	796	11,175

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23 FIXED ASSETS *(continued)*

2009

	Bank						
	Land and buildings	Investment properties (note 23(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2009	5,150	469	2,305	4,776	2,225	1,508	16,433
Additions	173	–	1,189	670	764	386	3,182
Transfers	343	(17)	(478)	–	136	16	–
Disposals/write-offs	(100)	–	–	(286)	(123)	(95)	(604)
At 31 December 2009	5,566	452	3,016	5,160	3,002	1,815	19,011
Accumulated depreciation:							
At 1 January 2009	1,527	159	–	2,924	941	872	6,423
Depreciation	247	21	–	996	386	233	1,883
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/ write-offs	(29)	–	–	(258)	(97)	(86)	(470)
At 31 December 2009	1,750	175	–	3,662	1,230	1,019	7,836
Net book value:							
At 31 December 2009	3,816	277	3,016	1,498	1,772	796	11,175
At 1 January 2009	3,623	310	2,305	1,852	1,284	636	10,010

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23 FIXED ASSETS *(continued)*

(a) Analysed by remaining terms of leases

The net book value of land and buildings, and investment properties at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Held in Mainland China				
– long leases (over 50 years)	**365**	408	**363**	405
– medium-term leases (10 – 50 years)	**4,275**	3,683	**4,237**	3,654
	4,640	4,091	**4,600**	4,059
Held in Hong Kong				
– long leases (over 50 years)	**1,395**	1,530	**–**	–
– medium-term leases (10 – 50 years)	**2,821**	3,096	**37**	34
	4,216	4,626	**37**	34
Held in Overseas				
– freehold	**26**	28	**–**	–
	8,882	8,745	**4,637**	4,093

(b) Investment properties of the Group mainly represent WLB leasing properties and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2010, fair value of these properties was RMB2.44 billion (2009: RMB2.79 billion). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	Group		Bank	
	2010	2009	**2010**	2009
1 year or less	**131**	138	**49**	48
5 years or less but over 1 year	**106**	131	**46**	37
	237	269	**95**	85

(c) As at 31 December 2010, the Board of Directors considered that there was no impairment loss on fixed assets (2009: nil).

(d) As at 31 December 2010, ownership documentation for the Group's properties with a net carrying value of RMB109 million (2009: RMB553 million) was being finalised.

(Expressed in millions of Renminbi unless otherwise stated)

24 INTANGIBLE ASSETS

2010

	Group				
	Land use right	**Software**	**Trademark**	**Core deposit**	**Total**
Cost/Valuation:					
At 1 January 2010	**1,110**	**521**	**10**	**1,156**	**2,797**
Additions	**–**	**334**	**–**	**–**	**334**
Transfers	**(6)**	**–**	**–**	**–**	**(6)**
At 31 December 2010	**1,104**	**855**	**10**	**1,156**	**3,125**
Amortization:					
At 1 January 2010	**135**	**129**	**6**	**50**	**320**
Additions	**30**	**76**	**4**	**80**	**190**
Transfers	**(5)**	**–**	**–**	**–**	**(5)**
At 31 December 2010	**160**	**205**	**10**	**130**	**505**
Net book value:					
At 31 December 2010	**944**	**650**	**–**	**1,026**	**2,620**
At 1 January 2010	**975**	**392**	**4**	**1,106**	**2,477**

2009

	Group				
	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2009	1,021	330	10	1,156	2,517
Additions	76	191	–	–	267
Transfers	13	–	–	–	13
At 31 December 2009	1,110	521	10	1,156	2,797
Amortization:					
At 1 January 2009	43	82	1	10	136
Additions	91	47	5	40	183
Transfers	1	–	–	–	1
At 31 December 2009	135	129	6	50	320
Net book value:					
At 31 December 2009	975	392	4	1,106	2,477
At 1 January 2009	978	248	9	1,146	2,381

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24 INTANGIBLE ASSETS *(continued)*

2010

	Bank		
	Land use right	**Software**	**Total**
Cost/Valuation:			
At 1 January 2010	**886**	**520**	**1,406**
Additions	**–**	**333**	**333**
At 31 December 2010	**886**	**853**	**1,739**
Amortization:			
At 1 January 2010	**129**	**128**	**257**
Additions	**18**	**76**	**94**
At 31 December 2010	**147**	**204**	**351**
Net book value:			
At 31 December 2010	**739**	**649**	**1,388**
At 1 January 2010	**757**	**392**	**1,149**

2009

	Bank		
	Land use right	Software	Total
Cost/Valuation:			
At 1 January 2009	811	329	1,140
Additions	75	191	266
At 31 December 2009	886	520	1,406
Amortization:			
At 1 January 2009	42	81	123
Additions	87	47	134
At 31 December 2009	129	128	257
Net book value:			
At 31 December 2009	757	392	1,149
At 1 January 2009	769	248	1,017

(Expressed in millions of Renminbi unless otherwise stated)

25 DEFERRED TAX ASSETS/LIABILITIES

	Group		Bank	
	2010	2009	**2010**	2009
Deferred tax assets	**3,706**	2,786	**3,594**	2,710
Deferred tax liabilities	**(924)**	(941)	**–**	–
Total	**2,782**	1,845	**3,594**	2,710

(a) Nature of deferred tax assets and liabilities

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

	Group		Bank	
	2010	2009	**2010**	2009
Impairment losses on loans and advances to customers and other assets	**2,902**	2,199	**2,846**	2,179
Investment revaluation reserve	**463**	96	**460**	105
Deductible salary expenses	**307**	454	**307**	454
Others	**(890)**	(904)	**(19)**	(28)
	2,782	1,845	**3,594**	2,710

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25 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(b) Movements of deferred tax

	Group				
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2010	**2,199**	**96**	**454**	**(904)**	**1,845**
Recognised in the consolidated statement of comprehensive income	**705**	**–**	**(147)**	**(18)**	**540**
– due to timing differences	**575**	**–**	**(174)**	**(18)**	**383**
– due to income tax rate change	**130**	**–**	**27**	**–**	**157**
Recognised in reserves	**–**	**367**	**–**	**(1)**	**366**
– due to timing differences	**–**	**361**	**–**	**(1)**	**360**
– due to income tax rate change	**–**	**6**	**–**	**–**	**6**
Due to exchange difference	**(2)**	**–**	**–**	**33**	**31**
At 31 December 2010	**2,902**	**463**	**307**	**(890)**	**2,782**
At 1 January 2009	3,198	(708)	–	(817)	1,673
Recognised in the consolidated statement of comprehensive income	(999)	–	454	(86)	(631)
– due to timing differences	(837)	–	454	(84)	(467)
– due to income tax rate change	(162)	–	–	(2)	(164)
Recognised in reserves	–	804	–	(1)	803
– due to timing differences	–	909	–	(1)	908
– due to income tax rate change	–	(105)	–	–	(105)
At 31 December 2009	2,199	96	454	(904)	1,845

(Expressed in millions of Renminbi unless otherwise stated)

25 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(b) Movements of deferred tax *(continued)*

	Bank				
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2010	**2,179**	**105**	**454**	**(28)**	**2,710**
Recognised in the consolidated statement of comprehensive income	**667**	**–**	**(147)**	**10**	**530**
– due to timing differences	**537**	**–**	**(174)**	**10**	**373**
– due to income tax rate change	**130**	**–**	**27**	**–**	**157**
Recognised in reserves	**–**	**355**	**–**	**(1)**	**354**
– due to timing differences	**–**	**349**	**–**	**(1)**	**348**
– due to income tax rate change	**–**	**6**	**–**	**–**	**6**
At 31 December 2010	**2,846**	**460**	**307**	**(19)**	**3,594**
At 1 January 2009	3,182	(708)	–	(31)	2,443
Recognised in the consolidated statement of comprehensive income	(1,003)	–	454	3	(546)
– due to timing differences	(841)	–	454	5	(382)
– due to income tax rate change	(162)	–	–	(2)	(164)
Recognised in reserves	–	813	–	–	813
– due to timing differences	–	918	–	–	918
– due to income tax rate change	–	(105)	–	–	(105)
At 31 December 2009	2,179	105	454	(28)	2,710

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. As a result of New Tax Law, the income tax rate applicable to the Bank's business in areas other than Shenzhen is 25%, the income tax rate for the Bank's business in Shenzhen will gradually increase from 20% to the standard rate of 25% (being 22% in 2010, 24% in 2011 and 25% in 2012).

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

26 GOODWILL

	Group	
	2010	2009
At 1 January	**9,598**	9,598
Impairment	**–**	–
At 31 December	**9,598**	9,598

The goodwill arose from the acquisition of Wing Lung Bank Limited on 30 September 2008.

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), Wing Lung Bank Limited which was acquired on 30 September 2008.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of Wing Lung Bank Limited. A pre-tax discount rate of 12% (2009: 12%) was used.

27 OTHER ASSETS

	Group		Bank	
	2010	2009	**2010**	2009
Interest receivable				
– debt securities	**4,424**	3,816	**4,340**	3,729
– loans and advances to customers	**2,720**	1,883	**2,645**	1,824
– others	**444**	313	**319**	301
	7,588	6,012	**7,304**	5,854
Amounts pending for settlement	**623**	314	**158**	129
Repossessed assets (note)	**63**	84	**63**	84
Prepaid lease payments	**440**	368	**435**	363
Deposits	**189**	221	**183**	221
Prepayment for lease improvement and other miscellaneous items	**215**	166	**200**	166
Continuing involvement assets	**70**	409	**70**	409
Premium receivables	**128**	113	**–**	–
Recoverable from reinsurers	**196**	156	**–**	–
Retirement benefit scheme (note 33(a)(ii))	**172**	175	**–**	–
Income tax receivables	**12**	76	**–**	–
Others	**2,331**	3,331	**1,934**	1,266
	12,027	11,425	**10,347**	8,492

(Expressed in millions of Renminbi unless otherwise stated)

27 OTHER ASSETS *(continued)*

Note: During the year ended 31 December 2010 the Group has taken possession of collateral it holds as security with the nature and carrying amounts analysed as follows:

	Group and Bank	
	2010	2009
Nature		
Residential properties	**778**	886
Others	**272**	289
	1,050	1,175
Less: Impairment allowances	**(987)**	(1,091)
	63	84

Repossessed assets obtained are intended for an orderly realisation of the impaired loans and advances and are not intended for the own use of the Group.

28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2010	2009	**2010**	2009
Deposits from banks	**62,358**	30,656	**59,959**	29,994
Deposits from other financial institutions	**140,653**	155,545	**140,652**	155,542
	203,011	186,201	**200,611**	185,536

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29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2010	2009	**2010**	2009
Money market takings				
– banks	**45,573**	44,321	**23,784**	35,556
Balances under repurchase agreements (note)				
– banks	**26,308**	27,109	**26,308**	27,109
– other financial institutions	**3,924**	1,573	**3,924**	1,573
	30,232	28,682	**30,232**	28,682
Rediscounted bills	**3,207**	5,915	**3,207**	5,915
	79,012	78,918	**57,223**	70,153

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

(b) Analysed by geographical location

	Group		Bank	
	2010	2009	**2010**	2009
Money market takings				
– banks in the Mainland	**35,347**	41,398	**18,332**	33,872
– banks outside the Mainland	**10,226**	2,923	**5,452**	1,684
	45,573	44,321	**23,784**	35,556
Balances under repurchase agreements				
– banks in the Mainland	**26,308**	27,109	**26,308**	27,109
– other financial institutions in the Mainland	**3,924**	1,573	**3,924**	1,573
	30,232	28,682	**30,232**	28,682
Rediscounted bills				
– banks in the Mainland	**3,207**	5,915	**3,207**	5,915
	79,012	78,918	**57,223**	70,153

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

30 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2010	2009	**2010**	2009
Demand deposits				
– corporate customers	**664,947**	520,734	**655,329**	511,712
– retail customers	**413,888**	359,783	**391,441**	337,756
	1,078,835	880,517	**1,046,770**	849,468
Time deposits				
– corporate customers	**528,632**	448,391	**503,214**	428,447
– retail customers	**289,711**	279,238	**258,928**	249,026
	818,343	727,629	**762,142**	677,473
	1,897,178	1,608,146	**1,808,912**	1,526,941

31 ISSUED DEBT SECURITIES

(a) Certificates of deposit issued

As at the end of the reporting period, certificates of deposit issued by the Bank were as follows:

Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount 2010	Carrying amount 2009
		(%)	(in US$ million)		
12 months	25 May 2009	LIBOR+0.26%	50	**–**	341
12 months	28 July 2009	LIBOR+0.29%	20	**–**	137
12 months	28 July 2009	LIBOR+0.29%	7	**–**	116
12 months	28 July 2009	LIBOR+0.29%	25	**–**	171
12 months	14 September 2009	LIBOR+0.25%	20	**–**	137
24 months	29 September 2009	LIBOR+0.32%	20	**132**	137
24 months	29 September 2009	LIBOR+0.32%	20	**132**	137
18 months	2 November 2009	LIBOR+0.34%	25	**165**	171
18 months	2 November 2009	LIBOR+0.34%	25	**165**	171
12 months	19 May 2010	LIBOR+0.55%	35	**231**	–
6 months	22 September 2010	LIBOR+0.45%	50	**329**	–
3 months	17 November 2010	0.70%	30	**198**	–
3 months	26 November 2010	0.70%	30	**198**	–

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(Expressed in millions of Renminbi unless otherwise stated)

31 ISSUED DEBT SECURITIES *(continued)*

(a) Certificates of deposit issued *(continued)*

As at the end of the reporting period, certificates of deposit issued by the Bank were as follows: *(continued)*

Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount 2010	Carrying amount 2009
		(%)	(in US$ million)		
24 months	16 April 2008	HIBOR+0.40%	220	**–**	194
12 months	24 July 2009	HIBOR+0.19%	78	**–**	68
12 months	2 September 2009	HIBOR+0.24%	268	**–**	235
24 months	3 September 2009	HIBOR+0.26%	200	**170**	176
24 months	28 October 2009	HIBOR+0.30%	150	**127**	132
18 months	12 November 2009	HIBOR+0.26%	150	**127**	132
24 months	12 November 2009	HIBOR+0.30%	150	**127**	132
24 months	20 November 2009	HIBOR+0.30%	150	**127**	132
12 months	7 May 2010	HIBOR+0.45%	300	**254**	–
24 months	25 June 2010	HIBOR+0.94%	150	**127**	–
18 months	25 June 2010	HIBOR+0.90%	150	**127**	–
18 months	29 June 2010	HIBOR+0.96%	150	**127**	–
12 months	7 July 2010	HIBOR+0.75%	280	**238**	–
12 months	8 July 2010	HIBOR+0.75%	100	**85**	–
24 months	21 July 2010	HIBOR+0.65%	230	**195**	–
36 months	12 August 2010	HIBOR+0.90%	150	**127**	–
36 months	17 August 2010	HIBOR+0.85%	150	**127**	–
36 months	20 August 2010	HIBOR+0.80%	70	**59**	–
24 months	10 September 2010	HIBOR+0.60%	300	**254**	–
				3,948	2,719

(Expressed in millions of Renminbi unless otherwise stated)

31 ISSUED DEBT SECURITIES *(continued)*

(a) Certificates of deposit issued *(continued)*

As at the end of the reporting period, certificates of deposit issued by WLB were as follows:

Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount 2010	Carrying amount 2009
		(%)	(in US$ million)		
12 months	4 September 2009	LIBOR+0.185%	100	**–**	682
12 months	8 September 2010	LIBOR+0.55%	15	**99**	–
12 months	14 September 2010	LIBOR+0.55%	20	**132**	–
12 months	16 September 2010	LIBOR+0.55%	50	**329**	–
			(in HK$ million)		
36 months	8 March 2007	HIBOR+0.08%	120	**–**	106
24 months	24 January 2008	HIBOR+0.10%	110	**–**	97
12 months	7 April 2009	HIBOR+0.20%	380	**–**	334
12 months	26 May 2009	HIBOR+0.27%	190	**–**	167
12 months	26 May 2009	HIBOR+0.27%	150	**–**	132
12 months	6 July 2009	HIBOR+0.23%	156	**–**	137
36 months	24 January 2008	HIBOR+0.18%	100	**85**	88
6 months	10 November 2010	0.47%	100	**85**	–
9 months	12 November 2010	0.65%	188	**158**	–
9 months	15 November 2010	0.65%	188	**158**	–
12 months	19 November 2010	0.78%	70	**59**	–
				1,105	1,743
				5,053	4,462

(b) Other debts issued

Particulars	Terms	Date of issue	Annual fixed interest Rate	Nominal value	Group and Bank Carrying amount 2010	Group and Bank Carrying amount 2009
			(%)	(in million)		
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000	**–**	4,998

The CBRC and the PBOC approved the Bank's issuance of a total of RMB15,000 million fixed term notes on 29 September 2005 (Yin Jian Fu [2005] No. 252) and 9 October 2005 (Yin Fu [2005] No. 75). The Bank issued a total of RMB10,000 million fixed rate term notes during the period from 13 October 2005 to 26 October 2005. Interest on these notes is payable annually.

The 5 year notes issued by the Bank was matured on 26 October 2010.

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31 ISSUED DEBT SECURITIES *(continued)*

(c) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Particulars	Terms	Date of issue	Annual fixed interest Rate	Nominal value	Carrying amount 2010	Carrying amount 2009
			(%)	(in RMB million)		
Fixed rate notes (note (i))	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from 6 year onwards, if the notes are not called by the Bank)	19,000	**18,977**	18,969
Fixed rate notes (note (i))	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	**6,988**	6,987
Floating rate notes (note (i))	120 months	4 September 2008	R*+1.53% (for the first 5 years); R*+4.53% (from 6 years onwards, if the notes are not called by the Bank)	4,000	**3,995**	3,994
					29,960	29,950

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

Particulars	Terms	Date of issue	Annual fixed interest Rate	Nominal value	Carrying amount 2010	Carrying amount 2009
			(%)	(in HK$ million)		
Fixed rate notes	144 months	28 December 2009	5.70	1,500	**1,272**	1,321
					31,232	31,271

* R represents the 1-year fixed deposit rate ("Rate") promulgated by PBOC. The Rate on 4 September 2008, 2009 and 2010 was 4.14%, 2.25% and 2.25%.

Note:

(i) The CBRC and PBOC approved the Bank's issuance of RMB30 billion subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26 billion fixed rate notes and RMB4 billion floating rate notes on 4 September 2008 to institutional investors on the China Interbank Bond Market. The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

(Expressed in millions of Renminbi unless otherwise stated)

32 OTHER LIABILITIES

	Group		Bank	
	2010	2009	**2010**	2009
Interest payable				
– Issued debt securities	**548**	565	**547**	564
– Customer deposit and others	**9,821**	7,733	**9,566**	7,643
	10,369	8,298	**10,113**	8,207
Clearing and settlement accounts	**3,343**	3,261	**3,343**	3,261
Salaries and welfare payable (Note 33)	**3,220**	3,290	**3,013**	3,154
Salary risk allowances (Note 33(e))	**1,403**	2,958	**1,403**	2,958
Business tax and surcharges payable	**2,684**	1,406	**2,663**	1,395
Payment and collection account	**588**	494	**586**	493
Insurance liabilities	**1,299**	1,318	**–**	–
Continuing involvement liability	**70**	409	**70**	409
Debt securities acquisition payable	**14,561**	27,512	**14,559**	27,067
Others	**9,092**	7,439	**6,174**	5,346
	46,629	56,385	**41,924**	52,290

33 STAFF WELFARE SCHEME

(a) Retirement benefits

(i) Defined contribution schemes

In accordance with the regulations in the PRC, the Group participates in statutory retirement schemes organised by the municipal and provincial governments for its employees. The Group's contributions to the schemes are determined by local governments and vary at a range of 8% to 35% (2009: 8% to 35%) of the staff salaries.

In addition to the above statutory retirement schemes, the Group has established a supplementary defined contribution plan for its employees. The Group's annual contributions to this plan are determined based on 8.33% of the staff salaries since 1 January 2004. The Group's total contributions during the year are disclosed in Note 7.

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(ii) Defined benefit schemes

The Group operates a retirement benefit scheme and a pension scheme (collectively known as "Defined benefit scheme") for the staff of a subsidiary of the Bank. The contributions of the Defined benefit scheme are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Defined benefit scheme. The Defined benefit scheme provides benefits based on members' final salary.

The latest actuarial valuation of the Defined befit scheme was performed in accordance with IAS 19 issued by the IASB as at 31 December 2010 by professional actuarial firm Watson Wyatt Hong Kong Limited. The present values of the defined benefit obligation and current service cost of the Defined benefit scheme are calculated based on the projected unit credit method.

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33 STAFF WELFARE SCHEME *(continued)*

(a) Retirement benefits *(continued)*

(ii) ***Defined benefit schemes*** *(continued)*

The amounts recognised in the statement of financial position as at 31 December 2010 are analysed as follows:

	The Group	
	2010	2009
Fair value of Defined benefit scheme assets	**474**	468
Present value of the funded defined benefit obligation	**(332)**	(335)
Unrecognised actuarial losses	**30**	42
Net asset recognised in the statement of financial position	**172**	175

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Defined benefit scheme is expected to pay in 2010.

The amounts recognised in the statement of comprehensive income are as follows:

	The Group	
	2010	2009
Current service cost	**(14)**	(19)
Interest cost	**(8)**	(4)
Expected return on Defined benefit scheme assets	**26**	23
Net actuarial losses	**–**	(13)
Net income/(loss) for the year included in retirement benefit costs	**4**	(13)

The actual gains on Defined benefit scheme assets for the year ended 31 December 2010 was RMB33 million (2009: actual losses RMB77 million).

The movements in the defined benefit obligation during the year are as follows:

	The Group	
	2010	2009
Present value of obligation at 1 January	**323**	411
Current service cost	**14**	19
Interest cost	**8**	4
Actual benefits paid	**(9)**	(15)
Actuarial losses	**(4)**	(84)
Actual obligation at 31 December	**332**	335

(Expressed in millions of Renminbi unless otherwise stated)

33 STAFF WELFARE SCHEME *(continued)*

(a) Retirement benefits *(continued)*

(ii) Defined benefit schemes (continued)

The movements in the fair value of the Defined benefit scheme assets during the year are as follows:

	The Group	
	2010	2009
Fair value of Defined benefit scheme assets at 1 January	**451**	406
Expected return on Defined benefit scheme assets	**26**	23
Actual benefits paid	**(9)**	(15)
Actuarial gains	**7**	54
Fair value of Defined benefit scheme assets at 31 December	**475**	468

The major categories of the Defined benefit scheme assets are as follows:

	The Group			
	2010		2009	
		%		%
Equities	**262**	**55.2**	241	51.5
Bonds	**75**	**15.8**	77	16.4
Cash	**138**	**29.0**	150	32.1
Total	**475**	**100**	468	100

No deposit with the Bank was included in the amount of Defined benefit scheme assets (2009: Nil).

The principal actuarial assumptions adopted in the valuation are as follows:

	The Group	
	2010	2009
	%	%
Discount rate		
– Retirement benefit scheme	**3.0**	2.6
– Pension scheme	**1.4**	1.6
Long-term average return on Defined benefit scheme assets		
– Retirement benefit scheme	**6.0**	6.0
– Pension scheme	**1.5**	1.0
Long-term average rate of salary increase for the defined benefit scheme of the Scheme	**5.0**	5.0
Pension increase rate for the defined benefit pension scheme	**2.5**	2.5

There was no curtailment or settlement impact for the year ended 31 December 2010 (2009: Nil).

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33 STAFF WELFARE SCHEME *(continued)*

(a) Retirement benefits *(continued)*

(iii) Supplementary retirement scheme

Supplementary retirement scheme was an annuity contract purchased from independent life insurance company by the Bank to provide supplementary defined contribution retirement benefits to its full time employees. It was a voluntary payment and the Bank has no further obligations to make future contributions. In 2010, the Bank purchased an annuity contract of RMB900 million (2009: RMB1,218 million).

The Group has no other material obligations for the payment of other post retirement benefits other than the contributions described above.

(b) Staff quarters

The Bank purchased quarters by using the public welfare fund, and leases to the existing staff at market rates on short term basis. Rental income is recognised in the consolidated statement of comprehensive income as other net income.

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the growth in net profit for the year as approved by the board of directors.

(d) Cash settled share-based transactions

The Bank has H-share Appreciation Rights Scheme phase I, phase II and phase III for the Senior Management ("the Scheme") which was adopted on 30 October 2007, 7 November 2008 and 16 November 2009 respectively whereby the directors of the Bank are authorized, at their discretion, to invite the Senior Management of the Bank to take up options at nil consideration to subscribe for shares of the Group. The options vest after 2 years from the date of grant and are then exercisable within a period of 8 years. Each of the share appreciation right is linked to one H-share.

33 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions *(continued)*

(i) All share appreciation rights shall be paid in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised options at the end of 2009 (in millions) Note (i)	Number of options after adjustments at the 3rd meeting of the 8th board of directors (in millions) Note (i)	Number of unexercised options after adjustments from placing at the ended of 2010 (in millions) Note (ii)	Exercise conditions	Contract period of options
Options granted on 30 October 2007	1.677	1.258	1.337	2 years after date of grant	10 years
Options granted on 7 November 2008	1.716	1.287	1.368	2 years after date of grant	10 years
Options granted on 16 November 2009	1.590	1.590	1.690	2 years after date of grant	10 years

Note (i): In 2009, the Bank paid dividends for 2008, 3 bonus shares for every 10 shares. As a result, the number of H-share appreciation rights for phase I granted in 2007 increased from 1.29 million to 1.68 million; and the number of H-share appreciation rights for phase II granted in 2008 increased from 1.32 million to 1.72 million.

At the third meeting of the eighth board of directors of the Bank in 2010, it was agreed that the senior management, on their own initiative, would waive 25% of the H-share appreciation rights for both phases I and II to be effective in 2010, and these appreciation rights would be cancelled. The number of H-share appreciation rights for phase I granted by the Bank in 2007 thus decreased from 1.68 million to 1.26 million; and that for phase II granted in 2008 decreased from 1.72 million to 1.29 million.

Note (ii): The Bank placed 1.3 H-shares for every 10 H-shares in 2010. As a result, the number of the Bank's H-share appreciation rights granted in 2007 was adjusted from 1.26 million to 1.34 million; that for 2008 was adjusted from 1.29 million to 1.37 million; and that for 2009 was adjusted from 1.59 million to 1.69 million.

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33 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions *(continued)*

(ii) The number and weighted average exercise prices of share options are as follows:

	2010		2009	
	Weighted average exercise price (HK$)	**Number of options (in million)**	Weighted average exercise price (HK$)	Number of options (in million)
Outstanding as at the beginning of the year	**20.42**	**4.98**	19.70	3.39
Granted during the year	**–**	**–**	21.95	1.59
Decrease during the year	**–**	**(0.58)**	–	–
Outstanding at the end of the year	**19.10**	**4.40**	20.42	4.98
Exercisable at the end of the year	**27.88**	**0.31**	29.90	0.42

The options outstanding at 31 December 2010 had an weighted average exercise price of HK$19.10 (2009: HK$20.42) and a weighted average remaining contractual life of 7.93 years (2009: 8.83 years).

Pursuant to the requirements set out in the Scheme, if any dividends were distributed, capital reserve was converted into shares, share split or dilution, an adjustment to the exercise price is applied. Due to the share placement of 1.3 H-shares for every 10 H-shares held in 2010, the offering price of the first batch of H-share appreciation rights granted to senior management personnel in 2007 was adjusted downward from HK$29.90 at the beginning of the year to HK$27.88, from HK$9.73 to HK$8.91 for the second batch in 2008, and from HK$21.95 to HK$20.41 for the third batch in 2009.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2010			2009		
	Phase I	**Phase II**	**Phase III**	Phase I	Phase II	Phase III
Fair value at measurement date (in RMB)	**4.39**	**11.34**	**6.93**	8.31	13.98	10.90
Share price (in HK$)	**19.62**	**19.62**	**19.62**	20.35	20.35	20.35
Exercise price (in HK$)	**27.88**	**8.91**	**20.41**	29.90	9.73	21.95
Expected volatility	**32%**	**32%**	**32%**	47%	47%	47%
Option life (year)	**6.83**	**7.83**	**8.88**	7.83	8.83	9.88
Expected dividends rate	**1.25%**	**1.25%**	**1.25%**	0.41%	0.41%	0.41%
Risk-free interest rate	**2.61%**	**2.61%**	**2.61%**	2.14%	2.14%	2.14%

(Expressed in millions of Renminbi unless otherwise stated)

33 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions *(continued)*

(iii) Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(iv) The number of share appreciation rights granted to members of senior management:

	2010				
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	311	311	320	–	942
Zhang Guang Hua	155	155	159	–	469
Li Hao	155	155	159	–	469
Tang Zhi Hong	155	155	159	–	469
Yin Feng Lan	155	155	159	–	469
Ding Wei	124	155	159	–	438
Tang Xiao Qing	–	–	159	–	159
Wang Qing Bin	–	–	128	–	128
Xu Lian Feng	94	94	96	–	284
Fan Peng	94	94	96	–	284
Lan Qi	94	94	96	–	284
Total	1,337	1,368	1,690	–	4,395

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33 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions *(continued)*

(iv) The number of share appreciation rights granted to members of senior management: (continued)

	2009				
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	390	390	300	–	1,080
Zhang Guang Hua	195	195	150	–	540
Li Hao	195	195	150	–	540
Tang Zhi Hong	195	195	150	–	540
Yin Feng Lan	195	195	150	–	540
Ding Wei	156	195	150	–	501
Tang Xiao Qing	–	–	150	–	150
Wang Qing Bin	–	–	120	–	120
Xu Lian Feng	117	117	90	–	324
Fan Peng	117	117	90	–	324
Lan Qi	117	117	90	–	324
Total	1,677	1,716	1,590	–	4,983

Note: In 2010, no members of senior management had exercised any share appreciation rights (2009: Nil).

(e) Salary risk allowances

According to CBRC Yin Jian Ban Fa [2009] No.15, the Bank has established salary risk allowances. Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances. As at 31 December 2010, these allowances amounted to RMB1.403 billion (2009: RMB2.958 billion) and were included in "Other liabilities".

(Expressed in millions of Renminbi unless otherwise stated)

34 SHARE CAPITAL

	Registered and issued share capital	
	No. of shares (in million)	**Amount**
At 1 January 2010	**19,119**	**19,119**
Shares issued	**2,458**	**2,458**
At 31 December 2010	**21,577**	**21,577**
At 1 January 2009	14,707	14,707
Stock dividends	4,412	4,412
At 31 December 2009	19,119	19,119

By type of share:

	No. of shares (in million)	
	2010	2009
Listed shares		
– A-Shares (without trading moratorium)	**17,666**	15,659
– H-Shares	**3,911**	3,460
	21,577	19,119

On 24 February 2006, bonus shares were issued at a ratio of 0.8589 bonus shares for every 10 A-Shares of the Bank by capitalisation of an amount of RMB971 million from the capital reserve. In addition, the Bank issued 938 million A-Shares upon conversion of the convertible bonds of RMB5,169 million during the year ended 31 December 2006, resulting in the increase in share capital and capital reserve of RMB938 million and RMB4,327 million respectively.

On 22 September 2006, a total of 2,200 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as part of the Initial Public Offering.

On 27 September 2006, a total of 220 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as a result of the exercise of the over-allotment option.

As a result of the Initial Public Offering and the exercise of the over-allotment option, a total of 242 million A-Shares, representing 10% of the number of H-Shares issued by the Bank were converted into H-Shares of equivalent value and transferred to Social Security Fund from state-owned shareholders of the Bank at no consideration. These H-Shares were eligible for trading since 5 October 2006.

As a result of the above events in 2006, the Bank's registered and issued capital increased from RMB10,374 million to RMB14,703 million.

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34 SHARE CAPITAL *(continued)*

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB10 million during the year ended 31 December 2007, resulting in the increase in share capital and capital reserve of RMB2 million and RMB9 million respectively. The Bank's registered and issued capital increased from RMB14,703 million to RMB14,705 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB13 million during the year ended 31 December 2008, resulting in the increase in share capital and capital reserve of RMB2 million and RMB11 million respectively. As a result, the Bank's registered and issued capital increased from RMB14,705 million to RMB14,707 million.

The Bank issued 0.144 million A-Shares upon conversion of the convertible bonds of RMB0.663 million during the year ended 31 December 2009, resulting in the increase in share capital and capital reserve of RMB0.144 million and RMB0.519 million respectively. On 3 July 2009, the Bank transferred its retained profits totalling RMB4,412 million to its share capital, thus increasing its registered capital to RMB19.119 billion, for which KPMG Huazhen issued a capital verification report (KPMG-D (2009) CR No.0001) on 9 July 2009.

For the year ended 31 December 2010, the Bank had placed 2,007,240,869 A-Shares and 449,878,000 H-Shares on the basis of 1.3 shares for every 10 shares held to its shareholders, resulting in an enlarged total share capital of RMB21.577 billion, for which KPMG Huazhen issued a capital verification report KPMG-D (2010) CR No.0001 and KPMG-D (2010) CR No.0002 on 20 April 2010.

All H-Shares are ordinary shares and rank pari passu with the A-Shares.

35 CAPITAL RESERVE

The capital reserve primarily represents share premium and equity component of the convertible bonds issued by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

36 SURPLUS RESERVE

Surplus reserve includes statutory surplus reserve and statutory public welfare fund.

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF and is provided at 10% of the audited profit after tax, until the reserve balance is equal to 50% of the Bank's registered share capital. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

The purpose of statutory public welfare fund is to provide staff facilities and other staff benefits. It is not distributable other than in liquidation.

37 INVESTMENT REVALUATION RESERVE

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

38 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i)(iii).

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39 REGULATORY GENERAL RESERVE

Pursuant to notices, the "Measures for Administering the Withdrawal of Reserves for Non performing Debts by Financial Enterprises" (Cai Jin [2005] No. 49) issued by the MOF on 17 May 2005 and the "Application Guidance of Financing Measures for Financial Institutions" (Cai Jin [2007] No. 23) issued by the MOF on 30 March 2007, banks and certain non-bank financial institutions in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The provision ratio for the general reserve is determined by financial institutions, with reference to the confronted risk factors. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

40 EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

41 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	2010	2009
Dividends in respect of the previous year, approved, declared and paid during the year of RMB2.1 per every 10 shares, 1.3 shares per every 10 shares (2009: RMB1 per every 10 shares)	**4,531**	5,883

(b) Proposed profit appropriations

	2010	2009
Statutory surplus reserve	**2,462**	1,765
Dividends		
– cash dividend: RMB2.9 (2009: RMB2.1) per every 10 shares	**6,257**	4,531
– stock dividend: Nil (2009: Nil) per every 10 shares	**–**	–
Total	**8,719**	6,296

2010 profit appropriation is proposed in accordance with the resolution passed at the meeting of the board of directors held on 31 March 2011 and will be submitted to the 2010 annual general meeting for approval.

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42 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balances of cash and cash equivalents

	2010	2009
Cash	**9,250**	7,613
With original maturity within 3 months:		
– balance with banks and other financial institutions	**26,555**	29,234
– balances with central bank	**34,083**	36,417
– placements with banks and other financial institutions	**95,978**	86,677
– debt security investments	**11,354**	23,690
	177,220	183,631

(b) Significant non-cash transactions

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

43 OPERATING SEGMENTS

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

On first-time adoption of IFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments:

– Corporate banking

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

– Retail banking

The provision of financial services to retail customers includes lending and deposit taking activities, credit card facilities and investment serves.

– Treasury business

It covers interbank and capital market activities and proprietary trading at head office level.

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

43 OPERATING SEGMENTS *(continued)*

For the purposes of operating segment analysis, external net interest income/expense represents the net interest income earned or expenses incurred on banking business originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the reportable segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective reportable segments and apportionment of management overheads.

Changes in disclosure of segment results and assets and liabilities in 2010

In 2010, the Bank implemented a new management accounting system to align with its operations and meet its performance management. Compared with data from the previous system, the new data relies more on specifications of the business system. The new system also promotes a better understanding of the collection and categorisation of integrated information about products, customers' attributes and operations, reduces allocation factors, and refines management. In addition, to accommodate the trend for intensive treasury operations and to clearly differentiate between financial market and traditional regional market businesses, the management carried out a re-segmentation of treasury business operating in the regional market originally categorised as the treasury segment (e.g. fund transfers between its branches and other banking institutions, and discounted bill businesses in the regional market). It classified this business as corporate banking business, with treasury business only including that conducted at the head office level. This change better reflects the development strategies and resource input direction and is more conducive to management and decision-making of business operations.

The 2009 comparative figures have not been restated as it is impractical to apply the revised logics, assumptions and estimations to them. Segment information as at 31 December 2010 has been presented using both the new and old methods.

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43 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities

	The Group														
	Corporate banking			Retail banking			Treasury business			Others			Total		
	2010 Revised	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009
External net interest income	**30,031**	**31,147**	21,562	**14,688**	**14,663**	6,971	**12,131**	**11,062**	11,801	**226**	**204**	30	**57,076**	**57,076**	40,364
Internal net interest income/(expense)	**5,725**	**5,725**	(121)	**4,483**	**4,483**	5,244	**(9,874)**	**(9,874)**	(5,141)	**(334)**	**(334)**	18	**–**	**–**	–
Net interest income	**35,756**	**36,872**	21,441	**19,171**	**19,146**	12,215	**2,257**	**1,188**	6,660	**(108)**	**(130)**	48	**57,076**	**57,076**	40,364
Net fee and commission income/(expense)	**4,276**	**4,312**	2,831	**6,410**	**6,648**	4,780	**395**	**(7)**	(5)	**249**	**249**	206	**11,330**	**11,202**	7,812
Other net income/(expense)	**2,538**	**1,003**	975	**847**	**336**	528	**39**	**1,191**	1,369	**(491)**	**240**	186	**2,933**	**2,770**	3,058
Insurance operating income	**–**	**–**	–	**19**	**19**	–	**–**	**–**	–	**334**	**334**	359	**353**	**353**	359
Operating income	**42,570**	**42,187**	25,247	**26,447**	**26,149**	17,523	**2,691**	**2,372**	8,024	**(16)**	**693**	799	**71,692**	**71,401**	51,593
Operating expenses															
– depreciation	**(925)**	**(689)**	(594)	**(1,499)**	**(1,710)**	(1,316)	**(28)**	**(31)**	(68)	**(235)**	**(105)**	(171)	**(2,687)**	**(2,535)**	(2,149)
– others	**(12,467)**	**(12,716)**	(10,388)	**(16,816)**	**(16,142)**	(12,519)	**(366)**	**(797)**	(1,030)	**(298)**	**(258)**	(140)	**(29,947)**	**(29,913)**	(24,077)
Charge for insurance claims	**–**	**–**	–	**–**	**–**	–	**–**	**–**	–	**(278)**	**(278)**	(355)	**(278)**	**(278)**	(355)
	(13,392)	**(13,405)**	(10,982)	**(18,315)**	**(17,852)**	(13,835)	**(394)**	**(828)**	(1,098)	**(811)**	**(641)**	(666)	**(32,912)**	**(32,726)**	(26,581)

	The Group														
	Corporate banking			Retail banking			Treasury business			Others			Total		
	2010 Revised	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009
Reportable segment profit before impairment losses	**29,178**	**28,782**	14,265	**8,132**	**8,297**	3,688	**2,297**	**1,544**	6,926	**(827)**	**52**	133	**38,780**	**38,675**	25,012
Impairment losses	**(3,787)**	**(3,708)**	(1,557)	**(1,732)**	**(1,662)**	(1,492)	**53**	**12**	81	**(35)**	**(93)**	(1)	**(5,501)**	**(5,451)**	(2,969)
Share of profit of associates and jointly controlled entities	**–**	**–**	–	**–**	**–**	–	**–**	**–**	–	**64**	**64**	69	**64**	**64**	69
Reportable segment profit before tax	**25,391**	**25,074**	12,708	**6,400**	**6,635**	2,196	**2,350**	**1,556**	7,007	**(798)**	**23**	201	**33,343**	**33,288**	22,112
Capital expenditure (note)	**1,576**	**1,576**	1,055	**3,777**	**3,777**	2,351	**64**	**64**	119	**39**	**39**	43	**5,456**	**5,456**	3,568

(Expressed in millions of Renminbi unless otherwise stated)

43 OPERATING SEGMENTS *(continued)*

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

	The Group														
	Corporate banking			Retail banking			Treasury business			Others			Total		
	2010 Revised	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009	**2010 Revised**	**2010**	2009
Reportable segment assets	**1,307,794**	**900,433**	783,961	**616,722**	**514,529**	394,862	**450,209**	**959,763**	865,581	**4,663**	**4,663**	6,956	**2,379,388**	**2,379,388**	2,051,360
Reportable segment liabilities	**1,427,901**	**1,168,470**	949,317	**743,364**	**743,364**	673,355	**76,343**	**335,774**	336,875	**2,155**	**2,155**	4,313	**2,249,763**	**2,249,763**	1,963,860
Interest in associates and jointly controlled entities	**–**	**–**	–	**–**	**–**	–	**–**	**–**	–	**443**	**443**	466	**443**	**443**	466

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

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

	The Group		
	2010 Revised	**2010**	2009
Revenues			
Total revenues for reportable segments	**71,692**	**71,401**	51,593
Other revenues	**–**	**291**	255
Consolidated revenue	**71,692**	**71,692**	51,848
Profit			
Total profit or loss for reportable segments	**33,343**	**33,288**	22,112
Other profit	**–**	**55**	272
Consolidated profit before income tax	**33,343**	**33,343**	22,384

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43 OPERATING SEGMENTS *(continued)*

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

	The Group		
	2010 Revised	**2010**	2009
Assets			
Total assets for reportable segments	**2,379,388**	**2,379,388**	2,051,360
Goodwill	**9,598**	**9,598**	9,598
Intangible assets	**1,026**	**1,026**	1,110
Deferred tax assets	**3,706**	**3,706**	2,786
Other unallocated assets	**8,789**	**8,789**	3,087
Consolidated total assets	**2,402,507**	**2,402,507**	2,067,941
Liabilities			
Total liabilities for reportable segments	**2,249,763**	**2,249,763**	1,963,860
Current taxation	**2,288**	**2,288**	1,159
Deferred tax liabilities	**924**	**924**	941
Other unallocated liabilities	**15,526**	**15,526**	9,198
Consolidated total liabilities	**2,268,501**	**2,268,501**	1,975,158

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operation in Hong Kong, New York; subsidiaries operating in Hong Kong and Shanghai and representative offices in London and the United States of America and Taiwan.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

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

– "Eastern China" region refers to the following areas serviced by the subsidiary and branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;

– "Southern and Central China" region refers to the Head Office and the following areas serviced by the associate and branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province, Henan Province and Guangxi Autonomous Region;

43 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

– "Western China" region refers to the following areas serviced by the branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Guizhou Province, Shanxi Province, Gansu Province, Ningxia Autonomous Region, and Xinjiang Autonomous Region;

– "Northern China" region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Hebei Province, Liaoning Province, Jilin Province, Heilongjiang Province, Shanxi Province and Inner Mongolia Autonomous Region; and

– "Outside Mainland China" refers to operations of Hong Kong branch, New York branch and the overseas operations of subsidiaries.

Explanation of changes in geographical segment information disclosure in 2010.

In line with operational needs and the management's need for performance management, the Bank re-defined its geographical segments in 2010 as follows:

– "Headquarters" refers to the Group headquarters and special purpose vehicles at the branch level which are directly under the headquarters, including the headquarters, credit card centres and small enterprise finance centres;

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

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

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

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

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

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

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

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

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43 OPERATING SEGMENTS *(continued)*

(c) Geographical segments *(continued)*

	The Group			
	Revenues		Non-current assets	
Geographical information	**2010**	2009	**2010**	2009
Eastern China	**28,070**	19,404	**7,122**	4,500
Southern and Central China	**21,941**	19,617	**14,978**	14,938
Western China	**6,713**	4,315	**1,675**	1,400
Northern China	**12,051**	5,797	**1,419**	1,326
Outside Mainland China	**2,917**	2,715	**5,864**	6,225
Total	**71,692**	51,848	**31,058**	28,389

	The Group (revised)			
	Revenues		Non-current assets	
Geographical information	**2010**	2009	**2010**	2009
Headquarters	**11,681**	13,416	**15,522**	14,642
Yangtze River Delta region	**15,554**	10,791	**1,946**	1,658
Bohai Rim region	**10,777**	5,880	**1,428**	1,090
Pearl River Delta and West Coast region	**12,049**	7,571	**1,626**	1,520
Northeast region	**3,435**	1,750	**750**	660
Central region	**6,909**	4,708	**1,240**	1,143
Western region	**7,581**	4,711	**1,657**	1,467
Overseas	**506**	396	**34**	46
Subsidiaries	**3,200**	2,625	**6,855**	6,163
Total	**71,692**	51,848	**31,058**	28,389

44 ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	Group		Bank	
	2010	2009	**2010**	2009
Secured liabilities	**33,439**	34,627	**33,439**	34,597
Assets pledged				
– Available-for-sale financial assets	**16,113**	19,391	**16,113**	19,391
– Held-to-maturity debt securities	**14,119**	9,131	**14,119**	9,131
– Other assets	**3,207**	6,105	**3,207**	6,075
	33,439	34,627	**33,439**	34,597

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

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45 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit commitments

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

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

	Group		Bank	
	2010	2009	**2010**	2009
Contractual amount				
Irrevocable guarantees	**106,912**	86,736	**106,287**	86,155
Irrevocable letters of credit	**59,221**	31,051	**58,926**	30,895
Bills of acceptances	**325,645**	319,758	**325,199**	319,600
Irrevocable loan commitments				
– with an original maturity of under one year	**3,992**	5,461	**1,308**	3,175
– with an original maturity of one year or over	**41,271**	32,643	**34,413**	27,427
Credit card commitments	**121,201**	110,880	**114,865**	104,329
Shipping guarantees	**23**	3	**19**	1
Other	**1,705**	–	**1,705**	–
	659,970	586,532	**642,722**	571,582

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,215,285 million at 31 December 2010 (2009: RMB793,575 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

45 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(a) Credit commitments *(continued)*

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	Group		Bank	
	2010	2009	**2010**	2009
Credit risk weighted amounts of contingent liabilities and commitments				
Contingent liabilities and commitments	**179,426**	151,828	**175,694**	135,917

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

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

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

(b) Capital commitments

Authorised capital commitments not provided for were as follows:

	Group		Bank	
	2010	2009	**2010**	2009
For purchase of fixed assets:				
– Contracted for	**1,135**	1,511	**1,115**	1,506
– Authorised but not contracted for	**194**	184	**194**	184
	1,329	1,695	**1,309**	1,690

(Expressed in millions of Renminbi unless otherwise stated)

45 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(c) Operating lease commitments

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

	Group		Bank	
	2010	2009	**2010**	2009
Within 1 year	**1,052**	1,427	**1,023**	1,403
After 1 year but within 5 years	**5,428**	4,256	**5,372**	4,211
After 5 years	**2,528**	1,643	**2,514**	1,643
	9,008	7,326	**8,909**	7,257

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

(d) Outstanding litigations

At 31 December 2010, the Group was a defendant in certain pending litigations with gross claims of RMB484 million (2009: RMB349 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(e) Redemption obligations

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

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

	Group and Bank	
	2010	2009
Redemption obligations	**11,117**	9,200

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

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

46 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

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

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

Trust assets are not assets of the Group and are not recognised in the statement of financial position. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is recognised in the statement of comprehensive income as fee income.

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

	Group and Bank	
	2010	2009
Entrusted loans	**104,013**	70,638
Entrusted funds	**104,013**	70,638

(b) Wealth management services

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

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

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

	Group and Bank	
	2010	2009
Funds received from customers under wealth management services	**179,753**	119,973

47 RISK MANAGEMENT

(a) Credit risk

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group formulated the quota limit management policy to analyse the loan portfolio.

Analyses of loans and advances by industry, customer type and nature are stated in Note 18.

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

(i) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held, irrevocable loan commitments or other credit enhancements is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Cash and balances with banks and other financial institutions	**38,211**	56,544	**33,408**	54,238
Balances with central bank	**285,705**	208,554	**284,227**	207,979
Placements with banks and other financial institutions	**235,464**	221,194	**218,098**	199,344
Loans and advances to customers	**1,402,160**	1,161,817	**1,317,300**	1,105,816
Investments	**394,176**	377,072	**374,285**	352,258
Interest in associates and jointly controlled entities	**443**	466	**191**	191
Other assets	**11,964**	11,341	**10,284**	8,408
Financial guarantees and other credit related contingent liabilities	**493,506**	437,548	**492,136**	436,651
Loan commitments and other credit related commitments	**1,381,749**	942,559	**1,362,560**	926,238
	4,243,378	3,417,095	**4,092,489**	3,291,123

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Impaired loans and advances to customers				
For which impairment losses are individually assessed				
Gross amount	**8,047**	7,967	**7,754**	7,746
Less: impairment allowances	**(5,912)**	(5,969)	**(5,805)**	(5,873)
Carrying amount	**2,135**	1,998	**1,949**	1,873
For which impairment losses are collectively assessed				
Gross amount	**1,587**	1,631	**1,576**	1,615
Less: impairment allowances	**(1,353)**	(1,398)	**(1,352)**	(1,395)
Carrying amount	**234**	233	**224**	220
Overdue but not impaired				
Within which				
– Less than 3 months	**4,052**	3,397	**3,414**	2,440
– 6 months or less but over 3 months	**7**	163	**–**	152
– 1 year or less but over 6 months	**2**	2	**–**	–
– Over 1 year	**1**	3	**–**	–
Gross amount	**4,062**	3,565	**3,414**	2,592
Less: impairment allowances				
– collectively assessed	**(342)**	(293)	**(340)**	(290)
Carrying amount	**3,720**	3,272	**3,074**	2,302
Neither past due nor impaired				
Normal	**1,406,263**	1,160,586	**1,322,434**	1,105,928
Special mention	**11,461**	11,970	**10,923**	11,642
Substandard	**14**	83	**–**	–
Doubtful	**17**	20	**–**	–
Gross amount	**1,417,755**	1,172,659	**1,333,357**	1,117,570
Less: impairment allowances				
– collectively assessed	**(21,684)**	(16,345)	**(21,304)**	(16,149)
Carrying amount	**1,396,071**	1,156,314	**1,312,053**	1,101,421
Total carrying amount	**1,402,160**	1,161,817	**1,317,300**	1,105,816

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows: (continued)

Loans and advances that would be past due or impaired had the terms been renegotiated amounted to RMB1,040 million as at 31 December 2010 (2009: RMB1,569 million).

(iii) Credit quality of debt investments

At the end of the reporting period, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poors, is as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Individually assessed and impaired gross amount	**293**	412	**194**	250
Allowance for impairment carrying amount	**(240)**	(246)	**(140)**	(144)
Sub-total	**53**	166	**54**	106
Neither overdue nor impaired				
AAA	**7,972**	9,630	**1,452**	4,266
AA- to AA+ (note)	**283,090**	11,877	**276,769**	4,666
A- to A+	**9,104**	275,605	**3,500**	267,151
Lower than A-	**3,362**	4,096	**1,924**	1,262
	303,528	301,208	**283,645**	277,345
Unrated	**87,584**	73,478	**88,415**	73,279
Total	**391,165**	374,852	**372,114**	350,730

Note: Included bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB159,351 million (2009: RMB155,107 million (credit quality: A- to A+)).

(iv) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	**9,574**	7,387	**7,915**	5,124

47 RISK MANAGEMENT *(continued)*

(b) Market risk

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

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Board of Directors is ultimately responsible for monitoring market risk management. The Executive office of the President is authorised by the Board of Directors to make market risk management decisions. The Planning and Finance Department, tasked with the market risk management function, centrally manages the Group's market risk. As an independent model verification department, the Office for the Implementation of Basel II Capital Accord continues to verify market risk measurement models while the Audit Department regularly conducts market risk management audit.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

The historical simulation model for the Value-at-risk ("VaR") analysis is used by the Group to measure and monitor the market risk of its trading portfolio. Gap analysis and scenario analysis are used by the Group to measure and monitor the market risk of its non-trading business. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities, it also regularly conducts stress tests as supplement to the above measurement indicators.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Effective from October 2007, the Group's Planning and Finance Department calculates VaR using the historical movement in market rates and prices, at a 99% confidence level, the observation period is 250 trading days and the holding period is 10 days.

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

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(b) Market risk *(continued)*

In 2010, fluctuations were seen in the RMB and foreign currency financial markets. The RMB bonds experienced ups and downs with the flattened yield curve in the first three quarters continued to fall. However, the central bank's decision to raise the interest rate on 19 October, together with escalating tightening measures and higher expectation of inflation, the bond market slid sharply at the end of the year. As for the foreign currency market, the intermittent European debt crisis and the Federal Reserve's quantitative loose monetary policy resulted in active cross-border capital flows. Overseas risk-averse funds continued to push the yield of the United States treasury bonds lower. Fluctuations in the exchange rates of major currencies also increased. The appreciation of the RMB continued to accelerate as the end of the year approached.

The Group carefully studied the year's macroeconomy, monetary policies, market liquidity and CPI movements at home and abroad and formulated its investment strategies accordingly. The Group's investment portfolios mainly comprised debt securities issued by the Chinese government, central bank and policy banks, as well as large Chinese enterprises and commercial banks with high credit ratings. It reduced the holdings of credit debt and bonds.

(c) Currency risk

The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities, and manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps) in the management of its own foreign currency asset and liability portfolios.

The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group mainly uses the foreign exchange exposure analysis, scenario simulation analysis, stress testing and VAR methods to measure and analyse foreign currency risk. Based on the trend of foreign exchange movements, the Group adjusts its foreign exchange exposure to mitigate foreign currency risk.

In 2010, the Group pushed forward the management of the consolidation of foreign currency risk. Initially, monitoring indicators were set. Foreign currency risk data of institutions whose statements were to be consolidated was collected on a regular basis. Since the third quarter of 2010, the Group has begun to regularly analyse and report the consolidation of foreign currency risk.

In 2010, the central parity rate of the RMB and US dollar was initially stable and then rose. Before the central bank's second reform of the RMB exchange rate regime on 19 June, the central parity rate of the RMB against the US dollar stayed between 6.825 and 6.83. After that, it trended upward amid fluctuations. Into the fourth quarter, the appreciation of the RMB against the US dollar was unilateral, up about 3% at the end of the year compared to early 2010. The Group employed various measures to adjust the structure of its assets and liabilities denominated in foreign currencies to reduce foreign exchange exposure and related losses.

The Group monitors daily foreign currency transactions and positions closely. The following tables show the Group's assets and liabilities by major currencies as at each end of the reporting period.

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	Group				
	2010				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	287,868	3,839	2,723	525	294,955
Amounts due from banks and other financial institutions	216,929	34,227	8,134	5,135	264,425
Loans and advances to customers	1,267,500	73,584	57,329	3,747	1,402,160
Investments	351,595	19,647	12,518	10,416	394,176
Other assets	24,228	5,506	16,809	248	46,791
	2,148,120	136,803	97,513	20,071	2,402,507
Liabilities					
Amounts due to banks and other financial institutions	268,752	10,407	1,666	1,198	282,023
Deposits from customers	1,704,871	90,087	75,244	26,976	1,897,178
Trading liabilities	–	–	188	–	188
Financial liabilities designated as at fair value through profit or loss	–	166	999	–	1,165
Derivative financial instruments	828	180	776	37	1,821
Certificates of deposit issued	–	2,110	2,943	–	5,053
Subordinated notes issued	29,960	–	1,272	–	31,232
Other liabilities	44,506	1,376	3,813	146	49,841
	2,048,917	104,326	86,901	28,357	2,268,501
Net on-balance sheet position	99,203	32,477	10,612	(8,286)	134,006
Off-balance sheet position:					
Credit commitments (note)	408,184	86,951	18,008	8,178	521,321
Derivatives:					
– forward purchase	112,869	66,107	14,351	15,397	208,724
– forward sales	(108,649)	(83,554)	(1,054)	(5,447)	(198,704)
– net option position	–	(162)	(2)	164	–

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Group				
	2009				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	207,823	3,282	4,690	372	216,167
Amounts due from banks and other financial institutions	210,335	22,972	22,377	14,441	270,125
Loans and advances to customers	1,048,445	58,447	52,367	2,558	1,161,817
Investments	329,053	27,727	12,742	7,550	377,072
Other assets	34,134	583	7,715	328	42,760
	1,829,790	113,011	99,891	25,249	2,067,941
Liabilities					
Amounts due to banks and other financial institutions	247,254	15,892	1,560	413	265,119
Deposits from customers	1,423,328	72,419	83,493	28,906	1,608,146
Trading liabilities	–	–	30	–	30
Financial liabilities designated as at fair value through profit or loss	–	–	1,173	–	1,173
Derivative financial instruments	285	454	631	104	1,474
Certificates of deposit issued	–	2,200	2,262	–	4,462
Other debts issued	4,998	–	–	–	4,998
Subordinated notes issued	29,950	–	1,321	–	31,271
Other liabilities	53,280	785	4,275	145	58,485
	1,759,095	91,750	94,745	29,568	1,975,158
Net on-balance sheet position	70,695	21,261	5,146	(4,319)	92,783
Off-balance sheet position:					
Credit commitments (note)	397,724	54,445	20,371	6,050	478,590
Derivatives:					
– forward purchase	64,114	71,665	11,675	8,448	155,902
– forward sales	(63,537)	(83,462)	(4,909)	(4,016)	(155,924)
– net option position	–	(108)	20	88	–

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	Bank				
	2010				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	287,437	3,811	1,364	287	292,899
Amounts due from banks and other financial institutions	213,836	22,556	2,137	4,305	242,834
Loans and advances to customers	1,241,077	61,608	11,439	3,176	1,317,300
Investments	352,931	11,466	6,398	3,490	374,285
Other assets	22,941	5,294	32,754	32	61,021
	2,118,222	104,735	54,092	11,290	2,288,339
Liabilities					
Amounts due to banks and other financial institutions	248,574	6,793	1,597	870	257,834
Deposits from customers	1,698,144	76,032	21,698	13,038	1,808,912
Financial liabilities designated as at fair value through profit or loss	–	166	855	–	1,021
Derivative financial instruments	824	114	650	32	1,620
Certificates of deposit issued	–	1,550	2,398	–	3,948
Subordinated notes issued	29,960	–	–	–	29,960
Other liabilities	42,444	1,280	233	78	44,035
	2,019,946	85,935	27,431	14,018	2,147,330
Net on-balance sheet position	98,276	18,800	26,661	(2,728)	141,009
Off-balance sheet position:					
Credit commitments (note)	407,524	83,590	5,272	7,969	504,355
Derivatives:					
– forward purchase	111,282	64,176	8,628	9,157	193,243
– forward sales	(107,062)	(70,235)	(925)	(5,126)	(183,348)
– net option position	–	(169)	–	169	–

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Bank				
	2009				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	207,729	3,258	3,879	242	215,108
Amounts due from banks and other financial institutions	210,050	18,006	9,618	8,779	246,453
Loans and advances to customers	1,038,134	53,091	13,062	1,529	1,105,816
Investments	330,470	18,678	1,356	1,754	352,258
Other assets	23,084	442	32,729	27	56,282
	1,809,467	93,475	60,644	12,331	1,975,917
Liabilities					
Amounts due to banks and other financial institutions	239,607	14,286	1,473	323	255,689
Deposits from customers	1,421,729	61,813	30,307	13,092	1,526,941
Financial liabilities designated as at fair value through profit or loss	–	–	819	–	819
Derivative financial instruments	285	362	245	82	974
Certificates of deposit issued	–	1,518	1,201	–	2,719
Other debts issued	4,998	–	–	–	4,998
Subordinated notes issued	29,950	–	–	–	29,950
Other liabilities	52,408	720	237	54	53,419
	1,748,977	78,699	34,282	13,551	1,875,509
Net on-balance sheet position	60,490	14,776	26,362	(1,220)	100,408
Off-balance sheet position:					
Credit commitments (note)	397,595	53,655	6,550	5,972	463,772
Derivatives:					
– forward purchase	64,114	68,875	9,525	4,329	146,843
– forward sales	(63,537)	(77,290)	(2,870)	(3,184)	(146,881)
– net option position	–	(91)	–	91	–

Note: Credit commitments generally expire before they are drawn; therefore the above net position (net of pledged deposits) does not represent the future cash flows need.

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2010 and 31 December 2009, the results of the Group's currency risk sensitivity analysis on the assets and liabilities at the same date.

	2010		2009	
	Change in foreign currency exchange rate (in basis point)		Change in foreign currency exchange rate (in basis point)	
	(100)	**100**	(100)	100
Increase/(decrease) in annualised net profit	**76**	**(76)**	85	(85)

This sensitivity analysis is based on a static foreign currency exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options.

Actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(d) Interest rate risk

The Group's interest rate exposures are primarily those arising from the basis risk of its lending and deposit taking activities governed by the benchmark interest rate set by the PBOC, and the repricing of assets and liabilities.

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

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

In 2010, the Group formulated its *Measures for Measuring Interest Rate Risk of Bank Accounts of China Merchants Bank*. These rules form a comprehensive system that specifies procedures for the management, measurement and hedging of interest rate risk, and other related aspects.

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

Meanwhile, the Group proactively managed its interest rate risk in a forward-looking manner. Plans to hedge interest rate risk were designed in light of its own characteristics. The Group attempted hedging interest rate risk at the overall level to achieve the desired risk management target.

In 2010, the Group pushed forward the management of the consolidation of interest rate risk. Initially, monitoring indicators were set. Interest rate risk data of institutions whose statements were to be consolidated was collected on a regular basis. Since the third quarter of 2010, the Group has begun to regularly analyse and report the consolidation of interest rate risk.

The following table indicates the effective interest rates and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the end of the reporting period.

	Group						
	2010						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.43%	294,955	283,469	–	–	–	11,486
Amounts due from banks and other financial institutions	1.85%	264,425	210,185	53,261	–	–	979
Loans and advances to customers (note (i))	5.04%	1,402,160	1,004,742	344,445	35,783	17,147	43
Investments	2.84%	394,176	78,048	98,960	161,371	52,784	3,013
Other assets	–	46,791	33	–	–	–	46,758
Total assets		2,402,507	1,576,477	496,666	197,154	69,931	62,279
Liabilities							
Amounts due to banks and other financial institutions	1.63%	282,023	259,176	21,371	3	400	1,073
Deposits from customers	1.24%	1,897,178	1,502,074	312,960	54,083	21,656	6,405
Financial liabilities at fair value through profit or loss	0.91%	3,174	353	466	499	36	1,820
Certificates of deposit issued	0.58%	5,053	3,768	1,285	–	–	–
Subordinated notes issued	5.30%	31,232	–	3,995	18,977	8,260	–
Other liabilities	–	49,841	65	60	–	–	49,716
Total liabilities		2,268,501	1,765,436	340,137	73,562	30,352	59,014
Asset-liability gap		134,006	(188,959)	156,529	123,592	39,579	3,265

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Group						
	2009						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.50%	216,167	207,807	–	–	–	8,360
Amounts due from banks and other financial institutions	1.46%	270,125	196,136	70,012	–	–	3,977
Loans and advances to customers (note (i))	4.42%	1,161,817	736,226	397,554	20,894	7,098	45
Investments	3.09%	377,072	89,355	101,260	115,131	69,106	2,220
Other assets	–	42,760	521	895	–	–	41,344
Total assets		2,067,941	1,230,045	569,721	136,025	76,204	55,946
Liabilities							
Amounts due to banks and other financial institutions	1.57%	265,119	252,332	12,434	161	–	192
Deposits from customers	1.39%	1,608,146	1,264,851	281,096	51,572	5,260	5,367
Financial liabilities at fair value through profit or loss	1.01%	2,677	207	820	176	–	1,474
Certificates of deposit issued	0.75%	4,462	4,462	–	–	–	–
Other debts issued	2.61%	4,998	–	4,998	–	–	–
Subordinated notes issued	5.63%	31,271	–	3,994	18,970	8,307	–
Other liabilities	–	58,485	–	85	–	–	58,400
Total liabilities		1,975,158	1,521,852	303,427	70,879	13,567	65,433
Asset-liability gap		92,783	(291,807)	266,294	65,146	62,637	(9,487)

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2010						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.44%	292,899	283,065	–	–	–	9,834
Amounts due from banks and other financial institutions	1.94%	242,834	189,285	52,804	–	–	745
Loans and advances to customers (note (i))	5.15%	1,317,300	938,224	339,661	23,211	16,204	–
Investments	2.91%	374,285	62,581	97,028	159,741	52,764	2,171
Other assets	–	61,021	–	–	–	–	61,021
Total assets		2,288,339	1,473,155	489,493	182,952	68,968	73,771
Liabilities							
Amounts due to banks and other financial institutions	1.58%	257,834	251,267	6,564	3	–	–
Deposits from customers	1.26%	1,808,912	1,426,621	306,784	53,233	21,656	618
Derivative financial instruments	1.02%	2,641	170	466	349	36	1,620
Certificates of deposit issued	0.62%	3,948	3,124	824	–	–	–
Subordinated notes issued	5.51%	29,960	–	3,995	18,977	6,988	–
Other liabilities	–	44,035	–	–	–	–	44,035
Total liabilities		2,147,330	1,681,182	318,633	72,562	28,680	46,273
Asset-liability gap		141,009	(208,027)	170,860	110,390	40,288	27,498

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2009						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.50%	215,108	207,733	–	–	–	7,375
Amounts due from banks and other financial institutions	1.51%	246,453	173,706	69,364	–	–	3,383
Loans and advances to customers (note (i))	4.49%	1,105,816	688,965	389,279	20,563	7,009	–
Investments	3.16%	352,258	71,579	99,575	110,491	69,085	1,528
Other assets	–	56,282	–	–	–	–	56,282
Total assets		1,975,917	1,141,983	558,218	131,054	76,094	68,568
Liabilities							
Amounts due to banks and other financial institutions	1.56%	255,689	249,787	5,741	161	–	–
Deposits from customers	1.44%	1,526,941	1,193,852	275,922	51,274	5,260	633
Derivative financial instruments	1.01%	1,793	–	643	176	–	974
Certificates of deposit issued	0.67%	2,719	2,719	–	–	–	–
Other debts issued	2.61%	4,998	–	4,998	–	–	–
Subordinated notes issued	5.68%	29,950	–	3,994	18,969	6,987	–
Other liabilities	–	53,419	–	–	–	–	53,419
Total liabilities		1,875,509	1,446,358	291,298	70,580	12,247	55,026
Asset-liability gap		100,408	(304,375)	266,920	60,474	63,847	13,542

Notes:

(i) For loans and advances to customers, the above "3 months or less" category includes overdue amounts as at 31 December 2010 (net of allowances for impairment losses). Overdue amounts represent loans of which the whole or part of the principals was overdue.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2010 and 31 December 2009, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	2010		2009	
	Change in interest rates (in basis point)		Change in interest rates (in basis point)	
	25	**(25)**	25	(25)
(Decrease)/increase in annualised net profit	**(372)**	**372**	(476)	476

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

(i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;

(ii) there is a parallel shift in the yield curve and in interest rates; and

(iii) there are no other changes to the portfolio.

Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(e) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the Planning and Finance Department. The Planning and Finance Department is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The liquidity of the Group is centrally managed by the head office using the internal funds transfer pricing mechanism.

The majority of the Group's assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. An analysis of the past three years' data shows that the Group's deposits from customers have been growing continuously, with a rising variety of deposit products with various maturities and have become a stable source of funds for the Group.

The Group adopts a centralised liquidity management approach. Through the internal funds transfer pricing mechanism, branches are guided to adjust the durations and product structures of their assets and liabilities. The Group closely monitors its daily position, monthly liquidity ratio and liquidity gap ratio, and performs stress testing to verify the bank's ability to meet liquidity needs under extreme circumstances. In addition, the Group has a liquidity risk warning system and a liquidity contingency plan in place to tackle any liquidity crises.

In 2010, the Group pushed forward the management of the consolidation of liquidity risk and issued its *Measures for Managing the Consolidation of Liquidity Risk of China Merchants Bank*. Initially, monitoring indicators were set. Liquidity risk data of institutions whose statements were to be consolidated was collected on a regular basis. Since the third quarter of 2010, the Group has begun to regularly analyse and report the consolidation of exchange rate risk.

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The majority of the Group's assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. An analysis of the past three years' data shows that the Group's deposits from customers have been growing continuously, with a rising variety of deposit products with various maturities and have become a stable source of funds for the Group.

In 2010, the People's Bank of China (PBOC) raised the required reserve ratio of RMB deposits by six times. As at the end of the year, 16.5% (2009: 13.5%) and 5% (2009: 5%) of eligible RMB deposits and foreign currency deposits respectively were deposits in PBOC, as required.

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

	2010							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	40,829	–	–	–	–	–	254,126	294,955
Amounts due from banks and other financial institutions	17,004	118,597	76,062	52,431	331	–	–	264,425
Loans and advances to customers (note (ii))	4,542	57,078	171,276	459,743	347,666	355,713	6,142	1,402,160
Investments (note (iii))	–	15,822	21,525	49,736	217,372	86,710	3,011	394,176
– at fair value through profit or loss	–	962	1,720	6,549	5,389	595	1,752	16,967
– available-for-sale	–	14,418	12,403	34,065	168,298	41,927	1,259	272,370
– held-to-maturity	–	442	6,288	7,536	41,854	41,494	–	97,614
– receivables	–	–	1,114	1,586	1,831	2,694	–	7,225
Other assets	4,316	1,651	2,026	3,717	332	921	33,828	46,791
Total assets	66,691	193,148	270,889	565,627	565,701	443,344	297,107	2,402,507
Amounts due to banks and other financial institutions	129,913	82,246	47,689	20,763	1,012	400	–	282,023
Deposits from customers (note (iv))	1,079,065	248,560	193,508	314,421	60,049	1,575	–	1,897,178
Financial liabilities at fair value through profit or loss	–	85	268	466	498	36	1,821	3,174
Certificates of deposit issued	–	85	725	3,100	1,143	–	–	5,053
Subordinated notes issued	–	–	–	–	–	31,232	–	31,232
Other liabilities	21,691	18,312	2,464	3,632	1,475	777	1,490	49,841
Total liabilities	1,230,669	349,288	244,654	342,382	64,177	34,020	3,311	2,268,501
(Short)/long position	(1,163,978)	(156,140)	26,235	223,245	501,524	409,324	293,796	134,006

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47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

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

	2009							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	42,853	–	–	–	–	–	173,314	216,167
Amounts due from banks and other financial institutions	17,193	101,302	82,427	68,929	274	–	–	270,125
Loans and advances to customers (note (ii))	2,851	52,753	138,472	426,930	288,670	248,191	3,950	1,161,817
Investments (note (iii))	–	12,327	28,251	55,421	187,580	91,242	2,251	377,072
– at fair value through profit or loss	–	854	2,638	1,896	7,903	2,509	1,055	16,855
– available-for-sale	–	7,740	16,627	15,147	140,518	63,688	1,196	244,916
– held-to-maturity	–	3,733	5,185	21,582	25,429	24,272	–	80,201
– receivables	–	–	3,801	16,796	13,730	773	–	35,100
Other assets	3,648	1,364	1,611	3,527	1,126	985	30,499	42,760
Total assets	66,545	167,746	250,761	554,807	477,650	340,418	210,014	2,067,941
Amounts due to banks and other financial institutions	150,293	87,559	14,623	11,483	1,161	–	–	265,119
Deposits from customers (note (iv))	967,216	135,785	162,468	283,080	59,097	500	–	1,608,146
Financial liabilities at fair value through profit or loss	–	26	181	820	176	–	1,474	2,677
Certificates of deposit issued	–	97	447	2,511	1,407	–	–	4,462
Other debts issued	–	–	–	4,998	–	–	–	4,998
Subordinated notes issued	–	–	–	–	–	31,271	–	31,271
Other liabilities	22,318	28,647	1,457	2,691	2,037	930	405	58,485
Total liabilities	1,139,827	252,114	179,176	305,583	63,878	32,701	1,879	1,975,158
(Short)/long position	(1,073,282)	(84,368)	71,585	249,224	413,772	307,717	208,135	92,783

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

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

	2010							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	39,154	–	–	–	–	–	253,745	292,899
Amounts due from banks and other financial institutions	13,999	105,279	70,655	52,570	331	–	–	242,834
Loans and advances to customers (note (ii))	3,672	53,958	164,408	444,869	307,955	339,879	2,559	1,317,300
Investments (note (iii))	–	14,259	19,647	42,635	208,963	86,610	2,171	374,285
– at fair value through profit or loss	–	399	781	5,664	4,825	596	1,579	13,844
– available-for-sale	–	13,855	11,641	29,869	161,195	41,927	592	259,079
– held-to-maturity	–	5	6,111	5,516	39,840	41,393	–	92,865
– receivables	–	–	1,114	1,586	3,103	2,694	–	8,497
Other assets	3,770	1,192	1,565	3,371	55	25	51,043	61,021
Total assets	60,595	174,688	256,275	543,445	517,304	426,514	309,518	2,288,339
Amounts due to banks and other financial institutions	129,846	77,634	42,778	6,564	1,012	–	–	257,834
Deposits from customers (note (iv))	1,046,770	214,917	178,208	308,244	59,198	1,575	–	1,808,912
Financial liabilities at fair value through profit or loss	–	–	170	466	349	36	1,620	2,641
Certificates of deposit issued	–	–	725	2,080	1,143	–	–	3,948
Subordinated notes issued	–	–	–	–	–	29,960	–	29,960
Other liabilities	21,601	17,556	1,498	2,777	574	29	–	44,035
Total liabilities	1,198,217	310,107	223,379	320,131	62,276	31,600	1,620	2,147,330
(Short)/long position	(1,137,622)	(135,419)	32,896	223,314	455,028	394,914	307,898	141,009

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47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows: *(continued)*

	2009							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	41,855	–	–	–	–	–	173,253	215,108
Amounts due from banks and other financial institutions	16,195	87,087	75,092	68,054	25	–	–	246,453
Loans and advances to customers (note (ii))	1,960	52,191	135,529	417,343	260,813	234,342	3,638	1,105,816
Investments (note (iii))	–	9,820	24,546	50,685	173,315	92,364	1,528	352,258
– at fair value through profit or loss	–	270	1,771	702	5,255	2,487	896	11,381
– available-for-sale	–	7,740	16,627	13,489	131,953	63,619	632	234,060
– held-to-maturity	–	1,810	2,347	19,698	22,377	24,165	–	70,397
– receivables	–	–	3,801	16,796	13,730	2,093	–	36,420
Other assets	3,491	841	1,219	2,652	227	10	47,842	56,282
Total assets	63,501	149,939	236,386	538,734	434,380	326,716	226,261	1,975,917
Amounts due to banks and other financial institutions	150,323	85,390	14,376	4,439	1,161	–	–	255,689
Deposits from customers (note (iv))	935,535	107,232	146,969	277,906	58,799	500	–	1,526,941
Financial liabilities at fair value through profit or loss	–	–	–	643	176	–	974	1,793
Certificates of deposit issued	–	–	341	1,058	1,320	–	–	2,719
Other debts issued	–	–	–	4,998	–	–	–	4,998
Subordinated notes issued	–	–	–	–	–	29,950	–	29,950
Other liabilities	21,966	27,564	879	2,156	814	40	–	53,419
Total liabilities	1,107,824	220,186	162,565	291,200	62,270	30,490	974	1,875,509
(Short)/long position	(1,044,323)	(70,247)	73,821	247,534	372,110	296,226	225,287	100,408

Notes:

(i) For balances with central bank, indefinite amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals was overdue for more than 1 month. The indefinite amounts are stated net of appropriate allowances for impairment losses.

(iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Bank's intention to hold them to maturity.

(iv) The deposits from customers that are repayable on demand included time deposits matured and awaiting for customers' instructions.

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis.

	2010								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	294,955	294,955	40,829	–	–	–	–	–	254,126
Amounts due from banks and other financial institutions	264,425	267,991	17,140	119,106	77,344	54,023	365	–	13
Loans and advances to customers	1,402,160	1,677,663	5,156	61,349	183,113	494,149	440,382	487,019	6,495
Investments									
– at fair value through profit or loss	15,229	15,855	–	1,282	1,768	6,386	5,664	741	14
– available-for-sale	272,370	315,017	–	14,720	12,920	36,569	194,592	54,957	1,259
– held-to-maturity	97,614	125,325	–	493	6,623	8,342	47,872	61,995	–
– receivables	7,225	8,907	–	75	1,255	1,760	2,106	3,711	–
Other assets	4,882	4,882	3,215	364	283	268	80	11	661
	2,358,860	2,710,595	66,340	197,389	283,306	601,497	691,061	608,434	262,568
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	282,023	284,630	130,067	83,062	48,370	21,616	1,285	230	–
Deposits from customers	1,897,178	1,926,628	1,082,764	250,452	196,992	325,133	69,430	1,857	–
Financial liabilities at fair value through profit or loss	1,353	1,477	–	86	276	535	544	36	–
Certificates of deposit issued	5,053	5,386	–	102	736	3,358	1,190	–	–
Subordinated notes issued	31,232	39,945	–	5	562	94	4,610	34,674	–
Other liabilities	38,548	38,548	26,231	8,457	946	910	861	3	1,140
	2,255,387	2,296,614	1,239,062	342,164	247,882	351,646	77,920	36,800	1,140
Gross loan commitments		166,464	166,464	–	–	–	–	–	–

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis. *(continued)*

	2009								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	216,167	216,167	42,853	–	–	–	–	–	173,314
Amounts due from banks and other financial institutions	270,125	272,431	17,299	101,659	83,213	69,974	281	–	5
Loans and advances to customers	1,161,817	1,347,523	3,576	55,870	147,579	453,170	356,358	327,120	3,850
Investments									
– at fair value through profit or loss	15,856	17,207	–	1,788	2,684	1,913	7,825	2,941	56
– available-for-sale	244,916	288,258	–	7,941	17,062	17,257	161,026	83,772	1,200
– held-to-maturity	80,201	99,264	–	3,832	5,519	22,248	30,196	37,468	1
– receivables	35,100	36,663	466	4	3,878	17,032	13,894	1,389	–
Other assets	5,878	6,932	2,798	446	345	1,474	674	444	751
	2,030,060	2,284,445	66,992	171,540	260,280	583,068	570,254	453,134	179,177
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	265,119	265,886	150,426	87,646	14,824	11,710	1,274	6	–
Deposits from customers	1,608,146	1,634,213	970,952	137,133	165,050	291,408	69,018	652	–
Financial liabilities at fair value through profit or loss	1,203	1,212	–	27	183	824	178	–	–
Certificates of deposit issued	4,462	4,485	–	98	452	2,523	1,412	–	–
Other debts issued	4,998	5,127	–	–	–	5,127	–	–	–
Subordinated notes issued	31,271	41,113	–	4	22	1,725	5,363	33,999	–
Other liabilities	49,246	49,248	18,488	28,119	547	492	1,115	82	405
	1,964,445	2,001,284	1,139,866	253,027	181,078	313,809	78,360	34,739	405
Gross loan commitments		148,984	148,984	–	–	–	–	–	–

(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis.

	2010								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	292,899	292,899	39,154	–	–	–	–	–	253,745
Amounts due from banks and other financial institutions	242,834	246,389	14,135	105,787	71,929	54,160	365	–	13
Loans and advances to customers	1,317,300	1,585,196	4,265	58,140	175,799	477,622	396,902	469,556	2,912
Investments									
– at fair value through profit or loss	12,265	12,863	–	419	821	5,756	5,125	742	–
– available-for-sale	259,079	301,288	–	14,138	12,090	32,129	187,383	54,956	592
– held-to-maturity	92,865	120,393	–	47	6,428	6,236	45,794	61,888	–
– receivables	8,497	10,178	–	75	1,254	1,759	3,378	3,712	–
Other assets	35,799	35,799	3,043	–	–	–	–	–	32,756
	2,261,538	2,605,005	60,597	178,606	268,321	577,662	638,947	590,854	290,018
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	257,834	259,579	130,000	78,047	43,563	6,889	1,080	–	–
Deposits from customers	1,808,912	1,838,101	1,050,466	216,746	181,617	318,880	68,535	1,857	–
Financial liabilities at fair value through profit or loss	1,021	1,143	–	1	178	534	394	36	–
Certificated of deposit issued	3,948	4,076	–	2	736	2,148	1,190	–	–
Subordinated notes issued	29,960	36,975	–	3	537	4	4,129	32,302	–
Other liabilities	33,922	33,922	26,134	7,788	–	–	–	–	–
	2,135,597	2,173,796	1,206,600	302,587	226,631	328,455	75,328	34,195	–
Gross loan commitments		150,586	150,586	–	–	–	–	–	–

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis. *(continued)*

	2009								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	215,108	215,108	41,855	–	–	–	–	–	173,253
Amounts due from banks and other financial institutions	246,453	248,727	16,345	87,385	75,868	69,093	31	–	5
Loans and advances to customers	1,105,816	1,285,687	2,681	55,200	144,410	442,337	325,916	311,482	3,661
Investments									
– at fair value through profit or loss	10,485	11,625	–	275	1,804	752	5,852	2,942	–
– available-for-sale	234,060	276,989	–	7,929	17,015	15,373	152,265	83,772	635
– held-to-maturity	70,397	89,206	–	1,895	2,658	20,244	26,966	37,442	1
– receivables	36,420	37,983	466	5	3,879	17,033	13,895	2,705	–
Other assets	35,394	35,394	2,640	–	–	–	–	–	32,754
	1,954,133	2,200,719	63,987	152,689	245,634	564,832	524,925	438,343	210,309
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	255,689	256,303	150,453	85,476	14,527	4,567	1,274	6	–
Deposits from customers	1,526,941	1,552,275	939,224	108,529	149,512	286,191	68,250	569	–
Financial liabilities at fair value through profit or loss	819	827	–	–	2	647	178	–	–
Certificates of deposit issued	2,719	2,736	–	1	345	1,066	1,324	–	–
Other debts issued	4,998	5,127	–	–	–	5,127	–	–	–
Subordinated notes issued	29,950	38,609	–	–	–	1,647	4,947	32,015	–
Other liabilities	45,212	45,212	18,147	27,065	–	–	–	–	–
	1,866,328	1,901,089	1,107,824	221,071	164,386	299,245	75,973	32,590	–
Gross loan commitments		134,931	134,931	–	–	–	–	–	–

(f) Operational risk

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

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

47 RISK MANAGEMENT *(continued)*

(g) Capital management

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

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

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

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

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

(h) Use of derivatives

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

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

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

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

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

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

	Group						
	2010						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,214	2,596	8,981	55	20,846	81	(129)
Currency derivatives							
Spot	12,151	–	–	–	12,151	47	(98)
Forwards	47,641	49,499	6,882	–	104,022	911	(901)
Foreign exchange swaps	52,358	26,808	4,208	–	83,374	645	(425)
Options purchased	2,515	1	–	–	2,516	35	–
Options written	3,473	55	–	–	3,528	–	(42)
	118,138	76,363	11,090	–	205,591	1,638	(1,466)
Other derivatives							
Equity swaps	–	–	93	–	93	–	(1)
Credit default swaps	132	198	1,977	–	2,307	11	(2)
Equity options purchased	151	29	–	–	180	2	–
Equity options written	151	29	–	–	180	–	(2)
	434	256	2,070	–	2,760	13	(5)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,845	1,483	–	–	3,328	4	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	322	1,181	1,983	36	3,522	2	(176)
Currency derivatives							
Foreign exchanges swaps	–	–	54	–	54	–	–
Other derivatives							
Equity options	–	517	132	–	649	–	(45)
	322	1,698	2,169	36	4,225	2	(221)
Total						1,738	(1,821)
						(Note 19(a))	

Notes to the Financial Statements

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47 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Group						
	2009						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	200	1,773	3,081	137	5,191	55	(138)
Currency derivatives							
Spot	16,276	–	–	–	16,276	1	(3)
Forwards	7,868	76,927	5,621	–	90,416	657	(506)
Foreign exchange swaps	27,975	20,242	689	–	48,906	78	(200)
Options purchased	7,681	1	–	–	7,682	136	–
Options written	7,882	–	–	–	7,882	–	(139)
	67,682	97,170	6,310	–	171,162	872	(848)
Other derivatives							
Equity swaps	112	413	26	–	551	9	(9)
Credit default swaps	–	205	2,389	–	2,594	11	(10)
Equity options purchase	193	25	–	–	218	14	–
Equity options written	193	25	–	–	218	–	(4)
	498	668	2,415	–	3,581	34	(23)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	313	1,098	2,489	–	3,900	38	(206)
Currency derivatives							
Foreign exchanges swaps	–	176	–	–	176	–	(1)
Other derivatives							
Equity options	–	202	1,795	–	1,997	–	(258)
	313	1,476	4,284	–	6,073	38	(465)
Total						999	(1,474)
						(Note 19(a))	

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2010						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,214	2,557	7,963	–	19,734	78	(123)
Currency derivatives							
Spot	12,151	–	–	–	12,151	47	(98)
Forwards	46,099	47,775	6,810	–	100,684	898	(891)
Foreign exchange swaps	41,123	25,901	4,207	–	71,231	507	(399)
Options purchased	2,090	–	–	–	2,090	33	–
Options written	3,043	53	–	–	3,096	–	(41)
	104,506	73,729	11,017	–	189,252	1,485	(1,429)
Other derivatives							
Equity swaps	–	–	93	–	93	–	(1)
Credit default swaps	132	198	1,977	–	2,307	11	(2)
	132	198	2,070	–	2,400	11	(3)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,845	1,483	–	–	3,328	4	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	170	597	1,464	36	2,267	1	(65)
Currency derivatives							
Foreign exchange swaps	–	–	54	–	54	–	–
	170	597	1,518	36	2,321	1	(65)
Total						1,579	(1,620)
						(Note 19(a))	

Notes to the Financial Statements

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(Expressed in millions of Renminbi unless otherwise stated)

47 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2009						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	200	1,773	2,955	137	5,065	55	(131)
Currency derivatives							
Spot	16,276	–	–	–	16,276	1	(3)
Forwards	7,783	76,927	5,541	–	90,251	654	(503)
Foreign exchange swaps	19,765	19,559	689	–	40,013	34	(168)
Options purchased	6,962	–	–	–	6,962	131	–
Options written	7,144	–	–	–	7,144	–	(134)
	57,930	96,486	6,230	–	160,646	820	(808)
Other derivatives							
Equity swaps	112	413	26	–	551	9	(9)
Credit default swaps	–	205	2,389	–	2,594	11	(10)
	112	618	2,415	–	3,145	20	(19)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	–	467	381	–	848	1	(15)
Currency derivatives							
Foreign exchange swaps	–	176	–	–	176	–	(1)
	–	643	381	–	1,024	1	(16)
Total						896	(974)
						(Note 19(a))	

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

	2010	2009
Interest rate derivatives	**171**	93
Currency derivatives	**3,663**	2,463
Other derivatives	**301**	39
	4,135	2,595

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

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47 RISK MANAGEMENT *(continued)*

(i) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, deposits and placements with the central banks, banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets mature within 1 year or are already stated at fair value, and therefore their carrying values approximate their fair values.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 18). The interest rate of loans and advances will be adjusted in accordance with the PBOC rates, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying values of loans and advances are close to the fair values.

Held-to-maturity debt securities investments are stated at amortised costs less impairment, and the fair values are disclosed in Note 19(c).

(ii) Financial liabilities

Financial liabilities mainly include customer deposits, deposits and placements from banks and other financial institutions, and debts issued by the Bank. The carrying values of financial liabilities approximate their fair values at the end of the reporting period of the year presented, except the financial liabilities set out below:

Carrying value

	2010	2009
Subordinated notes issued	**31,232**	31,271

Fair value

	2010	2009
Subordinated notes issued	**31,714**	32,712

48 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(n). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

Notes to the Financial Statements

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48 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Defined benefit scheme

Actuarial assumptions are made in valuing future pension obligations as set out in note 33(a). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

(g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the end of the reporting period. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(h) Provisions

Judgement has been exercised in determining the amount which may be payable to customers in respect of complaints or legal claims arising from the sale of investment products.

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49 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB6,300 million	18.58% (note (i))	–	Transportation, shipping agency, ware housing and storage, leasing, manufacturing building and facility, repair and contracting, operating management service	Largest shareholder's parent company	Limited company	Fu Yu Ning
China Merchants Steam Navigation Company Limited (CMSNCL)	Beijing	RMB200 million	12.40% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services	Largest shareholder	Joint stock limited company	Fu Yu Ning
CMB International Capital Corporation Limited (CMBICCL)	Hong Kong	HKD250 million	–	100%	Financial advisory and services	Subsidiary	Limited company	Zhu Qi
CMB Financial Leasing Corporation Limited (CMBFLCL)	Shanghai	RMB2,000 million	–	100%	Financial leasing and advisory	Subsidiary	Limited company	Wang Qingbin
Wing Lung Bank Limited. (WLB)	Hong Kong	HKD1,161 million	–	100%	Banking	Subsidiary	Limited company	Ma Weihua

Note:

(i) CMG holds 18.58% of the Bank (2009: 18.10%) through its subsidiaries.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 12.40% of the Bank (2009: 12.37%).

The registered capital of each company

Connected person	**2010**	2009
CMG	**RMB6,300,000,000**	RMB6,300,000,000
CMSNCL	**RMB200,000,000**	RMB200,000,000
CMBICCL	**HKD250,000,000**	HKD250,000,000
CMBFLCL	**RMB2,000,000,000**	RMB2,000,000,000
WLB	**HKD1,160,950,575**	HKD1,160,950,575

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	CMSNCL		CMBICCL		CMBFLCL		WLB	
	RMB	%	HKD	%	RMB	%	HKD	%
At 1 January 2010	2,364,586,372	12.37	250,000,000	100.00	2,000,000,000	100.00	1,160,950,575	100.00
Change	311,026,228	0.03	–	–	–	–	–	–
At 31 December 2010	2,675,612,600	12.40	250,000,000	100.00	2,000,000,000	100.00	1,160,950,575	100.00

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For the year ended 31 December 2010

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49 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(b) Transaction terms and conditions

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

	2010	2009
Short-term loans	**4.86% to 5.81% p.a.**	4.86% to 7.47% p.a.
Medium to long-term loans	**5.40% to 6.40% p.a.**	5.40% to 7.83% p.a.
Saving deposits	**0.36% p.a.**	0.36% to 0.72% p.a.
Time deposits	**1.71 to 4.55% p.a.**	1.71% to 5.85% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 18.58% (2009: 18.10%) shares of the Bank as at 31 December 2010 (among them 12.40% shares is held by CMSNCL (2009: 12.37%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	Group		**Bank**	
	2010	2009	**2010**	2009
On-balance sheet:				
– Loans and advances	**3,819**	3,551	**3,600**	3,279
– Investments	**848**	2,472	**847**	2,471
– Deposits from customers	**29,275**	37,047	**28,906**	36,996
Off-balance sheet:				
– Irrevocable guarantee	**440**	547	**440**	437
– Irrevocable letters of credit	**60**	101	**60**	101
– Bills of acceptances	**355**	298	**355**	298
Average balance of loans and advances	**1,524**	3,923	**1,054**	3,513
Interest income	**170**	196	**168**	191
Interest expense	**461**	561	**461**	559
Net fees and commission	**174**	307	**173**	307

(Expressed in millions of Renminbi unless otherwise stated)

49 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(d) Companies controlled by directors and supervisors other than those under Note 49(b) above

	Group and Bank	
	2010	2009
On-balance sheet:		
– Loans and advances	**2,786**	4,450
– Investments	**5,729**	157
– Deposits from customers	**21,875**	18,226
Off-balance sheet:		
– Irrevocable guarantee	**2,371**	2,527
– Irrevocable letters of credit	**18**	36
– Bill of acceptances	**1,061**	239
Average balance of loans and advances	**1,472**	4,244
Interest income	**171**	148
Interest expense	**214**	205
Net fees and commission	**59**	19

(e) Investment in associate and jointly controlled entities other than those under Note 49(b) above

	Group and Bank	
	2010	2009
On-balance sheet:		
– Loans and advances	**16**	19
– Deposits from customers	**1,313**	786
Average balance of loans and advances	**17**	20
Interest expense	**8**	4
Net fees and commission	**111**	99

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For the year ended 31 December 2010

(Expressed in millions of Renminbi unless otherwise stated)

49 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(f) Subsidiaries

	2010	2009
On-balance sheet		
– Loans and advance	**170**	–
– Deposits from customers	**251**	161
– Deposits with other banks	**1,513**	671
– Placement with other banks	**399**	53
– Deposits from other banks	**171**	–
– Investments	**1,272**	1,320
Interest income	**21**	22
Interest expense	**2**	1
Net fees and commission	**1**	–

(g) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	**31,559**	26,102
Discretionary bonuses (note 8)	**–**	13,001
Share-based payment	**218**	13,291
Contributions to defined contribution retirement schemes	**7,872**	6,484
	39,649	58,878

The above share-based payments represent the estimated fair value of the share appreciation rights granted (note 33(d)) to senior management under the Bank's H-share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in note 2(u)(iii); and the amounts have been charged to the consolidated statement of comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

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50 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Improvements to IFRS (2010)	1 July 2010 or 1 January 2011
Revised IAS 24, Related party disclosures	1 January 2011
Amendments to IAS 12, Income tax	1 January 2012
IFRS 9, Financial instruments (2009)	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. Other than IFRS 9 – *Financial Instruments*, which could affect the Group's results and financial position as a result of changes to its categorisation and measurement of financial instruments, and amendments to IAS 12 – *Income Taxes*, which could affect the Group's results and financial position as a result of changes to its measurement of deferred income tax liabilities of investment properties, so far the Group has concluded that the adoption of these amendments is unlikely to have a significant impact on the Group's results of operations and financial position.

51 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

As at the date of this report, the Group had no material events after the reporting period for disclosure.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

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

The capital adequacy ratios and related components of the Group and Bank as at 31 December 2010 and 2009 calculated based on PRC GAAP, were as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Core capital adequacy ratio	**8.04%**	6.63%	**8.70%**	7.36%
Capital adequacy ratio	**11.47%**	10.45%	**11.21%**	10.05%
Components of capital base				
Core capital:				
– Paid up ordinary share capital	**21,577**	19,119	**21,577**	19,119
– Reserves	**106,402**	69,154	**113,261**	76,868
Total core capital	**127,979**	88,273	**134,838**	95,987
Supplementary capital:				
– General provisions for doubtful debts	**21,180**	16,057	**20,799**	15,859
– Term subordinated bonds	**30,000**	30,000	**30,000**	30,000
Total supplementary capital	**51,180**	46,057	**50,799**	45,859
Total capital base before deductions	**179,159**	134,330	**185,637**	141,846
Deductions:				
– Goodwill	**9,598**	9,598	**–**	–
– Investments in unconsolidated subsidiary and other long-term investments	**1,661**	1,168	**33,301**	33,322
– Investment in commercial real estate	**1,946**	2,166	**275**	277
Total capital base after deductions	**165,954**	121,398	**152,061**	108,247
Risk weighted assets	**1,446,883**	1,161,776	**1,356,797**	1,076,633

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(Expressed in millions of Renminbi unless otherwise stated)

(B) LIQUIDITY RATIOS

	2010	2009
Liquidity ratios		
RMB current assets to RMB current liabilities	**36.4%**	34.3%
Foreign currency current assets to foreign currency current liabilities	**71.9%**	66.1%

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

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB

	2010			
	US Dollars	**HK Dollars**	**Others**	**Total**
		(in millions of RMB)		
Non-structural position				
Spot assets	**114,640**	**74,243**	**20,026**	**208,909**
Spot liabilities	**(87,943)**	**(82,687)**	**(29,578)**	**(200,208)**
Forward purchases	**67,686**	**15,117**	**18,105**	**100,908**
Forward sales	**(85,191)**	**(2,007)**	**(8,131)**	**(95,329)**
Net option position	**(153)**	**(17)**	**170**	**–**
Net long position	**9,039**	**4,649**	**592**	**14,280**
Net structural position	**46**	**49,748**	**11**	**49,805**

	2009			
	US Dollars	HK Dollars	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	115,323	93,395	25,292	234,010
Spot liabilities	(91,386)	(92,913)	(29,725)	(214,024)
Forward purchases	72,867	12,524	10,060	95,451
Forward sales	(84,977)	(5,549)	(5,553)	(96,079)
Net option position	(108)	20	88	–
Net long position	11,719	7,477	162	19,358
Net structural position	308	37,899	–	38,207

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(Expressed in millions of Renminbi unless otherwise stated)

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB *(continued)*

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

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

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(D) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2010			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**29,862**	**2,724**	**82,281**	**114,867**
– of which attributed to Hong Kong	**21,251**	**2,567**	**71,836**	**95,654**
Europe	**15,209**	**15**	**872**	**16,096**
North and South America	**10,577**	**337**	**9,302**	**20,216**
	55,648	**3,076**	**92,455**	**151,179**

	2009			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	29,607	2,742	64,042	96,391
– of which attributed to Hong Kong	12,481	2,689	57,954	73,124
Europe	29,545	17	896	30,458
North and South America	13,674	143	5,526	19,343
	72,826	2,902	70,464	146,192

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(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR

Operation in Mainland China

	Group			
	2010		2009	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**248,069**	**26**	191,890	27
Transportation, storage and postal services	**128,401**	**26**	106,456	27
Wholesale and retail	**106,654**	**41**	75,310	48
Property development	**80,856**	**65**	63,611	63
Production and supply of electric power, gas and water	**61,466**	**16**	65,797	12
Leasing and commercial services	**49,899**	**31**	45,978	24
Construction	**33,348**	**28**	26,027	25
Water environment and public utilities management	**31,894**	**35**	28,626	35
Mining	**27,891**	**22**	19,668	14
Telecommunications, computer services and software	**7,119**	**30**	9,251	24
Others	**30,615**	**22**	24,748	19
Corporate loans	**806,212**	**32**	657,362	31
Discounted bills	**64,948**	**100**	102,549	100
Credit cards	**54,589**	**–**	39,942	–
Retail housing loans	**290,348**	**100**	263,997	99
Operating retail loans	**64,609**	**100**	27,154	100
Others	**74,486**	**100**	37,922	100
Retail loans	**484,032**	**60**	369,015	88
Gross loans and advances to customers	**1,355,192**	**45**	1,128,926	47

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(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation in Mainland China *(continued)*

	Bank			
	2010		2009	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**237,923**	**23**	186,932	25
Transportation, storage and postal services	**125,166**	**24**	105,759	26
Wholesale and retail	**105,999**	**41**	75,170	48
Property development	**80,092**	**65**	63,239	63
Production and supply of electric power, gas and water	**57,740**	**11**	64,026	9
Leasing and commercial services	**49,705**	**30**	45,890	24
Construction	**31,939**	**24**	25,135	23
Water environment and public utilities management	**31,595**	**34**	28,626	35
Mining	**24,432**	**11**	18,917	10
Telecommunication, computer services and software	**7,049**	**29**	9,156	24
Others	**29,611**	**20**	23,965	19
Corporate loans	**781,251**	**30**	646,815	30
Discounted bills	**61,038**	**100**	101,756	100
Credit cards	**54,589**	**–**	39,942	–
Retail housing loans	**290,274**	**100**	263,852	99
Operating retail loans	**63,740**	**100**	27,130	100
Others	**74,133**	**100**	37,668	100
Retail loans	**482,736**	**60**	368,592	88
Gross loans and advances to customers	**1,325,025**	**44**	1,117,163	46

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(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation outside Mainland China

	Group			
	2010		2009	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Property development	**32,326**	**74**	26,916	59
Wholesale and retail	**9,414**	**61**	4,935	42
Financial concerns	**6,239**	**21**	3,800	7
Manufacturing and processing	**5,385**	**45**	2,497	25
Transportation, storage and postal services	**3,154**	**68**	3,125	40
Recreational activities	**229**	**5**	966	–
Information technology	**170**	**1**	159	3
Others	**7,386**	**66**	1,636	37
Corporate loans	**64,303**	**63**	44,034	47
Credit cards	**327**	**–**	372	–
Retail housing loans	**8,649**	**100**	9,662	100
Others	**2,980**	**98**	2,828	97
Retail loans	**11,956**	**97**	12,862	96
Gross loans and advances to customers	**76,259**	**68**	56,896	58

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(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation outside Mainland China *(continued)*

	Bank			
	2010		2009	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Property development	**5,964**	**94**	5,376	10
Wholesale and retail	**5,632**	**55**	2,573	51
Financial concerns	**502**	**100**	607	–
Manufacturing and processing	**1,786**	**64**	600	6
Transportation, storage and postal services	**2,204**	**85**	1,815	54
Recreational activities	**–**	**–**	940	–
Information technology	**–**	**–**	155	1
Others	**4,988**	**83**	294	4
Corporate loans	**21,076**	**77**	12,360	23
Gross loans and advances to customers	**21,076**	**77**	12,360	23

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(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to consolidated statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	Group					
	2010					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to consolidated statement of comprehensive income during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**2,524**	**2,680**	**1,915**	**5,010**	**1,401**	**3**
Retail housing loans	**2,425**	**415**	**–**	**2,566**	**179**	**–**

	Group					
	2009					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,618	2,882	1,877	3,920	1,228	312
Retail housing loans	2,517	383	476	2,392	769	–

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(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are: (continued)

	Bank					
	2010					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to statement of comprehensive income during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**2,503**	**2,669**	**1,906**	**4,895**	**1,384**	**–**
Retail housing loans	**2,028**	**409**	**–**	**2,557**	**177**	**–**

	Bank					
	2009					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,579	2,866	1,863	3,864	1,225	300
Retail housing loans	1,995	374	–	2,381	765	–

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(F) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

(i) By geographical segments

	2010	2009
Before revised		
Eastern China	**2,955**	3,106
Southern and Central China	**2,924**	3,177
Western China	**1,039**	1,154
Northern China	**770**	838
Others	**76**	115
	7,764	8,390
Revised		
Headquarters	**2,114**	2,351
Yangtze River Delta region	**1,496**	1,561
Bohai Rim region	**746**	864
Pearl River Delta and West Coast region	**1,203**	1,265
Northeast region	**356**	368
Central region	**734**	711
Western region	**1,039**	1,155
Subsidiaries	**76**	115
	7,764	8,390

(ii) By overdue period

	2010	2009
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	**482**	743
– between 6 and 12 months	**465**	1,372
– over 12 months	**6,817**	6,275
Total	**7,764**	8,390
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.03%**	0.06%
– between 6 and 12 months	**0.03%**	0.12%
– over 12 months	**0.48%**	0.53%
Total	**0.54%**	0.71%

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(Expressed in millions of Renminbi unless otherwise stated)

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

(iii) Collateral information

	2010	2009
Secured portion of overdue loans and advances	**942**	1,360
Unsecured portion of overdue loans and advances	**6,822**	7,030
Value of collaterals held against overdue loans and advances	**957**	1,536
Provision of overdue loans and advances for which impairment losses are individually assessed	**5,148**	5,265

(G) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(i) By geographical segments

	2010	2009
Before revised		
Eastern China	**3**	–
Northern China	**4**	6
	7	6

	2010	2009
Revise		
Yangtze River Delta region	**3**	–
Pearl River Delta and West Coast region	**4**	6
	7	6

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(G) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(continued)

(ii) By overdue period

	2010	2009
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**7**	6
Total	**7**	6
As a percentage of total gross loans and advances		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
– over 12 months	**–**	–
Total	**–**	–

(iii) Collateral information

	2010	2009
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**7**	6
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**7**	4

Note: The above analysis, (F) and (G), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

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

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

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

The collaterals of the Group included cash deposit, shares, land use right, property, motor vehicles and equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

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(Expressed in millions of Renminbi unless otherwise stated)

(H) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	2010		2009	
		% of total loans and advances		% of total loans and Advances
Rescheduled loans and advances to customers	**1,531**	**0.11%**	1,569	0.13%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**892**	**0.06%**	899	0.08%
Rescheduled loans and advances overdue less than 90 days	**639**	**0.05%**	670	0.05%

The Group has RMB2.83 million (2009: Nil) rescheduled loans and advances to financial institutions as at 31 December 2010.

(I) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2010 and 31 December 2009, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) CORPORATE GOVERNANCE

Board committees

The board of directors has established six committees including the Strategy Committee, Audit committee, Related-party Transaction Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Executive Committee are:

– to propose operation objective and long term development plan;

– to regularly review and monitor the execution status of annual operating plan and investment plan;

– to examine and monitor the status of carrying out the decision of board; and

– to propose the suggestion and scheme of significant issues which should be discussed and determined by board.

(J) CORPORATE GOVERNANCE *(continued)*

Board committees *(continued)*

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

– to propose the appointment or replacement of external auditors;

– to monitor the internal audit system of the Bank and its implementation;

– to coordinate communication between internal auditors and external auditors;

– to review the financial information of the Bank and its disclosure;

– to examine the internal control system of the Bank; and

– other matters that authorized by board.

(iii) Related-Party Transaction Control Committee

Main authorities and duties of the Related-Party Transaction Control Committee are:

– to identify the related parties of the Bank according to the laws and regulations;

– to inspect, monitor and review material related parties transactions and continuing related parties transactions and control the risks associated with related transactions;

– to review the rules governing related parties transaction and relevant system of controls; and

– to review the disclosure of related parties transaction of the Bank.

(iv) Risk and Capital Management Committee

Main authorities and duties of the Risk and Capital Management Committee are:

– to monitor the risk control of the Bank's exposures to credit, market and operational, etc. by senior management;

– to conduct regular assessment of the risk position of the Bank and evaluate the working procedures and results of internal audit departments;

– to put forward proposals on the improvement of the risk management and internal control of the Bank; and

– Other matters that authorized by board.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(J) CORPORATE GOVERNANCE *(continued)*

Board committees *(continued)*

(v) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study and propose standards for appraising directors and senior management, conduct appraisals and provide advices based on the actual situation of the Bank;
- to study and review the remuneration policy and plans for directors and senior management; and
- Other matters that authorized by board.

(vi) Nomination Committees

Main authorities and duties of the Nomination Committee are:

- to put forward proposals to the board on the size and composition of the board according to the business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for the election of directors and senior management, and propose suggestion to the board;
- to conduct extensive searches for qualified candidates as directors and senior management;
- to make preliminary examination on the qualifications of the candidates for directors and senior management and put forward proposals; and
- Other matters that authorized by board.

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